A STUDY OF PROSPECTS AND IMPLICATIONS OF INDIAN UNION BUDGET 2016

PROF. BIMAL JAISWAL
Professor, Department of Applied Economics,
Lucknow University, Lucknow, Uttar Pradesh, India.

MS. SHIVA MANOJ
Research Scholar, FMS-WISDOM, Banasthali Vidyapith, Rajasthan, India

ABSTRACT

Indian government has proposed to spend Rs.19,78,060 crore in the fiscal year 2016-17, which is 10.8% higher than Rs. 17,65,436 crore, revised estimates for previous year. This is a responsible "Rural First" budget that attempts to revive demand, while continuing on the path of fiscal consolidation. The paper aims at analyzing the implications of current Union budget 2016. It draws major positives and negatives of this budget. The study is based on secondary data and specially the data available through journals, reports, articles, etc.

INTRODUCTION

The Budget impacts the economy, the interest rate and the stock markets. The last working day of February, saw the annual arrival of the Union Budget of India. The Union Budget 2016 has been crafted under the most extraordinarily challenging economic environments India has seen. Finance Minister Arun Jaitley released the Union Budget for the year 2016-17 in the Lok Sabha. Although, the Budget paid heed to most of the sectors, there was a special focus on presenting it as a pro-poor and pro-farmer fiscal policy. The Indian government has proposed to spend Rs.19,78,060 crore in the fiscal year 2016-17, which is 10.8% higher than Rs. 17,65,436 crore, revised estimates for previous year. Over the last two years, global growth has contracted to 3.1% whereas India has presented a steadfast GDP growth rate of 7.6%. Consumer Price Inflation for January 2016 is reported at 5.69% which is also accredited to be at the 17-month high. Last year, Government of India entered in to Monetary Policy Framework Agreement with RBI, to keep inflation below 6%. RBI and Government of India needs to be congratulated to be able to keep the same in control and as per the desired expectations (largely thanks to historically low oil prices). Foreign Direct Investments have risen from $60 million in February 2014 to $3.74 billion in December 2015. This budget aimed at high growth, saying the pace of cutting the fiscal deficit would slow as he seeks to boost investment and ensure that ordinary people benefit. Finance Minister mentioned about the 9 pillars of Budget. They were -

i. Agriculture and farmers' welfare
ii. Rural sector
iii. Social sector and healthcare
iv. Education, skills and job creation
v. Infrastructure
vi. Financial sector reforms
vii. Ease of doing business
viii. Fiscal discipline
ix. Tax reforms to reduce compliance burden

Compared to the earlier ones, this was a lengthy one and has plenty of amendments to all major tax laws in the country.

REVIEW OF OPINIONS AND STUDIES RELATED TO UNION BUDGET 2016

Dr. Shivendra Bajaj has opinion that the finance minister's focus on agriculture in the Budget 2016-17 was keenly awaited and will enhance expenditure on the rural and agriculture sectors. He is disappointed to see no encouragement for agri-biotech research by public or private institutions for augmenting the agriculture sector.

According to Girish Vanvari Budget 2016 is an incremental move in the backdrop of global uncertainty. Maintaining a fiscal deficit of 3.5% is a very credible step for the financial markets, robust outlays for infrastructure, agriculture, rural and socio-economic schemes; however, one can argue that more could be provided for recapitalization of banks.

Overall, this is a responsible "Rural First" budget that attempts to revive demand, while continuing on the path of fiscal consolidation. For the FMCG sector, initiatives to support the revival of rural and urban consumption should help bring growth back on track. Focused efforts on alleviating rural distress and uplifting the agrarian economy, will help put more money in the hands of farmers. Statutory backing of the Aadhar scheme will ensure more targeted delivery of benefits to those who need it. The need of the hour is job creation and focusing on skilling and education to make people more employable. The implementation of transformative reforms, like the GST, at the earliest, are however imperative to fast track economic growth and boost consumer confidence. Given the Government's intent to stick to its path of fiscal consolidation, we look forward to an interest rate cut or more liquidity in the system to drive private capital investment. Going forward, given the plethora of schemes that have been announced, it will be important to deliver on the promises made through effective on-the-ground execution.(Vivek Gambhir)

Budget's prime emphasis is on the rural economy / population and also on infrastructure spending. Both of these could go a long way in increasing the GDP of India with total inclusion. (Satish Menon)

