Union Budget 2018-19 for Inclusive Growth

'*Sab ka sath sab ka vikas,*' so goes the Government motto, and the Union Budget 2018-19 has lived up to this vision in letter and spirit. This progressive and growth-oriented Budget comes in the backdrop of the signs of economic revival in clear sight with Pre-Budget Economic Survey predicting India's GDP Growth to accelerate from 6.75% this year to 7-7.5% in 2019. Having futuristic and inclusive provisions aimed at a vibrant, changing and new India, the Budget complements the Economic Survey indicating that India will soon recover from demonetisation and GST glitches.

Coming in the immediate backdrop of the demonetisation after-effects, GST hiccups, rising crude prices and huge populist expectations, the Budget has been a fine balancing act between populism, fiscal prudence and economic maths.

Focusing more on rural economy, agricultural, healthcare, MSMEs and infrastructure and employment generation, this budget blends fiscal prudence with the requirements and needs to the economy. Besides, amid the Economic Survey calculating that demonetisation-cum-GST has produced 1.8 million additional income tax payers, the Budget has aimed at a rationalised tax regime.

A major highlight has been the move to provide a coverage of up to ₹5 lakh per family per year to 10 crore poor families under National Health Protection Scheme, which will be the biggest scheme of its kind in the world. The efforts towards strengthening India's position as a digital economy through investments around new-age technologies like AI and fintech is a timely and welcome move.

In a small fiscal slippage, the government has revised its 2018-19 fiscal deficit projections to 3.3% of GDP and for the current fiscal to 3.5% of GDP, against original targets of 3% and 3.2%, respectively. However, the International Credit Rating Agency Moody's says "a slight slippage in budget deficit targets has no material impact on the country's overall fiscal strength and is in line with expectations."

On the taxation front, the Finance Bill 2018 has effectively used taxation as a tool to spurt employment generation. For the corporates, the good news is that the beneficial rate of taxation@25% is proposed to be extended to companies with turnover of upto ₹250 crore, thereby benefitting 99% of the companies presently filing returns. The surplus can be effectively used for employment generation. A fillip has been given to employment generation also by way of liberalising the provisions for deduction for employment of new employees. Expansion of scope of eligible business for deduction under Section 80-IAC to business models with a high potential for employment generation is another step towards boosting employment generation in the country.

However, the removal of exemption on long-term capital gains on transfer of listed equity shares and units of equity oriented fund as a measure to promote investment in manufacturing sector may, however, adversely affect the equity market. The FII inflow through this route may suffer a setback since they would also be subject to long-term capital gains tax. This revenue garnering measure may dampen the spirit of the equity market and resultantly, impact the economy as a whole.

The budget proposal to notify an electronic mode for assessment across the country will significantly reduce harassment of tax payers by the tax authorities and usher in greater efficiency and transparency in the assessment procedure. This is indeed a welcome measure. The removal of requirement to match the data in the income-tax return with Forms 26AS, 16 and 16A during summary assessment is a step in the right direction and will relieve tax payers of the genuine hardship faced by them.

Widening the scope of business connection to include persons, who habitually play a principal role leading to conclusion of contracts in line with BEPS Action Plan 7 and incorporation of anti-fragmentation rule in line with OECD Model Convention, 2017 are the key proposals on the international taxation front.

Further, in order to address the challenges of digital economy in line with BEPS Action Plan 1, significant economic presence, as against physical presence under the current regime, would now constitute business connection. These proposals are in line with India's commitment to align its domestic laws in line with BEPS Action Plans.

On the indirect taxes side, no changes have been proposed on the GST front while few amendments are proposed with respect to customs law. There is a clear policy shift towards increasing customs duty to incentivise domestic manufacturing of many items. The message is loud and clear: 'Manufacture in India if you want to access the Indian market.' Also, some tangible steps have been proposed to reduce litigation by having pre-consultation before issuance of notice and timelines for closure of cases.

Although the grand underlying vision and path of this Budget and national economy are riddled with formidable hurdles, the key will be how well the Government focuses on economic reforms and improves the quality of spending to lift growth.

Amid global economic volatility, India has admirably achieved a 6.3% GDP growth in July-September quarter of current fiscal. In this scenario, this budget will go a long way in harnessing the beehive of country's growth and pollinate progress across all economic segments. But in the end, the actual success depends on how effectively the budget proposals are implemented and achieved. ■

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