Opinion

SATURDAY, JUNE 8, 2019

FIVE DEPUTY CHIEF MINISTERS

Andhra Pradesh, CM, YS Jaganmohan Reddy

"Five of them will be designated as deputy chief ministers, each of whom will represent, SC (Scheduled Castes), ST (Scheduled Tribes), OBC (Other Backward Classes), minority and Kapu community"

Premji's lasting legacy is of munificent money

Wipro's outgoing chairman defines for India Inc what giving and compassionate capitalism means

AS AN INDIAN BUSINESS leader, Azim Premji has always punted against the current. He was one of the first, if not the pioneering, leaders of the country's IT revolution, transforming Wipro from a vegetable oil and other consumer products company he inherited from his father, which totalled $2 million in sales in 1966, to a multi-billion dollar group with earnings chiefly from IT. Steering the group away from a business where margins were relatively secure to what was, in the 1970s and 1980s, still uncharted territory surely requires more than just gumption and a taste for risk—a gift of vision, perhaps? Independent India's early years didn't see many second-generation industrialists demonstrate comparable vision. In 1979, a year after India expelled IBM for re-selling refurbished computer hardware at steep prices to government departments, Premji saw an opportunity, and Wipro became one of the first feathers India's fledgling IT industry sprouted. As technology investments poured in globally towards the end of 1990s, Wipro and Premji, respectively, saw their market cap and net worth skyrocket. In the meanwhile, Wipro and its leadership gathered global acclaim for the high-quality talent hired and the exceptional training opportunities they provided.

There is no denying that Wipro is no Infosys or HCL, but Premji's leadership is not only about how big he made Wipro. As he steps down as Wipro's chairman—he will take on a non-executive role on the board—the story of his leadership must also recount what else he did along the way and how. Placing the right bets at the right time earned Premji an enviable personal fortune, but there has never been even an of extravagance in his life within or outside Wipro's boardroom. Recognised for his modesty and high ethical conduct as a business person—something that can't be said of all his peers in corporate India—Premji's defining legacy will be his philanthropy. Having established the Azim Premji Foundation, a non-profit, in 2001, he has already pledged $21 billion of his personal wealth as part of the Giving Pledge which has seen the likes of Warren Buffet and Bill Gates donate significant parts of their wealth for work on bettering the future of the planet. With the Foundation, Premji had intended to improve the quality of elementary education in rural India. The Foundation has now helped tens of thousands of schools in the country access computer-aided education. It also sponsors the Azim Premji University that is focussed on academic work that can help uplift the oppressed classes.

While many business leaders, from India and elsewhere, have committed to giving away large portions of their wealth, Premji remains a singular donor. Even when, in March this year, he bequeathed a fresh chunk to the Premji Foundation, the Indian Philanthropy Report, brought out by Bain and Company, noted that excluding Premji's donations, large-ticket donations by India Inc had fallen 4% since 2014 even though the proportion of those with a net-worth of over $50 million had grown by 12%. A spotless reputation of leadership and giving aside, Premji has also challenged the paradigm on inheritance. His son, Rishad Premji, succeeds him as Wipro's executive chairman, but Premji senior largely leaves the latter to create his own wealth.

Be careful with GST arrests

Curbing evasion a must, but need to check tax terror

AT ₹1.14 LAKH CRORE for March 2019, GST collections for the month were 10% higher than those a year ago, and the highest since India started collecting this tax in July 2017. To that extent, we have a rosy picture of GST collections being on a firmer footing as more and more firms are getting GST-compliant. Yet, if the picture were so idyllic, there wouldn't be a shortfall of ₹1 lakh crore in central GST collections alone in FY19. Indeed, there could be a large shortfall in FY20 GST also, if the March 2019 collections aren't replicated or even increased over the next 11 months. While it is theoretically possible that future tax rates will at least equal this, it remains true that GST collections are usually higher at the end of each quarter—smaller firms file their returns every quarter—and also at the end of the financial year; the impact for March 2019 was even higher because that was also the last month to claim tax credits for FY18.

