Indian Union Budget 2022-23

Annual Budget Parade showcases Amrit Kal:

The government of the day buoyed by the encouraging figures of economic growth for 2021-22, estimated at 9.2%, and the buoyant GST collection of over Rs. 1,40,000 crores for January 2022, has reached out and taken practically everything on its plate in this budget. This has even led to a feeling whether it has bitten off more than it can handle and whether it would be able to deliver on its budget promises.

On the macro level the government has kept the pandemic aside***** and is concentrating on being forward looking, futuristic and concentrating on infrastructure and long-term schemes. The idea is that there will be a trickle-down effect driving indirect employment generation. Public investment by the Government is expected to also drive and pump private sector investment and private sector demand in 2022-23. After many years government and FM is once again banking on John Maynard Keynes and his Keynesian theory of generating employment through government expenditure.

The HITS:

PM GATISHAKTI:

The huge thrust on infrastructure - Roads, Railways, Airports, Ports, Mass transport, Waterways and Logistics infrastructure expenditure is totaling to Rs. 351851 crores.

In Agriculture the budget has provided for support with mention of procurement of paddy and wheat and MSP value paid direct to beneficiary bank accounts of Rs 2.37 lakh crore. River linking and Food processing complete the bouquet.

MSME & SKILL DEVELOPMENT get a digital thrust with interlinking of portals and additional credit to the Emergency Credit Line Guarantee Scheme (ECLGS). Skill development also gets a digital thrust.

***** *(Interesting to note that covid and pandemic finds mention 2 times and 10 times respectively in a 9701 word budget document)*

Education gets a digital connectivity and Health gets Ayushman Bharat Digital mission & a national tele mental health program.

Upgrading two lakh Anganwadis is a welcome thrust area. So is the 'Har ghar, Nal se Jal' program & 'Housing for All'.

Urban Planning is another thrust area aimed at urban development.

A better life with Ease of doing business 2.0 & Ease of living, and its digital initiatives - green clearances & e-passport features prominently in the budget.

As one goes through the initiatives one sees digital initiative after digital initiative - be it land records management, or introduction of digital rupee currency by RBI, to enhance digital banking and digital payments. There is more promised in terms of Insolvency & Bankruptcy Code Amendments and an Animation or Visual effects, gaming and comic sector (AVGC) sector task force.

A lot is covered from practically all areas of the economy with future outlook, but most are superficially touched if you look at the differential budget allocation under BE 2022-23 as compared with the allocation under RE 2021-22.

The biggest take away is the increase in capex by over 35%. The current year capital expenditure is Rs. 5.54 lakh crore and is planned at Rs. 7.50 lakh crores in 2022-23. The effective capital expenditure including grant-in-aid to states is estimated at Rs.10.68 lakh crore in BE 2022-23.

The Government of the day and the Hon FM, one may venture to say, has batted for Keynes by banking on the "pump prime" effect. However, a word of caution here is that such expenditure push in infrastructure through deficit financing with a simultaneous buildup of inflation does not always generate employment in the short and medium term.

The success of "pump & prime" depends very much on the motivation of the private sector which bases its investment decisions on the IRR on proposed capital investment exceeding their cost of capital. This may put a dampener on private sector investment and consequently private sector spending may not actually follow suit on increased government spending.

RAISING RESOURCES:

As against a total expenditure of Rs 34.83 lakh crore of BE 2021-22, the RE 2021-22 is Rs 37.70 lakh crore and the BE 2022-23 is Rs 39.45 Lakh crore with total receipt at Rs 22.84 lakh crore. The gap is funded by market loans BE 2022-23 Rs 11.45 lakh crore, and small savings BE 2022-23 Rs 4.45 lakh crore together totaling Rs 17.40 lakh crore of capital receipts BE 2022-23.

