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How markets performed last week

	Index on Jan 31,'20	*One-week	% Chg over Dec 31,'19 local currency	in US $
Sensex (Feb 1)	39,736	-4.5	-3.7	-3.6
Nifty (Feb 1)	11,662	-4.8	-4.2	-4.1
Dow Jones	28,256	-2.5	-1.0	-1.0
Nasdaq	9,151	-1.8	2.0	2.0
Hang Seng	26,313	-5.9	-6.7	-6.3
Nikkei	23,205	-2.6	-1.9	-1.7
FTSE	7,286	-4.0	-3.4	-3.8
DAX	12,982	-4.4	-2.0	-3.1

*Change (%) over previous week. Source: Bloomberg

ECONOMY P8
CORPORATE TAX EXEMPTION TO POWER NTPC, RENEWABLES

COMPANIES P3
FM PREPARES GROUND FOR NEW ELECTRONICS POLICY

Indian nationals, stranded amid the coronavirus outbreak, board the specially-prepped Air India's B747 aircraft in China PHOTO: PTI

SECOND CORONAVIRUS CASE IN INDIA; 323 MORE EVACUATED

India on Sunday reported its second coronavirus case, with another student, who had returned to Kerala from Wuhan, testing positive. As many as 323 more Indians and seven Maldivians were brought back by air from the Chinese city, the epicentre of the outbreak, taking the number of evacuees to 654. The government also announced a temporary suspension of the e-visa facility for Chinese travellers and foreigners residing in the neighbouring country. 16

Sandeep Mathrani named WeWork CEO

WeWork, the troubled operator of shared office space, has named Sandeep Mathrani, a senior executive at Brookfield Properties, its new chief executive. The Indian-American executive replaces Artie Minson and Sebastian Gunningham, the co-chief executives. 16

inside

2 Housing demand to feel the squeeze despite sops
4 States' share in central tax pool seen at 50-yr low
4 Centre's reliance on small savings makes rate transmission difficult
6 Deposit insurance premium to be flat
Budget proposals change the narrative for private life insurers P14

EDIT
GLIDE PATH FOR DIRECT TAX

BS COLUMNISTS
Risks of revised estimates: A K BHATTACHARYA
RBI's pause and no change in stance may continue: TAMAL BANDYOPADHYAY
Crowding out and opening up: MIHIR S SHARMA

BUDGET INSIGHT OUT 2020-21
TO OUR READERS
A 12-page tabloid, 2020-21 Budget Impact, is being distributed free with today's edition

BUDGET 2020-21: THE DAY AFTER

FM's Budget goal: Lower rates, simple structure

Sitharaman disagrees with suggestions that new I-T regime is complex

INDIVJAL DHASMANA
New Delhi, 2 February

PHOTO: DALIP KUMAR

Finance Minister Nirmala Sitharaman on Sunday said the new tax regime proposed in her second Budget would ultimately lead to lower rates with simple structure.

Dismissing criticism that the new regime would not be largely beneficial to the assessees, she said, "Eventually this should lead to a system where people are taxed at the lowest possible rate and are given a simple system. I am starting a scheme, which will eventually end there. For this, I'm not forcing people." She was speaking to the media in an informal interaction a day after presenting the Union Budget in Parliament.

The FM disagreed with experts who termed the new tax regime complex and unavailing. She said the new scheme would benefit some taxpayers falling in certain brackets, if not all.

"...because the income tax cuts are deeper in the new scheme, we believe a taxpayer from a particular income bracket will be much better off coming into the new system. And in the new system, which however must I repeatedly say has no exemptions, there are some exemptions that we have allowed," Sitharaman said.

Industry experts, however, argued that two tax regimes with optionality for personal tax, as in case of corporate taxes, only make the structure more complicated. Analysts sent out data to explain how the new tax regime would not be beneficial for those who take exemptions.

But the minister said, "I believe many of the calculations have probably not taken into account the exemptions which have been allowed in the scheme."

Turn to Page 5

NRI tax to only impact India earnings, clarifies govt

SHRIMI CHOUDHARY & INDIVJAL DHASMANA
New Delhi, 2 February

In what seemed like a partial rollback, the Finance Ministry on Sunday clarified that non-resident Indians (NRIs) would be liable to pay tax only on income derived from business or profession in India.