Should there be a large shortfall in FY20, it will be because of the fairly large tax evasion that continues to take place, possibly also because invoice-matching continues to be in abeyance; a combination of the hardware system not being fully ready and the government not being too keen to upset taxpayers before the election was the main reason for this. Indeed, while GST collections rose by just 9% in July 2018 to March 2019 over the same period a year ago, nominal GDP rose by 11.5%. And this is despite the fact that, over the same period, the number of taxfilers rose by as much as 24%. Given this points to fairly large-scale tax evasion, it is not surprising that the government has approached the Supreme Court asking for permission to arrest people for GST evasion, provided there is enough proof of this. While it is not clear how SC will rule on this, in a related case, the Telangana High Court had held that a person can be arrested in case the authorities felt there was tax evasion, and when this ruling was challenged before the Supreme Court, it was upheld.

The power of arrest, however, needs to be used with great care since it can just as easily become a source of corruption as well as tax terrorism; given the possibility of arrest, most are likely to pay what the taxman wants and then go into appeal. So, while various tax departments have, in the past, laid out principles for such arrest, and the arrest can also only be ordered by very senior officials, the review process needs to be more stringent and should involve tax professionals who do not work with the government. Indeed, apart from keeping a 24x7 watch over such cases, the tax department must examine the rationale given for arrests and also keep in mind the success of the tax demands made; if most tax demands fail to stand the scrutiny of the judicial process, then using the power of arrest only adds to tax terror.

DyingBUSTARD

The lack of action by states has now brought the Great Indian Bustard to the verge of extinction

THE GREAT INDIAN Bustard (GIB) is on the verge of being declared functionally extinct—its numbers have now dwindled to just 150, falling by 100 since 2011. The GIB, at present, is native to just two Indian states, Rajasthan and Gujarat—in Gujarat, the last surviving sub-adult male flew away this year, which means a complete collapse of the bird's feeble presence in the state is imminent. The Thar Desert and the grasslands had been home to these birds for years now. However, a lack of political will on the part of the states' administration, and development projects like windmills and power lines have caused the avian species to teeter on the edge of extinction. The Centre's push to conserve the bird came only after the International Union for Conservation of Nature (IUCN) categorised the bird as "critically endangered" in July 2013. But, the conservation efforts never took off and development is proving to be the last straw.

No efforts have been made to conserve the grasslands—the natural habitat of GIBs—nor has there been an effort to put the power transmission lines underground to prevent bird-collision. Flying into power transmission lines and windmills is a major factor behind the bustard's decline. Ex situ conservation to increase the numbers of the endangered species has been attempted and the tips of the blades of wind turbines have been coloured to make them visible to the birds at night; but there is a great deal of uncertainty over the results of such efforts. Another issue, to which there is no easy solution in sight, is the fact that farmers have successfully caused locust infestations to crash—and locusts and grasshoppers are an essential part of the bustard's diet. Also, many bird-deaths have occurred due to the bustards eating locusts killed by pesticides. With one of the fastest mass extinctions in the history of the planet underway, the bustard faces a slim chance against the march of agriculture and development.

TRADE WARS

JAPAN AND CHINA BOTH BECAME VICTIMS OF AMERICA'S UNFORTUNATE HABIT OF MAKING OTHERS THE SCAPEGOAT FOR ITS OWN ECONOMIC PROBLEMS

Japan then, China now

STEPHEN S ROACH

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Views are personal

"When governments permit counter-feiting or copying of American products, it is stealing our future, and it is no longer free trade."

SO SAID THE US President Ronald Reagan, commenting on Japan after the Plaza Accord was concluded in September 1985. Today resembles, in many respects, a remake of this 1980s movie, but with a reality-television star replacing a Hollywood film star in the presidential leading role-and with a new villain in place of Japan.

Back in the 1980s, Japan was portrayed as America's greatest economic threat-not only because of allegations of intellectual property theft but also because of concerns about currency manipulation, state-sponsored industrial policy, a hollowing out of US manufacturing, and an outsize bilateral trade deficit. In its standoff with the US, Japan ultimately blinked, but it paid a steep price for doing so—nearly three "lost" decades of economic stagnation and deflation. Today, the same plot features China.

Notwithstanding both countries' objectionable mercantilism, Japan and China have something else in common: They became victims of America's unfortunate habit of making others the scapegoat for its own economic problems. Like Japan bashing in the 1980s, China bashing today is an outgrowth of America's increasingly insidious macroeconomic imbalances. In both cases, a dramatic shortfall in US domestic savings spawned large current-account and trade deficits, setting the stage for battles, 30 years apart, with Asia's two economic giants.