The budget was reasonably well-balanced. The government has done a good job of sticking to the fiscal deficit target of 3.5 percent for the next year. There have been some good initiatives concerning agriculture reforms, social sector spending and rural electrification that have been announced. The impetus provided to the real estate sector through higher tax exemption limit for home loan borrowers, higher allowance for tax deduction on account of rent paid and tax benefit for REITs is a welcome step. The additional tax on dividend that individuals and firms will have to pay in excess of Rs10 lakh per annum is a negative. Raising tax rates has never been a productive step and goes against the requirement of development and growth.(Adi Godrej)

According to an article by Money control finance portal, an increase in direct taxes would decrease disposable income, thus reducing demand for goods. This decrease in demand will translate into a decrease in production, therefore affecting economic growth. Non-plan expenditure like subsidies and defence also affect the economy as limited government resources are used for non-productive purposes.

A political view with respect to budget 2016 is also considered here. The budget has nothing for farmers in distress who are are committing suicides. Farmers are reeling under huge debt. Loans of industrialists have been waived but not that of farmers. Nothing for middle class in this budget. Modi govt cheated middle class which votes for them. (Arvind Kejriwal) Few points in Budget 2016 are good like more money allocated under MNREGA, Swach Bharat and roads. Except that I think it's a very simple budget. Had expected revolutionary budget (Virbhadra Singh)

According to Sunil Duggal, Finance minister Arun Jaitley's nine-point-agenda Budget is a balanced statement that seeks to move away from offering freebies to promoting investments. It is highly encouraging to see that fiscal discipline has been given priority in this year's budget, with an emphasis on improving the quality of life in Rural India. The Union Budget 2016-17 was going to be a tough balancing act for the finance minister, given the strong headwinds on both the global and the domestic economic front. And he has managed it well. With a plethora of announcements, be it in the form of greater focus on farmers and rural development, promoting investments in Infrastructure and health care and opening up FDI in food processing, the finance minister has taken positive steps that would not just boost overall confidence, but also go a long way in generating employment.

The government continues to incentivize the start-up ecosystem as we have seen in the recent budget pronouncement. I am glad that the government clearly recognizes that start-ups can be powerful problem solvers for the myriad issues facing the country and in turn generate employment as well. The government's decision to allow for 100% deduction of profits for three out of five years between April 2016 and March 2019 is certainly a welcome step that will boost start-ups.(Mohandas Pai)

OBJECTIVES

The paper aims at analyzing the implications of current Union budget 2016. It draws major positives and negatives of this budget.

METHODOLOGY

The study is based on secondary data and specially the data available through journals, reports, articles, etc.

KEY HIGHLIGHTS

1. Special emphasis to sectors such as agriculture, irrigation, social sector including health, women and child development, welfare of Scheduled Castes and Scheduled Tribes, minorities, infrastructure.
2. Government will use the Sikkim model [that is becoming completely organic farming] to rapidly expand organic farming - starting from northeast India.
3. Statutory basis for a Monetary Policy framework and a Monetary Policy Committee through the Finance Bill 2016.
4. New manufacturing companies incorporated on or after 1.3.2016 to be given an option to be taxed at 25% + surcharge and cess provided they do not claim profit linked or investment linked deductions and do not avail of investment allowance and accelerated depreciation
5. People with income less than Rs. 5 lakh to get deduction of Rs 5,000 under section 87A, up from Rs 2,000 last year. HRA deduction up from Rs. 24,000 to Rs. 60,000 p.a. 40% of withdrawal at the time of retirement under National Pension Scheme to be tax exempt. Additional exemption of Rs. 50,000 for housing loans up to Rs. 35 lakh, provided cost of house is not above Rs. 50 lakh.
6. New greenfield ports to be developed on east and west coasts. Revival of underserved airports. Centre to Partner with States to revive small airports for regional connectivity.
7. 10 public and 10 private educational institutions to be made world-class. Digital repository for all school leaving certificates and diplomas. Allocation for skill development is Rs. 1804 crore.
8. Govt to circulate Model Shops and Establishment Bill, small retail shops may remain open for 7 days.
9. Rs 2,000 crore for LPG connection to poor; scheme for MPG connection for women.