The Union Budget had proposed on Saturday that NRIs had to pay up taxes on global earnings if they were not paying in any other jurisdiction or country, generating much debate.

The ministry said it was an anti-abuse provision amid growing instances of NRIs shifting their stay in low or no-tax jurisdiction to avoid tax payment in India.

"An NRI living in another country earns money there, which is not taxed there at all, but has some earnings through something in India and does not pay tax here either because he does not live here. What we are saying is this: For the income generated in India, pay a tax. If you have a property here that generates rental income, but because you live there, you carry this income there and pay tax neither there nor here," Finance Minister Nirmala Sitharaman said in a press briefing on Sunday.

Turn to Page 5

P4 DDT REMOVAL COULD BROADEN CAPITAL MARKET

LIC listing may take about a year: Kumar

Enterprise value of LIC is said to be about ₹36 trn

SOMESH JHA
New Delhi, 2 February

The listing of Life Insurance Corporation (LIC) will likely take about one year and the government is not willing to sell more than 10 per cent stake in the insurance behemoth.

"We are already in touch with the Department of Investment and Public Asset Management (DIPAM) to understand all the processes involved. The LIC Act will have to be amended. It's not possible to do it in six months and may take around one year," Finance Secretary Rajiv Kumar said in a media interaction on Sunday.

Kumar said the idea behind the listing of LIC was to "bring in more transparency and allow the company to share gains with its stakeholders". "It is very important as it will bring in the disclosure norms," he said.

The sovereign guarantee for all policies issued by LIC will continue, the secretary added.

A top government official said the enterprise value of LIC was roughly ₹36 trillion "according to the latest figures in the balance sheet". The official said the government might not dilute "more than 10 per cent" in LIC. "It will certainly be less than 10 per cent," the official added.

The government might seek exemption from the Securities and Exchange Board of India (Sebi) to offload less than 10 per cent in the initial public offer (IPO).

All companies are required to offer at least 10 per cent in the IPO.

Finance Minister Nirmala Sitharaman had announced a stake sale in LIC through an initial public offer in the Union Budget of 2020-21.

The government aims to mop up ₹90,000 crore from the listing of LIC and stake sale in IDBI Bank. The government currently owns 100 per cent in LIC.

On the stake sale of IDBI Bank, which is substantially owned and controlled by LIC, Kumar said the government was exploring various options, including a strategic stake sale. The government currently holds around 46 per cent in IDBI Bank.

"It is proposed to sell the balance holding of the government in IDBI Bank to private, retail and institutional investors through the stock exchange," Sitharaman said during her Budget speech on Saturday.

IDBI Bank had become a private bank last year when LIC acquired a controlling stake in it.

THE IDEA BEHIND THE LISTING OF LIC IS TO BRING IN MORE TRANSPARENCY AND ALLOW THE COMPANY TO SHARE GAINS WITH ITS STAKEHOLDERS

RAJIV KUMAR, Finance Secretary

PAGE 2 LIC'S ROAD TO BOURSES MAY BE ROUGH
PAGE 11 EDIT: DISINVESTMENT DYNAMICS

SECRETARY-SPEAK

"WE EXPECT A SUBSTANTIAL AMOUNT OF REVENUE TO COME IN FROM DISPUTE SETTLEMENT SCHEMES, INCLUDING SABKA VISHWAS"

ATANU CHAKRABORTY, DEA secretary

"MOST PEOPLE TAKE TAX EXEMPTIONS UP TO ₹1 LAKH. IF THEY DECIDE TO CHOOSE THE NEW TAX REGIME, THEY WILL BE GAINER"

AJAY BHUSHAN PANDEY, Revenue secretary

"4 BIG PRIVATISATION TRANSACTIONS — AIR INDIA, BPCL, SHIPPING CORP & CONCOR — COULD BE CONCLUDED IN THE FIRST HALF OF THE NEXT FISCAL YEAR"

TUHIN KANTA PANDEY, DIPAM secretary

Q&A FULL INTERVIEWS PAGE 9

Markets in for near-term volatility

JASH KRIPLANI
Mumbai, 2 February

Market participants are expecting near-term volatility with the Union Budget skipping sector-specific stimulus packages for stressed segments such as real estate and non-bank financial services, and failing to meet domestic investors' expectations on relaxing long-term capital gains (LTCG) tax.