When Reagan took office in January 1981, the net domestic saving rate stood at 7.8% of national income, and the current account was basically balanced. Within two and a half years, courtesy of Reagan's wildly popular tax cuts, the domestic saving rate had plunged to 3.7%, and the current account and the merchandise trade balances swung into perpetual deficit. In this important respect, America's so-called trade problem was very much of its own making.

Yet the Reagan administration was in denial. There was little or no appreciation of the link between saving and trade imbalances. Instead, the blame was pinned on Japan, which accounted for 42% of US goods trade deficits in the first half of the 1980s. Japan bashing then took on a life of its own, with a wide range of grievances over unfair and illegal trade practices. Leading the charge, back then, was a young Deputy US Trade Representative named Robert Lighthizer.

Fast-forward some 30 years and the similarities are painfully evident. Unlike Reagan, President Donald Trump did not inherit a US economy with an ample reservoir of savings. When Trump took office in January 2017, the net domestic saving rate was just 3%, well below half the rate at the onset of the Reagan era. But, like his predecessor, who waxed eloquently of a new "morning in America," Trump also opted for large tax cuts-this time to "make America great again."

The result was a predictable widening of the federal budget deficit, which more than offset the cyclical surge in private saving that normally accompanies a maturing economic expansion. As a result, the net domestic saving rate actually edged down to 2.8% of national income by late 2018, keeping America's international balances deep in the red-with the current account deficit at 2.6% of GDP and the merchandise trade gap at 4.5% in late 2018.

And that's where China assumes the role that Japan played in the 1980s. On the surface, the threat seems direr. After all, China accounted for 48% of the US merchandise trade deficit in 2018, compared to Japan's 42% share in the first half of the 1980s. But the comparison is distorted by global supply chains, which basically didn't exist in the 1980s. Data from the OECD and the World Trade Organization suggest that about 35-40% of the bilateral US-China trade deficit reflects inputs made outside of China, but assembled and shipped to the US from China. That means the made-in-China portion of today's US trade deficit is actually smaller than Japan's share of the 1980s.

> **Like the Japan bashing of the 1980s, today's outbreak of China bashing has been conveniently excised from America's broader macroeconomic context**

Like the Japan bashing of the 1980s, today's outbreak of China bashing has been conveniently excised from America's broader macroeconomic context. That is a serious mistake. Without raising the national savings—highly unlikely under the current US budget trajectory—trade will simply be shifted away from China to America's other trading partners. With this trade diversion likely to migrate to higher-cost platforms around the world, American consumers will be hit with the functional equivalent of a tax hike.

Ironically, Trump has summoned the same Robert Lighthizer, veteran of the Japan trade battles of the 1980s, to lead the charge against China. Unfortunately, Lighthizer seems as clueless about the macro argument today as he was back then.

In both episodes, the US was in denial, bordering on delusion. Basking in the warm glow of untested supply-side economics—especially the theory that tax cuts would be self-financing—the Reagan administration failed to appreciate the links between mounting budget and trade deficits. Today, the seductive power of low interest rates, coupled with the latest strain of voodoo economics—modern monetary theory—is equally alluring for the Trump administration and a bipartisan consensus of China bashers in the US Congress.

The tough macroeconomic constraints facing a saving-short US economy are ignored for good reason: there is no US political constituency for reducing trade deficits by cutting budget deficits and thereby boosting domestic saving. America wants to have its cake and eat it, with a health-care system that swallows 18% of its GDP, defense spending that exceeds the combined sum of the world's next seven largest military budgets, and tax cuts that have reduced federal government revenue to 16.5% of GDP, well below the 17.4% average of the past 50 years.

This remake of an old movie is disconcerting, to say the least. Once again, the US has found it far easier to bash others-Japan then, China now-than to live within its means. This time, however, the movie might have a very different ending.

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Regional elections boost RCEP

Many quarters are heaving sighs of relief as leaders familiar with each other have retained power; a great impetus for RCEP prospects

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THE LAST THREE months have been an electorally active period for the Asia-Pacific. Several major countries of the region have had elections for their top offices. The verdicts from all have been in favour of the incumbent parties and their top leaders. This has important implications for progress on major regional initiatives, such as the Regional Comprehensive Economic Partnership (RCEP). There are also implications on how countries from the region might develop strategies for addressing the increasingly adverse impacts of the US-China trade war.