10. Dept. of Disinvestment to be renamed as Dept. of Investment and Public Asset Management.
11. Largely, the budget is on expected lines for the Infrastructure sector and confirms the Government policy to revive investments in this sector by addressing the root problems. At the same time, certain positive highlights are allowing investment linked tax incentives for infrastructure facility and restoring service tax exemptions with retrospective effect on construction of port and airport.

COMPARATIVE ANALYSIS

1. Last year, the government had kept the IT slab unchanged. This year too, it decided to continue with the earlier slab, but gave respite to the salaried person by raising the ceiling of tax rebate under Section 87A to Rs. 5,000 from Rs 2,000 if taxable income is less than 5 lakhs. Additionally, house rent paid under section 80 GG has been hiked from 24,000 to 60,000 giving relief to people living in rented homes.
2. Budget 2015-16 had increased surcharge for the super-rich with income of more than 1 crore to 12%. This year, an additional surcharge of 3% (total of 15%) has been levied to this category.
3. The FM last year hiked the excised duty on cigarettes, tobacco products, condensed milk, peanut butter making them expensive. In cigarettes, the excise duty was hiked by 15% to 25%. However, excise duty for leather footwear costing above Rs. 1,000 was reduced from 12% to 6% as well as for LED drivers. This year, the FM has continued with the increase of excise duty by 10-15% for tobacco products, except bidi. Also excise duty of 1% has been imposed on purchase of goods and services in cash exceeding 2 lakhs. Additionally, excise duty of 2% to 5% on branded garments will effectively make them dearer. Aerated water and mineral waters will also bear an excise duty of 18% to 21%.
4. In 2015-16, service tax was increased from 12.3% to 14% making several services including eating out, cabs, mobile, DTH, beauty parlor charges all expensive. This year, buying car has become expensive with the introduction of 1% to 4% infrastructure cess depending on the vehicle.
5. In 2015-16, Rs 25, 000 crores were allocated for Rural Infrastructure Development Bank. To support Micro Irrigation Programme, Rs 5300 crore were separately assigned and farmers' credit-target was set at of 8.5 lakh crore. This year, Mr. Jaitley set the agriculture credit target at 9 lakh crore. He also announced the Paramparagat Krishi Vikas Yojana to bring 5 lakh acres under organic farming and committed to bring 28.5 lakh hectares to be brought under irrigation and to reorganise agricultural policy to double farmer income in 5 years.
6. In last year's budget, the government had announced a Mudra bank to provide boost to SC/ST entrepreneurs as well as women empowerment. In this budget, FM Jaitley has allocated Rs. 500 crores under the Stand Up India scheme giving boost to the SC/ST and women entrepreneurs.
7. The long-used format for defence resource allocation has undergone a change in the budget of 2016-17. As per the new format, MoD's total allocation is distributed into four Demands, in comparison to eight in the earlier format.
8. Service Tax has been increased from 14.5 to 15 per cent. 13 additional cess have been eliminated to curb retrospective taxation.
9. Despite the nation's relentless commitment to climate change at the Climate Summit, Paris, reduction in budgetary fund allocation for the Ministry of Environment and Forests saw a sharp drop from Rs. 1,446-crore for FY 2015-16 to Rs. 480-crore for 2016-17.
10. The previous budgets had the problem of spending too less on health. Part of this is addressed this time, although a lot more is to be done. This year the spending on health and education increased to Rs. 1,51,581 crore.

CRITICAL ANALYSIS

With state elections round the corner in populous states like West Bengal this year and Uttar Pradesh in 2017, Modi Government did try to keep rural voters and farmers in mind while announcing the union budget 2016-17. Experts and economists stated that Arun Jaitley's third budget is a balanced one barring few points. Constant decline in nation's Export due to global economic downturn and other reasons is a point to ponder over. Finance minister didn't address to India's overall performance in exports and international trade as much as expected.

