Indian Union Budget 2023-24

FM plays the tax tune:

The government in the last budget before the general elections moved swiftly on its strongest footing to boost capital expenditure on plans to over Rs.10 lakh crore, simultaneously announcing tax cuts under the new tax regime taking the public on a merry ride. The Hon FM played the sweet soft tax tune to reduce taxes across all levels making the new tax regime sweeter for many individuals.

The Crises:

The country like the rest of the world has come through two major crises. The first being Covid19 and its aftermath and effects on health and well being of the people resulting in severe adverse economic, social cultural and even political impact. The second which primarily had an adverse effect on cost of imports, creating shortage of fuel and energy, resulting in heightened uncertainty and economic downturn is the Ukraine War/Conflict.

These two have slowed down our growth rate and have adversely affected India's economy including forex reserve position.

The Opportunity:

The current government has focussed on "*antyodaya".* This thrust is continued with an emphasis this year on women by achieving economic empowerment of women.

The second opportunity lies in Skilling India and this time the focus area is the craftsmen working with hand based skills and artisans/craftsmen.

The third is the immense opportunity of expediting and tapping tourism making India the tourism destination of the world.

The fourth which is often described as the bedrock of sustainable development is green growth. The objective is to use green fuel, develop green energy, use organic fertilizers replacing chemical fertilizers leading to green farming, green equipment, green buildings and all this of course aimed at zero carbon emissions by 2070.

These priority areas and initiatives have been subdivided into seven segments the Sapta (7) Rishis (Sages):

1) Inclusive development concentrates on digital initiatives for agriculture, cotton, horticulture, millets (Shree Anna), fisheries, mobilizing cooperation, medical research, pharma innovation, health initiatives, and so on.

2) Concentrating and focussing on tribal areas with key initiatives like housing, drinking water, road, telecom, power to reach the last mile.

3) Massive investment in infrastructure including a substantial Capex planned expenditure of various ministries of Rs.10 lakh crore, an increase of over 33% compared to last year being 3.3% of the GDP. This capital expenditure using Keynesian economics will boost incomes thereby increasing and improving disposable incomes and speeding up the “Engines of growth of the Economy”. The thrust covers railways, logistics, regional connectivity, sustainable cities, urban sanitation and so on.

4) Improvement of Governance through National Data Governance Policy (a much awaited and often postponed initiative) is announced once again. Easier KYC, easier filing, PAN as common identifier, E Courts, Fintech services, Labs to develop Apps for 5G, are some other elaborate initiatives.

5) Under the green growth – National Green Hydrogen Mission with an outlay of Rs. 19,700 Crore, Energy Transition Rs. 35,000 Crore, Battery energy storage (Li-Ion) with PPP and suitable VGF, Vehicle replacement etc. and a program of Green Credits to be announced are key thrust areas.

6) Youth Power is formed with Kaushal Vikas 4.0, Skill India in its next version, a digital platform for Skilling, Apprenticeship Promotion and Tourism.

7) The Financial Sector initiatives are around Credit Guarantee for MSMEs National Financial Information Registry improving governance and investor protection in Banking sector being key initiatives.

Small Savings:

Some new investment initiatives are the enhancement of limit of Senior Citizen Saving Scheme from Rs. 15 Lakh to Rs. 30 Lakh and for women introduction of Mahila Samman Bachat Patra for 2 years duration @ 7.5% rate of interest per annum.

The Pain Points:

The Hon. FM's tax tune has led the masses on a merry ride and the soothing salve of tax cuts (only under the new tax regime) wiping the pain for the moment. However the underlying pain points and issues (though not referred in the entire budget speech even once) need careful consideration.

Inflation:

The statistics will of course bear me out but what I am about to recount is something a typical common citizen setting out for buying essentials would encounter and hence is episodical in nature having persuasive value. In the year 2014, the corner shop keeper/grocer across the road asked for Rs. 60 for a dozen eggs. Move to end of 2022/23 and for the same one dozen eggs one fishes out Rs. 90 an increase of 50%. Typically for milk, stationery, grocery, food, staples, clothes, medicines, travel the rise is similar about 50% over 8 years or an average of 4% to 6% inflation every year.

With inflation a reality of life and increasing unceasingly year on year the increase in per capita income levels and the (generous) tax cuts start looking relatively thin and much less substantial.

