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“BUDGET 2014-Many Hits, Many Misses”. By S L Rao

The Budget speech lasted almost two and a half hours. It was boring. It presented no overarching vision of how the economy would shape over five years and the economic policies of the new government. It was a continuation of the last interim UPA Budget, even retaining the Budget deficit figure of 4.1% for this year, which the BJP had trashed before it came to power. It projects the deficit at 3.6 and 3.0% but with no indication of broad measures to achieve these. It takes no actions for cutting subsidies nor the very leaky social welfare schemes, the two items which account for the rising fiscal deficit of the last few years. In fairness this government has been in office for only 45 days and the Finance Minister also presently holds the portfolios of Defence and Corporate Affairs in addition to party responsibilities. We must expect many announcements in the coming months which would otherwise have come in the Budget, and possibly a Big Bang next year.

The expectation was that this budget would

- reduce the fiscal deficit (it does not),
- propose actions that would generate employment(it does),
- stimulate Savings and Investment (there are many tax concessions and allowances as well as expenditures and administrative changes that will do this)),
- reduce Inflation (Budget can only reduce spending which could reduce inflation in the medium term, but earlier, government had announced direct actions like anti-hoarding, imports, distribution of grains in stock, etc) .
- prune expenditures (it does not).
- disinvest and begin privatizing state owned enterprises (SEBI has asked that SOEs reduce their holdings from presently permitted limit of 90% to 75%, resulting in significant disinvestments, while there is no mention of privatization).

- Announce measures to improve government implementation.
- Achieve improved employment generation (announced measures will do that).
- Stimulate FDI (it does this in some measure).
- debottleneck procedures and clearances (it does this to some extent especially to combat "tax terrorism by government).
- The Budget assumes higher GDP growth and non tax revenues from disinvestment than appears reasonable.

Thus it will probably improve generation of employment, stimulation of savings and investment, and FDI. Some important measures are :

a. Bank recapitalization as per Basel norms, and sales of government shares in Banks, to a minimum government holding of 51%.

b. By providing almost Rs 36000 per annum tax savings at the lowest tax slabs (increasing 80C exemptions, raising PPF investment limit(, savings will improve, and consumption expenditures will rise.

c. FDI will be stimulated by

i. apparent commitment not to introduce retrospective taxes; Raising investment limits in Insurance, Defence, Smart Cities, eased Real Estate to 49%. However the condition of Indian management control will not help.

ii. Clarity in transfer Pricing Norms will encourage both present companies with foreign linkages, and new entrants.

iii. By not resolving the Vodaphone tax demand (because of pending litigation in Courts), there is a deterrent.

iv. There is a clear statement of will and some measures to reduce Tax litigation/harassment;

v. The target of e-governance for all Ministries by end of this year will help better coordination between ministries on clearances and approvals.

vi. The Budget takes credit for around Rs 75800 cr on Disinvestment. This seems high and assumes market buoyancy.

vii. It opens up the North East development as an important investment opportunity.

viii. Sadly it is clear that CSR spending will not get tax deductions.

Many of the above measures for FDI will also benefit domestic investment. Some important ones are:

a. Advance Rulings now applicable to domestic investors as well and more fora for the purpose.

b. High level Committee to reduce litigation

c. Stimulus to Manufacturing, Real Estate

d. The changes proposed to the Apprenticeship Act may be a precursor to changes in labour laws.

e. A unique feature is the creation of a Rs 10000 cr Entrepreneur Fund for start ups.

f. It proposes setting up Ten new Ports; 8 airports; national highways and rural roads; Smart Cities; Fund for Ganga development also aided by a NRI Ganga Fund.

g. Using MNREGA for agricultural assets will significantly add to investment for agriculture.

h. Indirect Taxes: many changes to reduce tax terrorism and simplify procedures; settlements to be speeded.

i. Tobacco products seeing additional excise of 72% excise is balanced by soaps and edible oil concessions

j. Direct Tax concessions will help middle class; stimulate savings

What the Budget DOES NOT do:

a. Cut Subsidies

b. Prune social welfare programmes (though it does tie MNREGA to creating agricultural assets)

c. . Making social schemes more effective and efficient;

d. Announces the Cash Benefits Transfer using Aadhar for nationals, to replace physical distribution of goods and services and possibly crosssubsidies, but no measures announced to identify beneficiaries and a micro banking system rollout.

e. Inflation was dealt with pre-budget by measures against hoarding, for grain stocks distribution, and imports of shortage commodities like onions.

e GST-promises but no definiteness

f. Direct Tax Code-still to study

The Budget announces 28 schemes with allocations of Rs 100 crores, a fraction of what each will require. However, he later explained that expenditures will be spread over many years, and these small initial allocations are more a statement of intent. However, there is np Detail for each programme. These projects include innovative ones like:

Allocations for new AIIMS; IIMs; IITs; (it has to invest heavily in advance to create necessary teaching FACULTY); Tribal Welfare; Rural Power infrastructure; 24x7 power to all households; Agricultural watersheds; Start ups for rural youth; Modernizing Madrasas;

Similar small amounts of Rs 500 cr are provided for PURA (urban facilities in rural areas); separating rural electricity feeders.

There are ambitious Health and Education expansions as well and must be commended.

There are decisions that are postponed:

a. GST –causes-10 years unpaid dues to states; states want exemption for POL and entry tax collections,; will not cede power to raise taxes to GOI

b. Direct Tax Code

c. Cuts in Subsidies

d. Cuts in Wasted money on social programmes

e. Unproven Cash benefits Transfers; Accepts AADHAR

f. Private Public Partnerships dependence; need to reform contracts, timelines for levellized tariffs, government clearances, etc

g. Implementation process

h. New Expenditure reforms Com; High level Com on corporate tax; what about Shome Committee on tax administrative reform?

In brief, the Budget is good on generating Employment, Savings and Investment. The Threats to achieving the results are -Global Economy, Monsoon, Oil prices (1082)