Favourable :

1. The reduction in the corporate tax rates to 29% and 25% for certain classes of companies should be welcomed as it is in keeping with the twin mottos of the government to phase out exemptions and reduce rates.
2. Section 80GG which provides a deduction for house rent paid was ignored for a long time – the increase from Rs 24,000 to Rs 60,000 is generous. Employees not receiving HRA (House Rent Allowance) will get a tax reduction of Rs. 24000 per year.
3. Jaitley allocated Rs. 35,984-crore to improve rural infrastructure including job creation for rural youths, farmers' welfare and towards building roads in those areas.
4. Pradhan Mantri Krishi Sichayee Yojana will enable irrigation in 28.5 lakh hectares of land in the nation. Government will ease out Rs 86,500 crores for the same in the next five years.
5. Start-ups (firms which have recently launched their business) to get 100% tax exemption for 3 years. The 100% tax exemption will be a boon to startups.
6. A whopping Rs. 850-crore will be spent on animal husbandry, cattle and livestock breeding in the next few years which clearly indicates NDA government's priority on country's primary sector and rural livelihood.
7. An allocation of Rs. 25000-crore to Public Sector Banks reeling with the burden of non-performing assets has been made for recapitalization.
8. Development initiatives like startup bill, infra projects, agricultural reforms, electrification in rural areas, education initiatives, digital development initiatives are very good initiatives and key for long term development
9. Higher spends on road infrastructure will improve supply chain efficiency and reduce the wastage of perishable commodities.
10. At a time when a lot of the world is cutting R&D spending, there was a massive hike in science & research spending [about 17% rise when the inflation is < 5%]. The health research is especially a big beneficiary.

Unfavourable:

1. Government has not announced any positive initiatives for the industry which contributes so heavily to the manufacturing sector.
2. Dividend over Rs 10 lakh will get taxed at10 per cent in the hands of recipient which will affect the investment expectations of highly involved investors.
3. Spectrum or air waves have now been identified as a "tangible asset" and as a result a service tax of 14.5% will be levied on all spectrum acquired through auctions or from other players. Telecom players are already under tremendous stress and this recent move will further add to the pressure.
4. The new taxes are likely to have a noxious effect on the Indian automobile industry. It should be reminded that the automobile sector is a key contributor to Indian economy, accounting for at

least 40 percent of the country's manufacturing. Infrastructure Cess being levied on motor vehicles; Petrol/LPG/CNG driven motor vehicles is 1%, Diesel driven motor vehicles is 2.5% and Other higher engine capacity and SUVs and bigger sedans is 4%.

5. Benefit of deductions for Research would be limited to 150% from 1.4.2017 and 100% from 1.4.2020. This is negative for Chemical companies engaged in R&D.
6. Unlike the past two budgets, the finance minister has avoided highlighting the implementation of the GST in this year's budget speech. Clearly, there still lacks a political consensus on the implementation of the key indirect tax reform.
7. FM proposes a special patent regime with 10% rate of tax on income from worldwide exploitation of patents developed and registered in India. This is negative for pharma companies.
8. In case of superannuation funds and recognised provident funds, including Employee Provident Fund, the same norm of 40% of corpus to be tax-free will apply to corpus created out of contributions made after April 1, 2016.

CONCLUSION

Unveiling the Union Budget 2016-2017, the Finance Minister listed nine pillars that will transform India. These include tax reforms, ensuring fiscal discipline, infrastructure investment, promoting ease of doing business, agriculture, rural sector, social sector, education and job creation. The Budget has laid emphasis on supporting Indian start-ups in the digital economy. Our report takes stock of the tax and regulatory aspects of Union Budget 2016 that will impact the digital economy in the next financial year.

REFERENCES

a. https://www.tomorrowmakers.com/articles/financial-planning/comparative-analysis-of-budget-2015-16-and-budget-2016-17
b. http://www.livemint.com/Politics/ZgquLUcsXZlg8pT6ECnloK/Budget-201617-industry-experts-talk-about-hits-and-misses.html
c. http://english.manoramaonline.com/in-depth/union-budget-2016-arun-jaitley-finance-ministry/union-budget-2016-news-arun-jaitley/expert-opinions-jaitley-budget-poor-farmers-agriculture-industry-business.html
d. http://www.indiainfoline.com/article/news-top-story/hdfc-bank-s-views-on-budget-2016-17-116030100013_1.html
e. http://www.socialchumbak.com/news/decoding-union-budget/
f. http://www.hindustantimes.com/union-budget/budget-2016-positive-for-most-sectors-negative-for-psu-banks-moody-s/story-suxFR9dzkFLS6e8G2gfmUN.html
g. http://www.therealtypaper.com/budget-2016-positives-and-negatives/055144.cms
h. http://businessworld.in/article/Budget-2016-Brings-Token-Relief-To-Small-Taxpayers/29-02-2016-91525/