In fact a much bigger pain point for fixed income earners and pensioners and the retired multitude who find themselves without any serious champion, any voice and hence any serious representation in the decision making process is the low interest rates, the higher inflation rate and the shrinking disposable income that has over the years forced them to eat out of capital and many others to reach out for help to near and dear ones, and sometimes to distant relations and even NGOs.

The other impact of inflation is that the deficit in real terms is much higher and the growth rate effectively lower if income and expenditure are to be measured in real terms rather than as absolute numbers.

The Reality:

(This analysis is based on Budget at a Glance 2023-24 pages (i), (ii), and 1).

Nominal GDP for B E 2023-24 has been projected at Rs. 302 Lakh Crore assuming 10.5% growth over the estimated nominal GDP of Rs. 273 Crore for R E 2022-23.

As has been borne out the growth rate being at best around 6% to 7% and the inflation rate being 4% to 6% the growth in real terms would be 0% to 1% even after considering the aggressive estimate levels in the budget.

On this base of approximately Rs. 275 lakh crore estimated GDP (Rs. 273 lakh crore + 1%) the deficit of Rs. 18 lakh crore as per B E 2023-24 becomes 6.6% which exceeds the current estimate of deficit of 5.9% of GDP it being now in real terms more than 6%. Even the RE 2022-23 fiscal deficit at Rs. 17.6 lakh crore nudges up from estimate of 6.4% of GDP to a more realistic deficit figure of 6.5% of GDP.

Looked at in this perspective the Budget 2023-24 capital expenditure (plan expenses) of Rs. 10,00,961 Crore i.e., Rs. 10 lakh crore effectively reduces to Rs. 8.9 lakh crore net of delivery losses of 5% and average inflation of 6%. Thus, compared to last years Capex of Rs. 7.5 lakh crore it shows a more modest increase of about 18% and not the claimed 33%.

A bigger area of concern however is the revenue account expenditure of Rs. 35 lakh crore of which nearly Rs. 20 lakh crore is establishment exp (double of the capex) and Rs. 11 lakh crore is Interest payments (equal to the capex). It is these that need to be controlled in the future.

Unemployment:

India has been better on indices, the economy is more formal as doubling of EPFO membership to 27 crore and 7400 crore digital payment of Rs. 126 Lakh crore through UPI in 2022 show.

There has been inclusive development with 11.7 crore household toilets, 9.6 crore LPG connections, 220 crore covid vaccinations of 102 crore persons, 47.8 crore persons insured under PM Suraksha and PM Jeevan Jyoti Yojana and cash benefits transfer of Rs. 2.2 lakh crore to over 11.4 crore farmers under PM Kisan Saman Nidhi.

We have assumed leadership of G20 and have improved on indices of ease of doing business, human index and so on and have impressive figures of growth compared to rest of the world. But, and the but is a large one, unemployment issue is still here and has not been tackled yet. With tech companies going on a lay off spree in recent past, the problem initially thought to be limited to blue collar and MSME/ SME sector workers, has spread to white collar and now to techie expatriates and NRIs too.

Massive Capex – Multiplier – Accelerator?

A massive dose of Capex by the Government should actually be a remedy and show results in terms of growth in employment. The Hon. FM has spoken of Public Private Partnership (PPP) in terms of enhancing opportunities for private investment in infrastructure through the newly established Infrastructure Finance Secretariat.

No doubt the Capex will lead to a multiplier effect and the impact of increase in disposable incomes of the people will get translated into demand multiplied to lead to growth. However the accelerator of Private Sector investment is also needed to kick in for this.

Thus employment generation actually gets a boost and happens only when the positive effect of massive increase in government capital expenditure causes proportionately greater increase in real national output, which in turn causes a proportionally greater increase in investment.

However for a number of reasons including operating in a VUCA world full of volatility, uncertainty, complexity and ambiguity the current rate of return on investment is perceived to be not attractive enough for the private sector investment to pitch in. The risk, the downside, the uncertainty, the volatility seems to be making the investors shy away making downsizing their right sizing.

This is effectively negating the Indian Economy which is repeatedly getting a look at the goal rather than actually scoring it, thus denying it the achievement of the goal of raising employment levels substantially.

It remains to be seen whether the narrative of the budget this time around, and the actual on ground realities including policies of the Centre and States and the response of the government machinery provides that cue for private players to take up massive investment leading to a success of the budget experiment.

Else like in the past in absence of accelerated private sector investment the result will be inflation and more inflation and stagnating levels of unemployment

With a hope and a prayer on the lips let us move to the tax proposals narrated in the budget speech direct and indirect, the fine print of course holding the devil as usual, which would be covered later in a separate note.