THE FUTURE OF THE BUDGET IN A VUCA WORLD:

In today's VUCA world, a policy and execution intervention and response are required as and when events and situations unfold in an 'agile' manner rather than using medium and long-term plans of the types traditional budgets present.

In fact, this has been well acknowledged in the economic survey document for 2021-22 itself.

Just like the unpredictable weather brought on by climate change with unseasonal unexpected dust storms, sleet, rain, chilly weather, heat waves, all random / unpredictable, the economy too is facing an element of uncertainly. This makes the real world a complex unpredictable place buffeted by all kinds of random shocks and unintended consequences.

"The Pretense of Knowledge" is what Fredrich Hayek termed the response of most nations of making even more detailed elaborate plans to deal with uncertainty in the economy.

Taking a cue from Hayek I will say todays Union Budget 2023 is a "Pretense of a Budget".

It will not be a surprise if the Annual Budget gets reduced to a mere formality with important changes and amendments coming in from time to time throughout the year, as is already being seen to an extent. The announcement of formation of the "Bad Bank" is a case in point.

Let us pause at this stage and look at the fine print of the Budget receipts and expenditure, the actuals for 2020-2021, the BE 2021-22, the RE 2021-22 and the BE 2022-2023.

THE REALITY

GDP for BE 2022-2023 has been projected at Rs 147 lakh crore assuming 11.1 % growth over the estimated GDP of Rs. 232 crores for 2021-2022(RE).

As we all are aware the expected growth in the economy is not more than 8% to 9% and definitely may even be lower in real terms.

WPI inflation has crossed double digit and even CPI inflation is at a high of 6% plus.

Factoring in even an average 7% inflation, the growth left in real terms would not exceed 3% even after considering the aggressive estimate levels of the budget.

On this base of approximately Rs. 240 crore estimated GDP (Rs. 232 crore plus 3%), the deficit of Rs. 16.6 crores as per BE 2022-23 becomes 7% which exceeds the current estimate, as well as the RE for 2021-22 which is 6.9% and the actuals for 2020-21 at 9.2%

The reality of sectoral unemployment, the stark inequality between haves and have-nots, between the digital/IT sector earnings and those of other physical sectors, in terms of disposable incomes, in terms of ability to buy, in terms of jobs to get, needs to be addressed quickly. The long-term growth measures proposed in the Budget are no doubt essential, but alleviation of short and medium term stress at the bottom of the pyramid is equally important.

Let us look at two key figures of expenditure on education & health as a sample:

	2020-21 Actuals	2021-22 BE	2021-22 RE	2022-23 BE	2022-23 BE (adj for delivery)	2022-23 BE (adj for inflation)	2022-23 BE (Real terms)
Education	84	93	88	104	98	97	92
Health	80	75	86	87	87	81	81

These key thrust areas especially in the light of possible emergency response that may be needed given the pandemic continuing in the coming year, appear untouched. This indicates a lack of substantial thrust in social safety / security, and enhancing and upgrading human capital and employment.

Absence of this may results in widening this gap between haves & have nots.

If we look at the other sectors one wonders if a similar picture will emerge.

INFLATIONARY BURDEN: -

The Government in its ambition to usher in Amrit Kaal, digital reforms and stepping into the future unchartered territories may be unleashing inflationary pressures which the poor and the middle classes will have to bear to a great extent, further reducing their disposal incomes and aggravating their misery in the short medium term. With barely any relief either in direct or indirect tax burden and no direct benefit transfer worth the name, there is no immediate relief for this cross section of society.

A notable shift in the growth story is that of the growth in agriculture and manufacturing rising after the dip during last year and the unexpected slippage of growth in services sector this year.

Agriculture is expected to grow by 4%, industry by 12% and service sector by around 8%.

The employment levels in these sectors however have another story to tell. The employment numbers in service sector have shrunk and in agriculture increased, thereby showing distress and unemployment at bottom of the pyramid.
The e-businesses have taken their toll on the service sector and the workers who lost their jobs have shifted back to the villages and rural areas and sought refuge in subsistence farming.

