

Indian Union Budget 2025-26

FM Plays to the Middle Class:

The Government in a departure of sorts has decided to offer a carrot to the middle class in place of the usual whip of increased taxes and compliance burden.

The thrust of the budget is at making the new scheme of taxation (without the tax deduction and rebates) popular by offering all the sops to those that opt for the new scheme. This has effectively ushered in the sunset for the old regime of tax which allowed the various deductions without expressly making such a provision.

Global Challenge:

The global challenge of continuing burden of war, the continued posturing of the heavy weight countries like US, Russia and China and the collateral fallout of the likely tariff wars will further exacerbate the war-ravaged global economy more particularly the specter of looming oil price rise.

These challenges have further slowed down the growth rate and affected Indian economy that is no longer isolated from the rest of the world.

Challenge of timely realization of demographic dividend:

India has one of the youngest populations of the world and at the cusp of reaping a huge demographic dividend that can catapult us to the pole position in the world economic and political order.

However, achieving this requires a very high priority and a massive input and significant emphasis on education, health, infrastructure and employment.

It is in the light of these challenges and in this context that the Union Budget 2025-26 often touted as the road map of the Government for the coming year needs to be understood and appreciated.

The thrust areas are eradication of poverty, quality school education, comprehensive healthcare, skilling of labour with meaningful employment, seventy percent women in economic development and making India the food basket of the world.

If realized these would truly transform India to Viksit Bharat.

The budget has a great vision, hits the right notes, has proposed ten development measures broadly focused on agriculture, women, youth and the poor.

The engines for the proposed thrust are four –

Agriculture, MSME, Investment and Exports.

Coupled with these drivers sweeping reforms are proposed in taxation – New direct tax bill being put up next week. Similarly Power, Urban Development, Mining, Financial sector and Regulatory reform all aimed at improving ease of business including a fast-track scheme for company mergers are proposed.

The way to drive this engine is proposed to be through enhancing the spending power of Indian rising middle class through tax sops which in turn will drive and invigorate private sector investments to cater to the demand.

The proof of the budget pudding:

The intentions are good, the will is there, the vision is great and the people who have elected the Government for a record third term are willing.

Then where is the catch?

When it comes to a budget as in any fiscal exercise, it all boils down to **“Show me the money”** – as Tom Cruise said in the 1996 movie Jerry Maguire. The budget really runs short on this. The underlying reason is there in the Budget at Glance document on the pages 3/23, 6/23, 8/23 and 13/23.

The GDP for FY 2025-26 is estimated to be Rs. 357 Lakh Crore which is 10.1% of the revenue estimates for the FY 2024-25 of Rs. 324 Lakh Crore as released by NSO Office. This has been the trend in every year in the past few years that against the actual growth rate of 6% to 7% achieved, for estimating the GDP every year, an increase of 10% to 14% is estimated. This inflates the projected GDP and substantially understates the fiscal as well as revenue deficit as a % of the GDP.

Thus, at a modest increase of 6% the GDP would be Rs. 343 Lakh Crore. In such case the fiscal deficit of Rs.16 Lakh Crore would be touching 5% and definitely above 4.66% as against the claim of 4.4% made in the budget. This higher deficit combined with the current inflation which is at anything above 6% would lead to even higher inflationary pressure and the higher disposable

income due to lower taxes would first get absorbed in the inflation and may have little impact on growth.

Out of the total budget expenditure estimates 2025-26 of Rs. 51 lakh crore the total capex is Rs. 11 Lakh crore and including capital grants to states is Rs. 15.5 Lakh crore.

As against this actual capex for 2024-25 was Rs. 9.5 Lakh crores as against the 2024-25 Budget estimate of Rs.10 Lakh Crore.

With leakages of 5% to 10%, inflation of 6% actual deficit at 4.7% plus, and track record of 90% utilization in the past in reality the capex even taking the states share into account will be a modest 10 Lakh Crores.

The bare facts:

Rs. In Lakh Crores

Head	2023-24 Actuals	2025-26 Budget	2025-26 Effective*
Education	1.23	1.29	0.97
Health	0.82	0.98	0.74
Pension	2.4	2.8	2.10
Administration of Govt.	4.0	4.8	3.60

*The effective outflow is after adjusting for inflation 6%, deficit 4.7%, leakages 5% to 10% and shortfall in utilization 10%.

The reality is that even without adjustment the total expenditure on pension alone far exceeds the combined expenditure on education and health.

The way forward:

The saying well began half done provides solace in the current situation. The good intentions, the vision, the road map all point to a best effort attempt. If this is to succeed, we have to keep the money where it matters.

Moving forward is important and I am sure with the tax benefit granted in the budget the middle class which always shoulders the brunt of the responsibility will respond and rise to the occasion.

“Yojananam Sahasrani,
Shainah Gachet Pipilika
Agachchan Vainateyopi
Padam Ekam Na Gachhati”

The ant travels miles slow and sure, the immobile eagle does not even move a step if it remains motionless.

Nani Palkhiwala the iconic constitutional expert, legal eagle, remembered for his memorable tax lectures often said that the annual finance bill amending the tax laws is like a one-way one-time railway ticket valid for the financial year alone and sometimes even expiring earlier.

Given the substantial tax changes proposed under the new tax regime and given that the new tax bill is being put up in the next week my detailed note on tax provisions in the bill as well as on the proposed new tax laws will follow.

Signing off from the mountains of Bhutan.

Vishnu Kanhere