Indian Union Budget 2021-22

Desperate to score, FM loses wicket despite brilliant start:

This is a budget with a difference as promised by the Hon Finance Minister, the first digitally crafted and delivered budget using a paperless process, a budget delivered in the 75th year of India's independence, a budget avowedly having a developmental thrust with a heavy capital expenditure orientation/ emphasis.

AMIDST THE PANDEMIC:

The budget was presented in unprecedented circumstances never before experienced in independent India, of Covid-19 pandemic. Something which affected the entire world physically, economically, socially and politically and this prevailed throughout 2020 with life in lockdown, loss of life, uncertainty and hardship.

This Union budget is to be the vehicle for reviving the economy, for providing succour to those affected and the poor and the blueprint for the funding of this colossal exercise.

The economic survey began with data on shrinkage of the economy, consequent fall in GDP to below 2019 levels and simultaneously a substantially lower growth for 2021 with an expected growth of 11% as per economic survey for 2022.

It was clear that to revive and boost the economy the economic engine needed a demand push by having greater disposable income in the hands of the people of the nation.

It is only then that the growth estimated to be ranging from 11% to 15% by various agencies, would be achieved for 2022. Post lockdown with the first signs of distress government put forth Garib Kalyan Yojana, Pradhan Mantri Garib Kalyan Yojana with other successive amendments which in itself were like five mini budgets essential for sustaining economic recovery.

PATH TO RECOVERY:

The Union Finance Minister has rightly opted for a strong dose of capital expenditure and increased spend on health care, infrastructure, physical and financial capital promoting inclusive development, reinvigorating the affected and spent human capital and Innovation and Research and Development.

This massive thrust on capital expenditure and a huge boost to health care, agriculture, essentials like water, sanitation, housing and infrastructure coupled with minimum government and maximum governance is the engine for growth to achieve the vision for ‘Atmanirbhar Bharat’ to enable India take its place in the changing political, economic and strategic scenario both in Asia and the World.

The direction is right, the focus is proper and as the initial reactions from industry as well as the stock market show, the budget has been welcomed. It is clear from the rise in the index both Sensex and Nifty that investors and industry seem satisfied at the moment pending the fine print.

Coming to how the resources are planned to be mobilized is where the budget falters and the finely scripted growth and self-reliance story loses its plot.

Thus, we have a well scripted Part A keeping the audience happily glued to their seats till the interval. It is the Part B, the way the budget is proposed to be funded and how the Rupee comes is where the magic starts wearing thin and the budget falters.

RAISING THE RESOURCES:

The Expectations

The economists, analysts, captains of industry as well as bankers, investors and lay public all were expecting an increase in taxes, a call for sacrifice, a contribution in some form to be made by citizens at all levels in consonance with their ability to pay in a progressive taxation. It was also expected that the target in terms of fiscal responsibility, of keeping the fiscal deficit in check was not going to be achieved leaving a larger fiscal deficit.

The Reality

What has actually come about is that there is a higher fiscal deficit of 9.5% as per revised BE for 2020-21, as against originally estimated BE for 2020-21 of 3.5%, which is being funded through government borrowings, multilateral borrowings, small savings funds, short term borrowings and about Rs.80,000 crore shortfall to be raised from the open market in the coming two months.

The current year fiscal deficit estimate for BE 2021-22 is pegged at 6.8% based on a GDP growth estimate of 14.4%. Going by past experience especially with the fight against Covid-19 in terms of continuing social lockdown and social distancing as well as vaccination still expected to go on over six months into the future and the actual growth being much lower than the aggressive estimate of 14.4%, the actual fiscal deficit is more likely to be 7.5% and even cross 10%, offsetting for the aggressively high growth estimate of 14.4%.

Deficit financing:

Inflationary burden on middle classes and the poor:

Deficit of level above 7.5% of GDP at the BE stage is likely to cause considerable impact on cost of living and shrink the disposable income of the middle classes and the poor causing hardship and also souring the Atmanirbhar Bharat outcomes, which will have a reverse cyclical effect of shrinking incomes and disposable incomes further in the sensitive cross section of society.

The introduction of the agricultural cess on petrol at Rs.2.50 per liter and diesel at Rs.4 per liter though claimed to be absorbed by adjustments to other elements making it cost neutral to the consumer, is an indicator of shape of things to come.

With interest payments amounting to Rs. 8,09,701 crores being part of total expenditure, more than half the fiscal deficit of Rs.15,06,812 crores is arising from interest burden of the year and Rs.7,33,348 crores being expenditure on Capital Account consisting of the remaining deficit.

Two straight conclusions are obvious to see. The Indian government and the economy as evident in the budget 2021 is not able to service the interest payments on debt and its entire thrust on capital expenditure of Rs.5,54,236 crores as well as the expenditure on grants in aid for creation of capital assets as per BE 2021-2022 of Rs 2,19,112 crores are both entirely funded out of the fiscal deficit. Clearly not a very happy situation given the prevailing uncertainty during Covid-2019 times.

Budget sans Pressure:

FM limits foot work fails to step out of the crease:

To borrow cricketing idiom as the honorable FM has done, this is her third budget in a row and she must be sighting the ball as big as a football.

With a comfortable tally in terms of a sizable majority in Parliament, a good handling of Covid-19 compared to other nations, a good image in the international community, there was minimum public or international or IMF pressure on the government.

