Budget 2015-16 and the Challenges Ahead

As the economics saying goes: *Union Budget is actually a vision for macro-economic policy promoting overall economic growth*. In that sense, the Union Budget 2015-16 has come off with flying colours— being progressive, futuristic, pragmatic and inclusive, aimed at a vibrant India of double digit growth trajectory with no structural economic constraints. Coming in the backdrop of huge expectations and the economy turning around, the Budget also aims at tax buoyancy, fiscal discipline, job creation, promoting investment and domestic manufacturing as well as ease of doing business, social security and long term reforms in the areas of infrastructure and banking. It also marks the beginning of co-operative federalism and empowerment of the states besides path-breaking reform of JAM *Trinity*, *i.e.* Jan Dhan, Aadhar and Mobile. Overall, the Budget has lived up to the new Government's motto of *'sab ka sath sab ka vikas,'* and 'Minimum Government-Maximum Governance'.

On the front of tax proposals, it is welcome that the Budget has firmly laid ground for a competitive and predictable tax regime, which is less adversarial and more simplified. To achieve these objectives, the Finance Bill, 2015 has proposed amendments in 79 clauses on various provisions on direct taxes and in 38 clauses on provisions of indirect taxes. What is particularly remarkable is that the Budget sets the stage for introduction of Goods and Services Tax by April 2016, a *'game changing reform'* which will transform Indirect Tax regime, help create a common Indian market and make manufacturing more competitive. The increase in Service Tax rate from 12.36% to 14% can be seen as a precursor to alignment with Revenue Neutral Rate in the proposed GST regime. However, how fast the Finance Minister moves the wheels of change to usher in GST will be keenly watched in the coming days.

The Budget also provides a roadmap for a futuristic and transparent direct tax regime of no surprises, including reduction of corporate tax over the next four years and consequent rationalised removal of exemptions and prospective application of GAAR in respect of investments made on or after 1.4.2011. Contrary to the criticism, in fact, the reduction in corporate tax rate will make India more competitive and enable companies to invest more and create more jobs.

A very important dimension to our tax administration is the fight against the scourge of black money, which has been very forcefully taken care of in the Budget proposals. Other focus areas of the tax proposals have been 'promotion of *Make in India* drive,' 'benefits to middle class taxpayers,' 'improving the quality of life and public health through Swachh Bharat initiatives,' and stand alone proposals to maximise benefits to the economy.

On the macro-economic front, the Budget has prudently resorted to a higher fiscal deficit of 3.9% to enable provision for increased outlays on various rural initiatives, socio-economic schemes, infrastructure needs and enhanced allocations to states as per the 14th Finance Commission recommendations. Although possibly controversial and against economist expectations, the pushing out of meeting the fiscal deficit target by a year shows pragmatism in bringing in additional public investments for infrastructure development which is a key emphasis of the Budget. It is welcome that the Finance Minister has stepped up public infrastructure spending by $12 bn in FY16, especially in railways and highways to kickstart investment in the sector.

However, the grand underlying vision and path of this Budget and national economy are riddled with formidable hurdles. As thoughtfully singled out by the Finance Minister, these come in the form of 'agricultural income under stress,' 'weak private sector investment in infrastructure,' 'decline in manufacturing,' 'resource crunch in view of higher devolution in taxes to states,' and 'maintaining fiscal discipline'. The macro-economic problem faced by India in the last 25 years has been that in spite of higher growth, poverty, malnourishment, unemployment *etc.*, have persisted because of inequitable distribution of income. As the economic survey 2015 notes, the employment elasticity of production has been low across all sectors and further there has been a jobless growth in the organised sector of the economy.

India has witnessed a continuous fall in the share of agriculture in its GDP over more than a decade and this trend needs to be stopped sooner than later. The Budget provides a support to micro-irrigation, watershed development and *Pradhan Mantri Krishi Sinchai Yojana* by providing ₹5,300 crore, but this outlay is still not enough. The fanfare for the JAM trinity needs to be monitored in terms of its sustainability and pragmatism of the institutions involved in it.

There is a great need for ensuring fiscal discipline in the economy. Further, the whole question of subsidy has to be revisited not in terms of its quantum but in terms of its beneficiaries. The genuineness of beneficiaries is more important than its quantum.

All in all, the Union Budget 2015-16 offers right and futuristic direction to the country's economic policies, but it needs to be seen as to how this is going to be implemented, monitored and achieved. ■

-Editorial Board ICAI – *Partner in Nation Building*