Sectoral Analysis of the Union Budget

Dr A K Dubey

In course of the presentation of the budget for the year 2020-21, the Finance minister said that, "tax buoyancy will take time". If this was any indication, it became obvious, that measures that are proposed would take time to come to fruition. Nevertheless, a lot of measures, albeit at relatively smaller scale have been announced. There are no dramatic announcements in the budget. But it tries to balance the competing priorities.

The fiscal deficit is now estimated at 3.8% for 2019-20. It was originally projected at 3.3% i.e., which is 0.5% more than the original estimate. Similarly, primary deficit i.e., fiscal deficit minus interests too is up by 0.5%; and has been estimated at 0.7% against original budget estimates (BE) figure of 0.2% for 2019-20. A closer look at it prompts to conclude that the issue of interest repayment has to be carefully understood. It is important also because borrowings have to be looked into from this point of view. After all, any borrowing has to be paid back and hence the ability to service the debt amidst competing items of expenditure has to be borne in mind. Borrowings in 2019-20 were originally estimated to be of the order of Rs. 7,03,760 crore which was upwardly revised to Rs. 7,66,846 crore in the revised estimate (RE) for 2019-20. Borrowings for 2020-21 are estimated in the budget to be at Rs. 7,96,337 crore. To finance the fiscal deficit, market borrowings of Rs. 5,35,870 crore are expected which is 7.3% higher than the last year's RE figures of Rs. 4,98,972 crore. Last year's RE figure itself was 11.13% higher than BE figures of Rs.4,48,122 crore. That way, the market borrowing figure for 2020-21 is 19.58% higher than the BE for 2019-20.

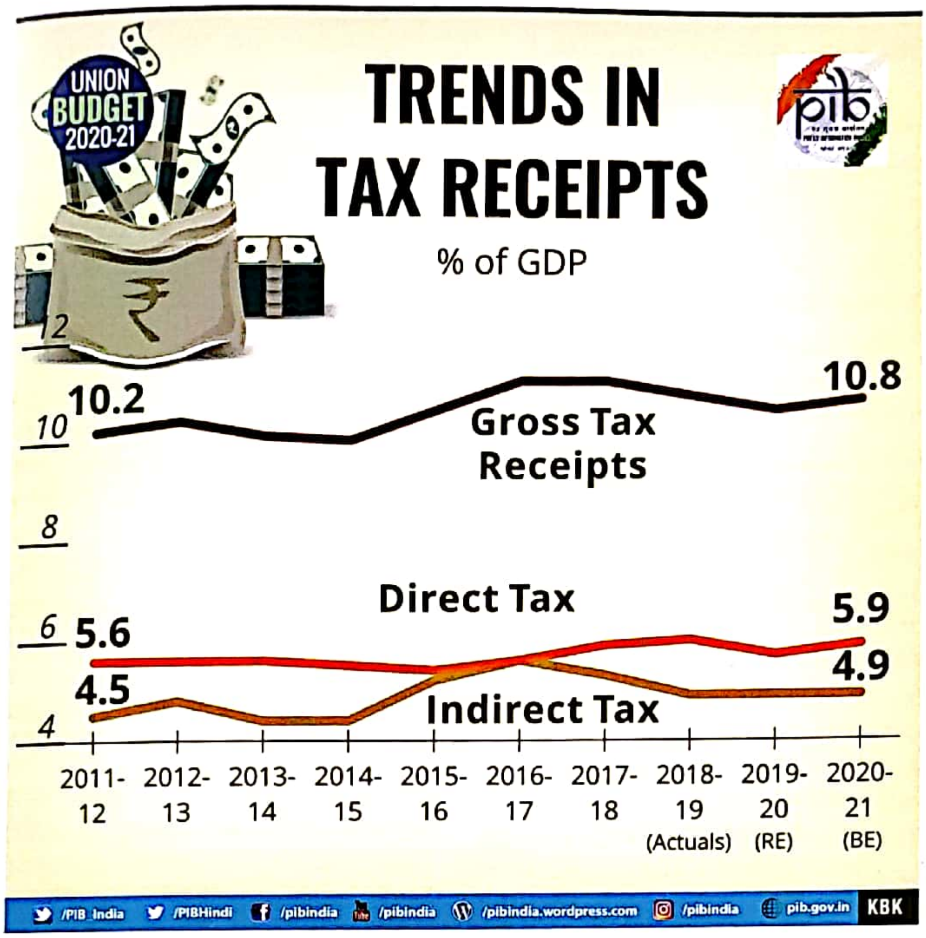
There is another interesting observation on borrowings. Borrowings in the form of securities against small savings was initially estimated in the budget to be Rs.1,30,000 crore in 2019-20. But in RE, it went by 84.6% to make it Rs. 2,40,000 crore. In the budget 2020-21, it has been estimated at the RE of 2019-20. So the borrowing in the