Experts say selling pressure on the stock market may continue on Monday, even though $173-billion liquidity infusion by China's central bank to boost its economy could provide some cushion.

On Saturday, the benchmark indices closed near their day's lows, indicating further selling pressure on the following trading day. The Sensex ended 988 points, or 2.43 per cent, lower at 39,736 points, while the Nifty50 fell 300 points, or 2.51 per cent.

"The market was expecting the Budget to do more, given the domestic economic slowdown and global uncertainty. Over the next few days, the market is expected to absorb the volatility," said Gaurav Dua, head of capital market strategy of Sharekhan by BNP Paribas.

Foreign brokerages expect the risk-off stance to continue at least in the short term. "In the near term, the markets may gravitate back towards large-cap quality and defensive stocks. However, in the medium term, we expect equities to be largely driven by underlying mid-teens earnings growth," said Goldman Sachs in a note.

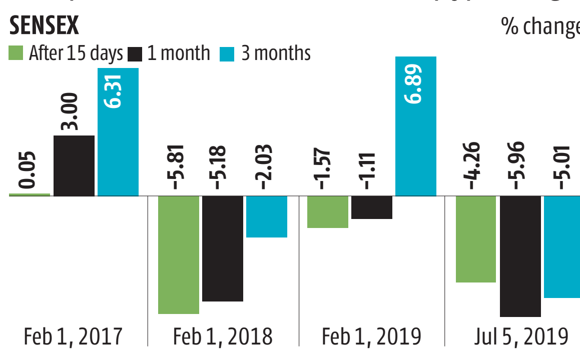
The broking house has maintained the Nifty target of 13,000 by the end of 2020.

Market experts say they are likely to be in the wait-and-watch mode as volatility can take a few days to subside.

"Too early to say whether Budget Day volatility was a one-day event. We will have to see the market reaction this week as several institutional investors, especially foreign portfolio investors (FPIs), may not have participated as it was a Saturday," said Krishna Sanghavi, chief investment officer (CIO) at Mahindra Mutual Fund.

Turn to Page 5

LINGERING EFFECT
In the past, the stock market has reacted sharply post Budget

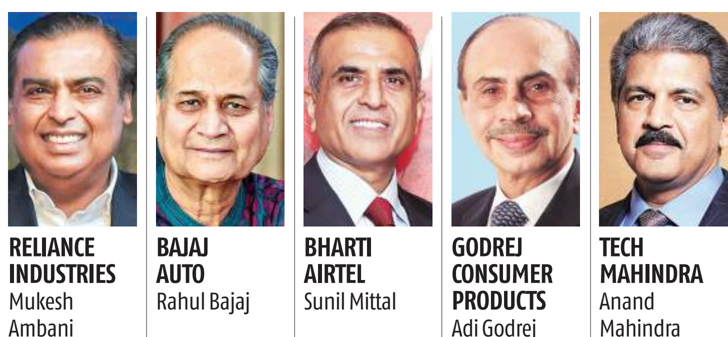


Source: Exchanges

Companies may change dividend policy after Budget changes

Likely to explore alternative ways, including buybacks, to pay back shareholders

DIVIDEND INCOME OF KEY PROMOTERS



RELIANCE INDUSTRIES Mukesh Ambani
BAJAJ AUTO Rahul Bajaj
BHARTI AIRTEL Sunil Mittal
GODREJ CONSUMER PRODUCTS Adi Godrej
TECH MAHINDRA Anand Mahindra

Source: Capitaline, Business Standard calculations

SACHIN P MAMPATTA & SAMEER MULGAONKAR
Mumbai, 2 February

Indian companies may well change the way they return capital to shareholders after alternations in dividend tax policy.

An analysis of S&P BSE 500 companies suggests that promoters of Indian private-sector companies in particular could end up paying at least 20 per cent more as additional tax on the same dividend income.

They are likely to explore alternative ways, including buybacks, to pay back shareholders, according to experts.

The Union Budget on Saturday said dividends would be taxed in the hands of shareholders.

This means that promoters who are taxed at the highest rate could end up paying as much as 42.7 per cent on the dividend they receive. Dividend distribution tax (DDT) was around 20.56 per cent. The company deducted the tax before distributing the amount to shareholders before the change.