General elections were held in Thailand, Indonesia, India, and Australia, and mid-term elections were held in Philippines, during March-May 2019. Despite a reasonably good performance by the opposition, the Thai election results fell short of a decisive mandate. Subsequent events point to a coalition backed by the military being the front-runner for assuming office. The situation would be broadly similar to what has been prevailing in Thailand for the last five years. The Indonesian Presidential election was almost as intense and bitterly fought as the Parliamentary elections in India. The preliminary results were challenged and disputed. Nearly a month after the elections, incumbent President Joko Widodo, or Jokowi, was announced the winner by the General Election Commission. This gives Jokowi a second five-year term in office in the world's third largest democracy. The long and gruelling Indian elections returned incumbent Prime Minister Modi and the BJP-led NDA to power with a comfortable majority. The margin of the BJP victory took many political analysts by surprise. But this surprise element was nothing compared with that produced by the Australian election results. In an election widely described as 'unloseable' for the opposition Labour Party, incumbent Prime Minister Scott Morrison's liberal-national coalition was returned to office against all expectations. Finally, mid-term elections for the Philippine Senate confirmed the authority of incumbent President Rodrigo Duterte.

As leaders' familiar with each other come back to continue the business in the highest offices of their respective countries, many quarters are heaving sighs of relief. The most pressing commitment for the region is conclusion of the RCEP. After more than seven years of negotiations, RCEP is at an advanced stage with several chapters of the deal finalised. There were anxieties over the fate of RCEP given the elections in five of its member countries. If, somehow, the elections had led to new parties and leaders in governments, the possibility of the new political choices reviewing country positions on RCEP couldn't have been overlooked. That might have led to introduction of new country postures going against the trend of ongoing negotiations. Previous trade negotiation experiences show new governments have occasionally overturned what their predecessors had agreed to. This risk for RCEP has been avoided. It is now possible to visualise conclusion of negotiations if the 16 member countries can arrive at consensus on some pending issues, such as services, investment and treatment of e-commerce. The current state of negotiations indicates achieving consensus is now contingent upon political commitment of the members to RCEP. Continuity of leaders can help in sustaining the political commitment. The RCEP cannot afford to be prolonged for much longer as businesses in the region are eagerly awaiting its implementation.

> **The current state of negotiations indicates achieving consensus is now contingent upon political commitment of the members to RCEP**

The comeback of the old guard is also significant given that most countries in the region are working on addressing implications of the US-China trade war. A new round of tariff escalation between the two countries means greater push on relocation of regional supply chains. Prior to that, regional producers contributing intermediate products at different parts of the supply chains need to factor in the overall decline in global trade following the trade war. Tariff disruptions have been majorly responsible for global trade growth declining from 4.6 per cent in 2017 to 3.0 per cent in 2018 with the possibility of further decline in 2019. Large assemblers of final products are actively searching options for shifting bases out of the US or China to avoid tariffs on each other's exports. Such relocation involves major logistic challenges. Regional businesses, while preparing for these shifts, are also gearing up for trading in an environment where trade prospects need to be reassessed outside the ambit of the US-China trade relations. The role of the RCEP is vital in this regard.

Coordinated regional responses are not limited to the trade war. They are also important given push-back in market access preferences. India has just been taken off the US GSP programme. Indonesia and Thailand are being reviewed for continuation of their eligibilities. Chances of GSP benefits being withdrawn from both are significant with the US beginning to take away preferential market access from more and more of the larger developing middle-income countries. This makes it imperative for these countries to come together for building new blocks of preferential market access, such as within RCEP. As mentioned earlier, this is not possible without the manifestation of a collective political will. The regional election results, hopefully, will provide the final and decisive impetus that RCEP and regional trade have been waiting for.