KEY NUMBERS

(in ₹ crore)

	2018-19 (Actuals)	2019-20 (Budget Estimates)	2019-20 (Revised Estimates)	2020-21 (Budget Estimates)
Revenue Receipts	15,52,916	19,62,761	18,50,101	20,20,926
Capital Receipts	7,62,197	8,23,588	8,48,451	10,21,304
Total Receipts	23,15,113	27,86,349	26,98,552	30,42,230
Total Expenditure	23,15,113	27,86,349	26,98,552	30,42,230
Revenue Deficit	4,54,483	4,85,019	4,99,544	6,09,219
Effective Revenue Deficit	2,62,702	2,77,686	3,07,807	4,02,719
Fiscal Deficit	6,49,418	7,03,760	7,66,846	7,96,337
Primary Deficit	66,770	43,289	1,41,741	88,134

The author is a former IAS who has retired as Secretary, Department of Youth Affairs, Ministry of Youth Affairs and Sports, Government of India. Email: akdubey23@hotmail.com



form of security against small savings was a handy and reliable option.

Receipts

The receipt figures indicated in the budget need to be understood properly.

The main components of revenue receipts are–corporation tax, taxes on income, customs and central excise, and goods and services tax (GST). Here, the matter of quick attention is short revenue collection against the budget estimate of Rs. 24,61,195 crore in 2019-20, the revised estimate shows a figure of Rs. 21,63,423 crore. This short fall in revenue receipts is mainly on account of decline in corporation tax (Rs. 6,10,500 crore against BE figure of Rs. 7,66,000 crore), customs (Rs. 1,25,000 crore against the BE figure of Rs. 1,55,904 crore), central excise (Rs. 2,48,012 crore against the BE figure of Rs. 3,00,000 crore) and GST (Rs. 6,12,327 crore against BE of Rs. 6,63,343 crore). The estimate for corporation tax is Rs. 6,81,000 crore, for customs is Rs. 13,800 crore, for central excise and GST the figures are Rs. 2,67,000 crore and Rs. 69,05,000 crore. Now the GST has since been simplified and several concerns addressed, its compliance and collection should improve in the next fiscal. Keeping the receipts figure in the league of last year's RE is most pragmatic.

Receipts have another aspect. Among the non-tax revenue, dividend and profits were projected at Rs. 1,63,528 crore in 2019-20 against which, the RE is Rs. 1,99,893 crore. Against this figure, the BE for 2020-21 is Rs. 1,55,395 crore. If one reads this together with the receipts from disinvestment which as per 2019-20 RE is Rs. 65,000 crore (against its BE of Rs. 1,05,000 crore) and has been projected at Rs. 2,10,000 crore in the budget for 2020-21, it needs some amplification on a few issues. Is the Government expecting to sell its dividend earning ventures? If, yes, then how the sales price will be found? Against the current year's experience, the expectation of receipt from the sales of Government shares seem quite ambitious, particularly when the growth rate of GDP has been lower than the expectation.

Sectoral Allocation

Generally, the sectoral allocations in the year 2020-21 have been nominally more than the last year's RE. But when compared to BE for 2019-20, difference in allocations to various sectors has been more. This type of debate is of limited use because the RE generally reflects the capacity and the actual trend of expenditure. Hence, taking RE as in indicator for allocation may sound realistic and pragmatic.

Sectoral allocation is the typical example of balancing the competing priorities in governmental spending. Areas like health, nutrition, education, etc. would continue on the same trajectory of expending more because there is no major policy revision. And when Government wished to enhance its assistance, it is significantly visible. Case in point, IT and telecom sector in which against the RE of Rs. 16,000 crore in 2019-20 (BE Rs. 21,783 crore), an allocation of Rs. 59,349 crore has been proposed in 2020-21.