The tax proposals – Direct Taxes:

Personal Income Tax – the proposal making the most waves and naturally so is the massive rate cut in direct taxes under the new tax regime which is now set to be the default tax regime, though the old tax regime still continues without any relief or any change as far as tax rate or even threshold exemption and the rebate threshold is concerned.

Thus person being individual or HUF opting for old tax regime will continue to pay tax at old rates and surcharge and enjoys tax rebate only upto Rs. 5 lakh income, but enjoys deductions under chapter VI-A e.g., Deduction for investment upto Rs. 1,50,000 of PPF, LIC Premium etc., further for Mediclaim of upto Rs. 25,000 and the like which are not available under the new tax regime.

A quick comparison shows that assuming a taxpayer does savings and makes investment in PF, PPF or buys Insurance Premia and has Mediclaim cover etc the old tax regime is still beneficial upto a income of Rs. 10 lakh before chapter VI deductions.

For income of Rs. 12.50 lakh or Rs. 15 lakh per year and above the new tax regime provides a clear benefit with maximum tax reduction in the range of Rs. 31,200.

Above income of Rs. 5 crore due to reduction in highest surcharge from 37% to 25% there will be a benefit of nearly 3.74% say 4% of the total income. So for an income of Rs. 100 Cr the tax benefit will be Rs. 4 Crore.

Cooperatives: Benefit of new manufacturing being taxes at 15% on income is extended to cooperatives.

Startups: Can incorporate and commence business before 31.03.2024, a one year extension has been given.

Presumptive taxation limit threshold of MSME raised from Rs. 2 Crore to Rs. 3 crore and for professionals from Rs. 50 lakh to Rs. 75 lakh provided receipts in cash do not exceed 5 % of gross receipts.

There are few other benefits in terms of rationalization of provisions and ease of compliance. However the sting is in the fine print as below:

a. The capital gain exemption u /s 54 and 54F for reinvestments in residential house is capped to Rs. 10 Crore.

b. Deemed gift provisions for receipts above Rs. 50,000 extended to NOR status.

c. Income distributed by business trusts now to be taxed.

d. Rate of TCS on payments being remittance under LRS other than education and medical purpose and for overseas tour program to be 20% in place of 5%.

e. Life Policies where aggregate premium exceeds Rs. 5 lakhs issued on or after 1.4.2023 the maturity proceeds (except death claims) will be taxable and no longer exempt.

f. All intangibles having Zero cost (earlier capital gains exempt due to operation of Supreme Court Judgement in case of BC Srinivas Shetty) the cost will be deemed to be nil and resulting gains will be taxable.

g. Provision for set off of refund against existing demand and withholding of refund in case of pending assessment/reassessment, by Assessing Officer introduced.

There are other provisions having tax implications, these would be considered in details in separate note.

Indirect Tax Proposals:

a. Under the Indirect Tax proposals in order to promote exports, boost domestic manufacturing of certain items and encourage green energy and mobility there is a proposed reduction / rationalization of tax rates and that of basic customs duty.

b. Apart from this the National Calamity Contingent Duty (NCCD) on specified cigarettes is proposed to be revised upwards by about 16%.

c. Under GST Law prominent change is that unregistered and composition tax payers can make intra state supply of goods through E – Commerce Operators subject to certain conditions.

d. The time limit for filling return under GST is restricted to maximum three years from due date of filling relevant return / statement.

e. Input tax credit of GST paid for CSR expenditure shall not be available.

WAY AHEAD:

The massive capital expenditure, the positive narrative not for a moment mentioning the demons of inflation and unemployment are a bold step by the FM in the VUCA world, a step that the government could afford to take, being the last year of its current term in office.

It is now upon us as citizens, as micro, small, medium and large entrepreneurs, as stakeholders, as different segments of the society to respond positively to the Budget.

The wish list of demands and expectations of the people from the budget is never ending and no FM nor any government however competent, however people centric can ever fulfill all of it.

We the people have to take the cue, the curtain is raised and the act is about to begin, let us play our part in this Amrit Kaal budget by putting our best foot forward and rather than discussing and worrying over what was not, or what could have been better, or even still what needs to be undone or how it is wrong, concentrate on making the most of it. The pitch is never perfect, the weather conditions are never ideal, the form may not be at the prime, nor the delivery easy to face. It is upto us to hit it over the ropes now, for **“nothing succeeds like success”**.

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