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LETTERS TO THE EDITOR

Dhoni's glove row

The familiar idiom is 'wearing your patriotism on your sleeve'. On a lighter note, M.S.Dhoni wears patriotism on his wicket-keeping gloves. This is not to undervalue his boundless love for the country and the services in any manner. The ICC's diktat to the famed cricketer to remove the army insignia sported by him during the India-South Africa match has caused a furore in India. The clamour for BCCI to flex its muscles to force the ICC to reverse its decision is growing louder. It is hardly surprising it is made an emotional issue in the present time when nationalist sentiment is running high. By the way, while the controversy over the insignia is blown up, far weightier issues like water crisis and economic slowdown are relegated to the background. We are all his big fans does not necessarily mean that we don't have the option of disagreeing with (or disapproving of) all that he does and saying that he should go by the rule book. The rule clearly states that no other logo other than a manufacturer's is allowed on equipment and clothing while playing ICC matches. All those who see nothing wrong in Dhoni sporting the insignia can say in justification is that it is not a commercial endorsement. While it is true that Dhoni is an Honourary Lieutenant Colonel in the Territorial Army, he is not in the playing field in that capacity, but as an international cricket player. An internationalist - a player who takes part in a sports competition against another country - is supposed to promote internationalism. It cannot be said that the display of Balidaan badge embossed with a regimental dagger serves this purpose. We need to act for the permeation of a spirit of goodwill in international relations. Sportspersons should continue to play the vital role of uniting all nations by a sense of common humanity even while achieving national glory for their nations.

— G David Milton, Maruthancode

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Indo-Pacific is 'priority theatre' for the US

The new American vision, marked by clarity and simplicity, reiterates that the US is a Pacific power, a resident Asian power, and that the US 'pivot' is here in Asia to stay—with the Indo-Pacific identified as the 'priority theatre' of the American strategy

ILLUSTRATION: ROHNIT PHORE

THE SHANGRI-LA DIALOGUE 2019, hosted by the International Institute for Strategic Studies, was the 18th Asia Security Summit that brought together defence ministers and top-ranking military personnel of 30-odd countries, including the US and China, in Singapore. Seen as an American-centric meet where the US announces its security policy for the region, the US stoked anticipation saying that it would unveil a new vision for the Indo-Pacific.

The meet came in the midst of the ongoing Sino-US trade war and was a highly anticipated event, given the participation of both the (acting) US Secretary of Defense Patrick Shanahan and China's defence minister General Wei Fenghe. In fact, for the first time, China sent its defence minister to the meet.

This set the stage for, if not the "clash of civilisations," as the US State Department's director of policy planning Kiron Skinner famously said a few weeks ago, then surely restating the power equation between an established power, the US, and a rising, resurgent and somewhat recalcitrant China.

Much of what the US unveiled at the Shangri-La Dialogue was neither random nor surprising. If anything, it was in line with the recent tenor of the American policy towards China. The National Defense Strategy (2018) honed the idea of China as a 'strategic competitor', a 'revisionist power' and 'authoritarian actor' (along with Russia), and signalled the US's commitment to 'compete, deter and win' in the complex environment. This was also in tune with the Asia Reassurance Initiative Act (ARIA, 2018) geared to promote US interests in the Indo-Pacific.

The new vision, marked by clarity and simplicity, reiterates that the US is a Pacific power, a resident Asian power, and that the US 'pivot' is here in Asia to stay—with the Indo-Pacific identified as the 'priority theatre' of the American strategy. According to the Indo-Pacific Strategy Report (2019), seven of the 10 largest standing armies are in the region, as are six nuclear powers; the region also hosts nine of the 10 busiest ports, US foreign direct investment is $1.3 trillion, and two-way trade is $2.3 trillion. The Indo-Pacific accounts for 60% of global GDP.

In addition to being identified as 'priority theatre', the critical bottom line of the US vision was the reaffirmation of the Indo-Pacific as Free and Open Indo-Pacific (FOIP). This had been announced earlier, in 2017, by President Donald Trump at the Asia-Pacific Economic Cooperation summit (APEC) in Vietnam. By reaffirming FOIP and spelling out that it is inclusive, embracive 'shared security order' based on a 'rules-based international order', the US emphasised rules and norms that are global, universally-accepted and not American (nor Chinese) in spirit.

ANURAG VISWANATH

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The US stressed respect for sovereignty and independence, and adherence to international rules and norms including the freedom of navigation and overflight and resolution of disputes through peaceful means. With simmering disputes in Northeast Asia, South China Sea, East China Sea and critical shipping routes at stake, Shanahan said, "No one nation can—or should—dominate the Indo-Pacific,"—an oblique reference to China?