Major Impetus

While the overall outlay on the lines of 2019-20 RE would still be fine, the Government has attempted to give impetus to some sectors. For the purpose of illustration, a few major ones are mention below:

a. In food sector, Food Corporation of India (FCI) shall enhance its borrowing to the extent of Rs. 3,66,000 crore against the food subsidy bill of Rs. 1,08,688 crore. Out of this, Rs. 68,400 crore will be drawn towards repayments. Coupled with the stock wastage and huge carrying cost, the issue needs urgent attention.

b. Farmer's income is sought to be doubled in next three years. The objective is most desirable, but its condition precedent is higher growth rate in farm sector, which must escalate to 15% from 3%. Agricultural growth rate is low because of a number of factors such as accessibility to input and farm finance, dependence on rains, seed quality, market forces, that dictate sub optimal prices, and above all the farm production efficiency which needs comprehensive upgradation. Scientific input in agriculture is stagnant and dated. In fact, some of the problems still linger on without any solution. For example, over exploitation of ground water and excessive use of chemical fertilizers resulting in salination of soil still remains to be addressed. Another example is GM seeds/crops. Apprehensions about GM crops are more socio-economic rather than scientific. Doubling of farmers income will require intensive action under a well thought-out strategy and plan of action in which states too have to play their role.

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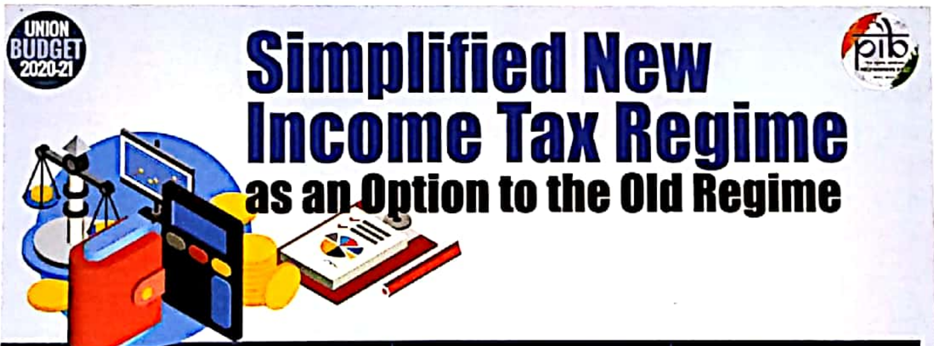
c. Higher import duties will be imposed on some imported products such as food items, household appliances, mobiles, etc.

d. Some measures announced in the budget are expected to initiate new trends. **Kisan Rail** caters the food chain requirements for perishable agri-commodities, introduction of **Tejas** like trains, etc. Similarly, there is provision for funding viability gap for creation of efficient warehousing in **Public Private Partnership (PPP)** mode in rural areas.



Taxable Income Slab (Rs.)	Existing Tax Rates	New Tax Rates
0-2.5 Lakh	Exempt	Exempt
2.5-5 Lakh	5%	5%
5-7.5 Lakh	20%	10%
7.5-10 Lakh	20%	15%
10-12.5 Lakh	30%	20%
12.5-15 Lakh	30%	25%
Above 15 Lakh	30%	30%

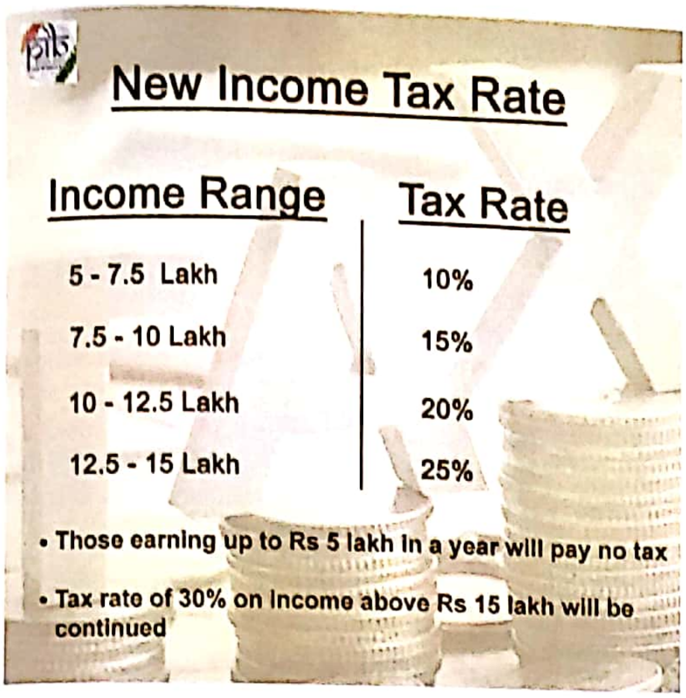
e. Concept of bridge course for technical upgradation to render Indians employable abroad is an excellent idea in the field of skill development. In fact, both education and skill development could be a great source of skill exports if proper upgradation and benchmarking is ensured.