THE TAX PROPOSALS- DIRECT AND INDIRECT

Let us now look at another fine print, that of the Finance bill and proposed changes in direct and indirect taxes.

There is no change either in the slabs or the tax rates and relief on taxation of dividend, surcharge on long term capital gains, enhancement of basic exemption limit and/or deductions have been given a complete go by.

Cooperative Societies having income up to Rs 10 cr have got some relief by way of reduction in surcharge and alternative minimum tax payable.

State government employees have been brought on par with Central government employees and State government employees will now enjoy 14% eligible deduction of contribution to National Pension Scheme on lines of Central Government Employees.

“Updating Tax Return” is a new two-year window proposed to be opened with a 25% additional tax and interest if filed within one year of the end of the relevant assessment year and with 50% additional tax and interest if filed within two years of the end of the assessment year.

This will not be available to those assessees who have been subjected to search and seizure or survey or other enquiries or where income is under reassessment for that year.

Assessees will now have additional time but it comes at a very heavy cost by way of 25% to 50% additional fees on tax, interest and surcharge payable.

The last date of incorporation of eligible startups has been extended to 31-03-2023.

The last date for new manufacturing entities to start production under concessional tax regime is extended by one more year to 31-03-2023.

A framework to reduce repetitive appeals when one is already pending on same matter in the High Court/ Supreme Court has been introduced by way of litigation management provision applicable to the department.

Tax relief in terms of relaxation in terms of encashment of a policy for the benefit of disabled child by parent/ guardian during lifetime after 60 years as against earlier only after death has been introduced.

Another tax relief is by way of clarification/liberalization of exemption from tax of grant/benefit received by sufferers of Covid 19 pandemic.

VIRTUAL DIGITAL ASSETS (INCLUDING BITCOINS):

Income arising on them will be subject to TDS at 1% for traceability and will be taxed @ 30% (higher rate) on gross receipts and without allowing any expenditure and c/f of such loss. Gift of such assets would also be taxed in hands of recipient. The definition and provisions are so wide that it may even lead to digital services getting taxed where intellectual property rights are getting transferred or licensed to third parties.

The area of concern is the indirect legitimacy that such taxation lends to Bitcoins which at one stage was being contemplated to be completely banned. With plans to introduce Digital Rupee by RBI highlighted in the budget, this development in the bitcoin space needs to be watched carefully.

NEGATION OF COURT JUDGEMENTS – RESTORATION OF PRIOR POSITION:

A new trend noticed is that any judgments of the courts favorable to the assessee are followed by an amendment in successive budgets often retrospectively negating the effect of such judgements.

This time too, there are many such provisions as given below:

A) Cess and Surcharge on the tax were held as allowable business expense by Bombay & Rajasthan High Courts. The amendment seeks to clarify that both there are part of tax and hence not allowable as business expenditure wef AY 2005-06 & subsequently.
B) Disallowance u/s 14A of expenditure incurred on earning of exempt income, even if exempt income is nil during the year, will now be disallowed in modification of the earlier stated portion.
C) Expenditure on certain benefit like travel, hospitality exp and other perquisites to recipients who are prohibited by law from accepting these will now be not allowed, overturning the effect of Himachal Pradesh High Court judgment.
D) Deduction on payment of interest u/s 43B would now be allowed only on actual payment and not on restructuring into a loan or other deferred payment instrument.
E) Interest on failure to deduct/collect or pay TDS to be as per order framed by assessing officer only.
F) Shifting of the onus of proving the source of the source of funds in the hands of the creditors in case of borrowings is another case in point.

G) Now section 148 which was assailed in many appeals in court cases recently is proposed to be amended to provide that requirement for approval to issue notice under section 148 shall not be required to be taken by the Assessing officer in specific situations.
   All these are amendments to deal with court decisions adverse to revenue and set a disturbing trend.