Shanahan's speech called out actors in Asia that "undermine the system by using indirect, incremental actions and rhetorical devices to exploit others economically and diplomatically, and coerce them militarily" with a new "toolkit of coercion." This toolkit of coercion implies contentious and controversial actions that include deploying weapons in disputed areas, interfering in domestic politics of other nations, 'predatory economics' and theft of intellectual property right—all of which make it easy to guess who the actor is.

One of the important components of the new strategy is the $60-billion Better Utilization of Investments Leading to Development Act (BUILD Act), passed by the Senate and the House of Representatives (in 2018). This will create a new US development agency, the US International Development Finance Corporation (USIDFC). This is likely to unleash investments in the low and middle economies of Asia under the rubric of 'Strengthen Alliances and Attract New Partners', as the National Defense Strategy (2018) mentioned.

The Indo-Pacific Strategy Report (2019) came on the heels of Shanahan's speech. The report, '*Preparedness, Partnerships, And Promoting A Networked Region*', reiterated and emphasised the "Inter-state strategic competition, defined by geopolitical rivalry between free and repressive world order visions" as the primary concern for US national security.

Clearly, the overall US strategy goes beyond protecting immediate US interests, but rather has its eyes on the future. Pre-emptive and preventive, it consolidates and concretises the US as a formidable bulwark against competition and contest in the region.

In all this, the US is trying hard not to come across as a 'global policeman', but it turns out this is hard sell. In the last few decades, the American policy has been conveniently negotiating Asia (including India) with blinkers on. In China, it has brushed aside an 'inconvenient truth' or two such as human rights (remember Tiananmen, 1989, or China's ban on academics such as Perry Link, Andrew Nathan and others who worked on controversial subjects in China?). Hundreds of cases of self-immolation in the Tibetan region of China in the mid-2000s and destruction of large-scale monasteries haven't mattered either. Neither has state persecution in Xinjiang. But these were the times of economic bonhomie.

The US as a 'global policeman' comes without free lunch. For the region, the stoic reminders are pages from the Vietnam War (1955-75) writ with the tragic episode of Agent Orange—the herbicide used by the US Army to decimate forest cover decimated people instead. The American actions have been suspect in Cambodia, too, where the Khmer Rouge killed more than a million people in the 1970s. Beyond the region, the recent disappearance of journalist Jamal Khashoggi is a reminder of the US turning a blind eye—when it wants to.

The Indo-Pacific has much to thank China for. Not just manufacturing prowess (that has come at a huge environmental and human cost to China) and trade, but also for stirring waters in a way that neither Japan nor South Korea could do or did.

To take one example, China's Belt and Road Initiative (2013) indirectly spurred the BUILD Act and the Japanese initiatives of Asia-Africa Growth Corridor (AAGC, 2017) and Partnership for Quality Infrastructure (PQLI, 2015).

China, with $60 billion for the China-Pakistan Economic Corridor (CPEC), $930 million (in investments) to the Philippines (2018), $50 billion to Africa (the Forum on China-Africa Cooperation in September 2018) and foreign aid to Africa leaning more towards grants and interest-free loans, has reinvented 'aid' as a formidable soft power tool.

For the countries of the Indo-Pacific, the question is: Who is the greater danger, or the greater evil? As alignments, networks and partnerships show, the writing is emerging on the wall.

There is global consensus that China prematurely departed from the dictum 'bide its time' before its time. But the Chinese are masters of pragmatism and know when to advance and when to retreat—just as Sun Tzu's '*The Art of War*' describes. This pragmatism showed up in General Wei's Q&A session during the Shangri-La Dialogue where he indicated that "China is the biggest developing country...and does not want to vie for the number one position," suggesting introspection and the possibility of a retreat to China 'biding its time'.