With the opposition toothless despite the bravado shown in the farmers' agitation, the electoral gains and confirmation of the ruling party's continued popularity at the hustling, the opposition was reduced to a silent spectator as seen during the budget speech.

This was the right time to make bold moves, to step out of the crease, display footwork, take the bowling head on, and score at will and well on own terms. The FM however appears to have decided not to leave the crease, thereby limiting the options.

The tax proposals: Direct and Indirect:

It is in provisions of part B of the Budget speech and documents that the unique character and uniqueness of the budget as described at the outset is lost.

As in the past this year too the budget speech covered majorly only the positive changes and the devil is left in the fine print to be discovered later including tax hikes in both direct and indirect taxes.

The first significant step is that there is no change in the basic tax rates or slabs and the taxation structure essentially remains the same for income tax. So no new taxes is the mantra of the direct tax proposals, since the short fall in revenue mop up is left uncovered in the form of a large fiscal deficit.

As regards indirect taxes however an agricultural infra cess has been levied on a number of items ranging from cereals and lentils to coal , crude palm oil, gold, silver and on petrol @ Rs 2.50 per liter and on diesel @ Rs 4.00 per liter

Though some of these like petrol and diesel have been stated to be compensated in the structure to ensure that burden does not pass on to the end customer, this will definitely result in further inflationary pressure.

Changes in the tax administrations include faceless tribunals, reducing the period allowed of reopening income tax assessments from 6 years to 3 years and for serious tax fraud cases with taxable income exceeding Rs.50 lakhs to be 10 years.

Settlement commission is discontinued and a Dispute Resolution Committee for small and medium taxpayers up to taxable income of Rs.50 lakhs and disputed tax up to Rs.10 lakh has been introduced.

A Board for Advance Ruling is also to be constituted to handle the work of Authority for Advanced Rulings.

Similarly the framework for search and seizure assessments has been changed.

The time limit for completion of assessments as well as for revising income tax returns filed, have both been reduced.

Auto population of data in tax return forms, pertaining to capital gains and interest income from banks and other sources under Direct taxes and removal of GST audit requirement under GST laws are aimed at reducing compliance burden.

However the errors and mismatches observed in Form 26AS in the past for Income Tax and the requirement of self-certifying the GST return by the dealer/taxpayer effectively mean that in both cases taxpayers will need to take professional help.

Rationalization:

Imposing additional tax burden/ compliance:

Another feature repeated and continued this year is introduction of provisions that impose an additional burden on tax payers in the name of rationalization of tax provisions.

Thus in Direct tax, proceeds of high premium unit linked insurance policy hitherto exempt are now taxable where annual premium at any time exceeds Rs.2,50,000/-

Transfer of capital asset to partner on dissolution or reconstitution of firm where partners receive an amount higher than amount invested is now taxable.

Depreciation on goodwill will no longer be allowed.

A tax deduction at source at 0.1 % on purchase of goods where turnover of purchaser exceeds Rs.10 crores is proposed

Although concept of non-filers has been enlarged by providing relief for senior citizen taxpayers aged 75 years and above, non-filers now face TDS/TCS at higher rate twice the current rates in force, similar to those who do not have PAN

Thus, a senior citizen of 75 years and above choosing not to file a return will face TDS on bank interest @ 20% as against 10% earlier.

To top it all where an employee makes a contribution to provident fund exceeding Rs.2,50,000/- annually the interest on such excess contribution will become liable to tax.

This goes against the grain of promoting savings and investments an avowed policy of the government. It is unfair with such a low threshold for disallowance and the matter of larger concern is that it may pave the way of future taxability of interest earned on PPF Accounts too.

The trend of overcoming Supreme Court judgments and settled principles of law of taxation seems to have continued in this budget too. With the amendment to GST laws effectively ending the tax free status earlier enjoyed under Service tax Act and currently under GST Act by Cooperative societies, mutual benefit associations, and clubs etc is done away with retrospective effect from 1st July 2017 when GST first became applicable.

To counter fraudulent ITC claims, it is proposed that ITC can now be claimed only if vendors have filed their GSTR 1. The remedy may cause hardship to genuine dealers/tax payers.

This gives an impression that the heavy ham hand of bureaucracy is prominently visible where not a drop is allowed to remain with the taxpayers and concessions given very grudgingly as if they are favours and largesse.

Such a continued attitude does not bode well for a relationship which the government wants to base on trust and self-compliance.

The promised wide consultation before making such far reaching charges in law under the name of rationalization leaves a not so happy feeling in the minds of taxpayers.

MARCH ON, MAKE THE MOST OF OPPORTUNITY: HOPE IN FUTURE:

To sum up as first impressions go, though more could have been done, what has been done in terms of healthcare, infrastructure, inclusive development, reinvigorating human capital, innovation and R&D and minimum government with maximum governance, the high dose of capital expenditure are together enough to provide a positive boost to the economy.

Time has come for all of us as citizens to leave aside the grouse of unfulfilled expectations and take the short comings in the budget in our stride and make a new beginning and march ahead on the road to normalcy and growth.

The massive capital expenditure of Rs.4.54 lakh crores even if realized partially, provides SMEs and large corporate and businesses as well as professionals and service provides alike an opportunity to be a part of the growth engine of Atmanirbhar Bharat and create a win-win situation for self and our Nation.

Let us feel the light when the dawn is young and the sky still dark, sing and take wing on the path to growth and success.

Vishnu Kanhere