The provisions for higher rate of tax deduction if the payee has not filed tax return now applies in case of a default of not filing tax return of just one year, as against two years introduced in the budget last year.

TDS on sale of immovable property will now apply at 1% of the actual consideration or the stamp duty ready reckoner rate whichever is higher if it exceeds Rs. 50,00,000 and it will be deducted on the higher amount of the two.

TDS @1% will apply on all benefit or perquisites arising from business or profession for tracking the same.

Reporting of payments in form 52A under section 285B is for payments by the producer in connection with production of cinematograph films. It is now extended to event management, documentary production, television programs and sports, performing events and over the top platforms etc.

Provisions pertaining to bonus stripping and dividend stripping are to be made applicable to securities and units also.

In case of assessment of search and seizure cases the set off of b/f losses or expenses will now be allowed and these will be taxed without such set off.

Exemption granted under section 10 to Overseas consultants and professionals working on projects in India are being phased out.

Provision of taxability of cash credits under section 68: The onus on the assesee has been made even more stringent by placing the onus of explaining the source of funds also in the hands of the creditor or entry provider on the assessee.

The word ‘entry provider’ once again reveals a particular attitude and mindset of the bureaucracy towards the taxpayer.

Apart from this, there are substantial changes introduced to the faceless assessment process and the taxation of charitable institutions and trusts.

INDIRECT TAXES:

GST:

As regards the indirect taxes, the key changes in GST relate to disallowance and reversal of ITC claimed if supplier does not pay tax thereon by due date and liability to be cast on the claimant of ITC, with facility to reclaim it upon payment by the supplier.

The other one is extension of time to claim ITC up to 30th November in place of 30th September of the following year, earlier.

Looking to the increasing trend of GST collection from July 2017 when it was just introduced and the current level of over Rs. 1,40,000 crores for January 2022, it appears that the government has a target of over Rs.2,50,000 crore per month four or five years down the line. The Government is unlikely to touch the rural/farm sector under direct tax laws and this is unlikely to change. Thus, going forward since, almost every citizen who incurs expenditure including even rural/farm sector pays GST, that will emerge as preferred mode as taxation. GST is easier to collect and to plug leakages and loopholes. The ease of detection of GST evasion given the digital information gathering, e-way bills and reconciliation between supplier and purchaser also enable the reduction of tax avoidance.

CUSTOMS:

Under Customs law certain custom duties have been reduced, at the same time removing several duty exemptions and incorporating some modifications directly in the tariff rates itself.

Project imports will now be charged at 7.5% in place of 5% earlier.

There are over eighty amendments to specific sections which are best dealt with separately.

DEAL WITH THE PRESENT & FOCUS ON THE FUTURE:

Budget 2023 aims to be an all-encompassing budget with a few misses but the acid test is in implementation and successful realization of the vision unfolded today wherein lies the real challenge.

To summarize, the budget puts forth a vision and map for next twenty-five years but it does not outline any proposal that provides immediate intervention/relief in the current situation.

Given this, we have to tighten our belts and deal with the current situation ourselves, be it getting gainfully engaged, re activating our earnings, picking up from the pandemic and getting on with life.

The budget showcases us direction of government spending in the times to come. It is an opportunity for corporates large and small, MSME, professionals, businessmen, traders, employees white & blue collared, farmers, the unemployed youth, the skilled & Unskilled, the urban and the rural as well to find the area where they can seize on the opportunity and be a part of the Amrit Kaal.

It makes sense and is wise to work with the Government and position oneself in the areas of interest of the present dispensation.

This will enable us to cope with the current challenging times. “Sabka Prayas” – better dedicated efforts by everyone to help themselves and improve their own lot, is the only way to bring improvement and growth personally and for the economy too. Meanwhile the annual ‘budget parade’ marches on “Kadam Kadam badhaye ja”.

Vishnu Kanhere