DATA DRIVE

Paring tax targets

ILLUSTRATION: ROHNIT PHORE

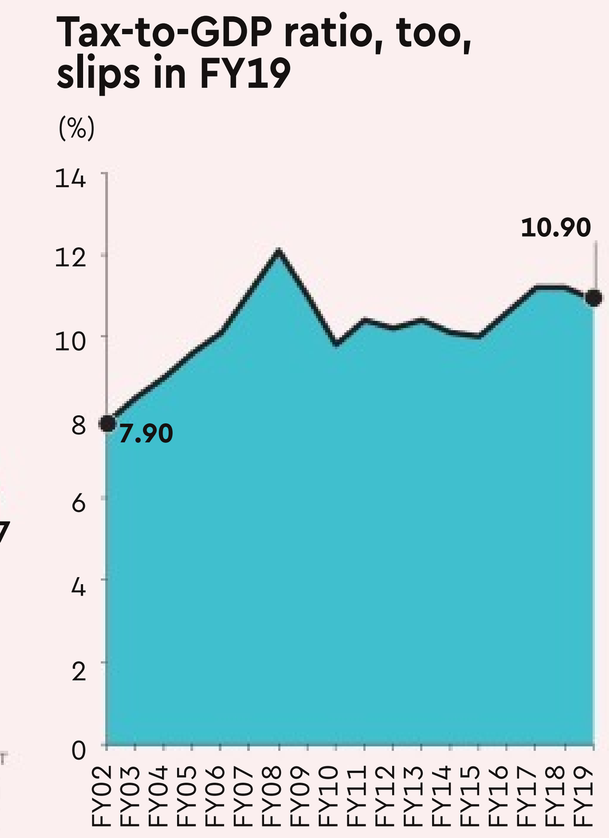
GIVEN THAT OVERALL tax collections grew just 8.4% year-on-year in FY18 as compared to the 18.4% budgeted, later revised to 17.2%, the government will have to tone down the tax revenue target for this financial year. A sputtering economy—GDP growth has slipped to a 20-quarter low of 5.8% in January-March 2019—cannot generate 23% growth in gross tax revenue as targeted in the Interim Budget, or a 34% growth in personal income tax.

The provisional estimates for FY19 show a shortfall of ₹1.7 lakh crore from the revised estimates, with personal income taxes and GST collections contributing to most of the shortfall. The government will have to pare the tax targets in line with the nominal GDP growth level, which may increase the fiscal deficit.

In order to meet the fiscal deficit target of 3.4% in FY19, the government reduced the total expenditure by ₹1.5 lakh crore from the revised estimates, of which revenue expenditure was slashed by ₹1.3 lakh crore. Most of revenue expenditure trimming was on account of lower food subsidy bill. The government will have to resort to higher disinvestment and telecom spectrum auction in order to mop up more funds for spending.