Taxation

Taxation constitutes an important source of revenue for the Government. Taxes are of two types-direct and indirect. In case of taxes on income, the difference between revise and original estimates for 2019-20 has been Rs. 9,500 crore. Projection for 2020-21 is Rs. 63,800 crore. The figure for corporation tax is Rs. 6,81,000 crore in 2020-21 against Rs. 6,10,500 crore (RE) in 2019-20.

This year a new announcement has been made about new IT slabs. These income slabs are of a narrower band with gradually escalating income tax rates. If the exemptions are taken into account, then the new slabs may require higher payout on income tax for certain categories of tax payers. For example at the present rate, a person with Rs. 15-20 lakh annual income would have to pay higher income tax if he opts for new slabs sans exemptions. The FM has said in her budget speech that the tax payers will have the option to stick to old slabs but once he switches over to new slabs, he can't revert to the old slabs. The budget also envisages that over a period of time all exemptions would be removed.

One would hardly disagree with the view that tax slabs should be simple and uncomplicated. Ideally, there should be no exemptions. But will it contribute to widening of tax base? The purpose of tax reforms has to be widening of tax base as well as ensuring compliance. An easy approach to calculate system would incentivise compliance. But expansion of tax base would perhaps need a different approach.



Small savings, Provident Fund contribution, Insurance Premia are all "differed expenditure" to ensure savings. Such savings accumulated amounts help the tax payer in encouraging expenditure on semi-durable, durable or long term personal commitments such as children's education, health care of disproportionately costlier order, housing and other socio-economic requirements.

At the macro level, such funds (availed as exemptions) offer borrowings for the Government. Even if the Government pays interest on Provident Funds (PFs), small savings, etc., it offers funds at a cheaper rate than the market borrowing rates. Therefore, doing away with exemptions shall result in minimising the savings, rendering greater disposable income in the short run. This is expected to encourage consumption. But savings as a means of financing individual medium and long term requirements will get affected. And this will almost be certain for tax payers with an income of up to Rs. 15 lakh per annum.

Since there is an option available to the tax payer regarding the tax slab, it gives hope that the Government too wishes to take an informed decision in this regard. A few things mentioned below should invite attention of the Government:

a. In western world where the consumption is maximum and as a consequence, lesser incentive for saving the social security net is stronger.

b. For senior citizens, health care, housing, basic amenities, etc., assume greater importance. Cost of health care for senior citizens becomes incremental as he or she grows old. In this context, hospitals in PPP will only be a partial answer. This weakens the case of withdrawing exemption particularly on medical policies, insurances, etc.

c. Withdrawing house loan interest would be a dampener on the efforts of affordable housing. Since housing is often the most important expenditure in one's life, the exemption, though small, is indeed an incentive. If it is made available only for the first house or only one house it would still be helpful.

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For The Youth

India is a "young country" and hence it is natural that the youth would like to see measures for its advancements. Apart from the programmes organised by the Ministry of Youth Affairs and Sports, measures that are particularly relevant for the youth to help them in their efforts for meaningful employment are as follows:

a. Protection against import of some items to help domestic manufacturers/production.

b. Rural warehousing facilities, connecting mandis, etc. will offer job opportunities to locals without having to migrate.

c. Technical upgradation and skill development for enhanced employability within India and abroad.

d. Incentives for startups.

e. Expansion in health care, construction, etc. would offer more job opportunities.

Some Interesting Proposals

Budget 2020-21 has a few interesting announcements, some of which are given as illustrations:

a. Deposit Insurance coverage enhanced from Rs. 1 lakh to Rs. 5 lakh.

b. Lower Corporation tax at 15% for new domestic corporate entities in power and manufacturing sectors. It is expected to give a fillip to manufacturing activities, particularly when viewed in the light of "Assemble In India" campaign.

c. Tax benefit to start-up 100% profit deduction.

d. Dividend distribution tax abolished.

e. Solar energy panels in barren, non-usable land.

f. Introduction of simplified GST return and automation of refund process. It is expected to add to the ease of business. ❑