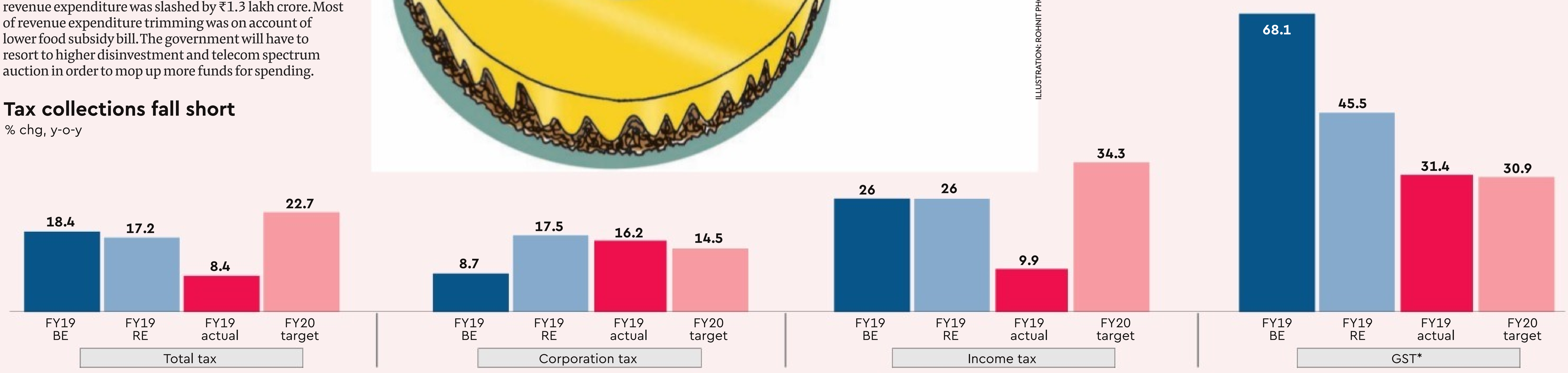
Tax buoyancy drops to a 9-year low

Tax-to-GDP ratio, too, slips in FY19



Tax collections fall short

% chg, y-o-y



*Growth relative to FY19 actuals

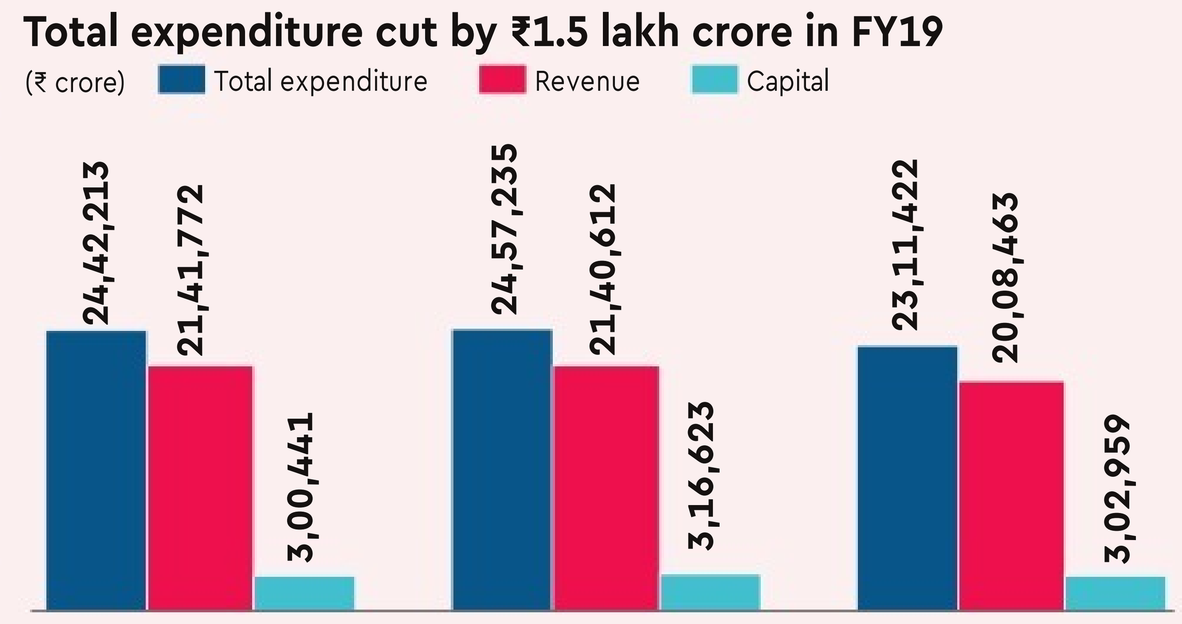
Highest tax rate kicks in early

Taxable income in ₹; Tax rate in %

	Nil	10%	20%	30%
2000-01	50,000	50,001 -60,000	60,001 -1,50,000	Over 1,50,000
2005-06	100,000	1,00,001 -1,50,000	1,50,001 -2,50,000	Over 2,50,000
2007-08	110,000	1,10,001 -1,50,000	1,50,001 -2,50,000	Over 2,50,000
2008-09	150,000	1,50,001 -3,00,000	3,00,001 -5,00,000	Over 5,00,000
2009-10	160,000	1,60,001 -3,00,000	3,00,001 -5,00,000	Over 5,00,000
2011-12	180,000	1,80,001 -5,00,000	5,00,001 -8,00,000	Over 8,00,000
2012-13	200,000	2,00,001 -5,00,000	5,00,001 -10,00,000	Over 10,00,000
2014-15	2,50,000	2,50,001 – 5,00,000	5,00,001 -10,00,000	Over 10,00,0010
		5%	20%	30%
2017-18	2,50,000	2,50,001 – 5,00,000	5,00,001 -10,00,000	Over 10,00,000

Source: Budget documents, CSO, Income Tax department, CGA

Total expenditure cut by ₹1.5 lakh crore in FY19



Most tax returns come from income up to ₹2.5 lakh

Taxable income in ₹; Tax rate in %

Salary	No. of returns	Sum of salary income (₹ cr)
Up to 2.5 lakh	3,06,24,673	63,558
2.5 to 5 lakh	79,56,997	3,01,205
5 to 10 lakh	80,51,310	5,54,700
10 to 50 lakh	30,96,823	5,17,261
50 to 1 crore	97,120	65,885
Above 1 crore	41,457	91,878
Total	**4,98,68,380**	**15,94,487**