The government has said the revenue foregone because of DDT removal would be ₹25,000 crore, but most promoters in the S&P BSE 500 may end up paying higher tax on their dividends, according to the data examined by *Business Standard*. The analysis eliminated government-owned companies from the list of S&P BSE 500 companies because both taxes and dividends go to the government in their case.

Multinational companies too may benefit and were eliminated. This left 387 companies on the list. These companies paid 20.56 per cent tax on dividend as dividend distribution tax under the old regime.

A tax-efficient move would be to hold the shares in a corporate structure. This would still entail a tax rate of 25.17 per cent. This would increase the tax outgo by a fifth more than they paid earlier.

Promoters holding shares in non-corporate form may have to pay as much as 42.7 per cent tax, which is the marginal rate of tax, assuming they have an annual income of over ₹5 crore. This would be around a third more than the current dividend tax for both company and promoter combined. While individual decisions on tax planning may affect the numbers, broadly the tax outgo for promoters seems likely to rise.

"Promoters might have to pay significantly higher taxes on dividends than before. The stake held through a corporate structure will be subject to a lower 25.17 per cent tax rate though ownership through a trust will be taxed at the higher rate. Interestingly the share buyback route becomes more attractive because the 20 per cent buyback tax remains untouched," said Rajesh H Gandhi, Partner, Deloitte Haskins & Sells.

Pranav Sayta, National Leader, International Tax & Transaction Services, EY India, said the move helped foreign investors claim credit for taxes paid against what they may owe in their home jurisdictions.

For the government, collection becomes more challenging as the onus for tax collection shifts from a relatively small number of companies to a significantly larger number of shareholders.

"It is not as simple to administer," he said.

He added the tax on the dividend income of overseas investors who are eligible for treaty benefits would not exceed the applicable dividend withholding tax in accordance with the relevant treaty.

BUDGET 2020-21

NO SMOOTH SAILING

LIC's road to bourses may be rough

SUBRATA PANDA, ABHIJIT LELE & SAMIE MODAK
Mumbai, 2 February

The road to the bourses for India's largest insurance company — Life Insurance Corporation (LIC) of India — is not going to be an easy one. The government's decision to list LIC via an initial public offering (IPO) is beset with issues that the government, LIC management, as well as regulators of capital market and insurance, will have to overcome for smooth sailing of the issue.

The most important question is whether the sovereign guarantee on LIC's liabilities will continue. If the government continues with the sovereign guarantee, there would be questions on LIC's governance. However, if the government decides to discontinue the sovereign guarantee, retail investors will have issues with the quality of assets LIC is sitting on.

A good part of LIC's assets is in government securities, which include state government papers and central government papers. "One doesn't know how much of LIC's portfolio is in state government papers. Also, it has a lot of equity stake and exposure in default rated corporate debt papers," said Ashvin Parekh, managing partner, Ashvin Parekh Advisory Services.

The first step entails changes to the LIC Act. Nilesh Sathe, former member (Life), Insurance Regulatory and Development Authority of India (Irdai), says, "The first step is amendment to the LIC Act and what's most important is capital. Right now, the capital is ₹100 crore, which will have to be increased. There is a sovereign guarantee that has been provided in the Act, which will have to be changed. Once the Act is amended, it will have to be formed as a company; right now, it is a corporation. It will be governed by the Companies Act."

After amendment and listing, LIC will come under rigorous scrutiny and supervision of Irdai, wherein it will have to strictly maintain the solvency margin of 150 per cent.

Experts say the government may decide on whether to keep the sovereign guarantee for existing shareholders and doing away with the guarantee for new shareholders.

Apart from the legislative work and process to make it ready for the capital market, the most crucial work will be to prepare its employees for the listing and the subsequent changes in expectations. While LIC does have quarterly discipline (like performance review), it is different from what markets would look for. "Once you are listed, you can't make an open statement. In the public sector, everybody is free to talk," said a former LIC chairman.

Investment bankers believe pricing the IPO could be a big challenge. Analysts are pegging the issue size between ₹70,000 crore and ₹90,000 crore. Market players fear the IPO could crowd out the secondary market as some investors would have to liquidate their existing holdings to invest in the mega IPO. The biggest IPO to hit the Indian market is that of Coal India, which had mopped up ₹15,000 crore a decade ago. Analysts believe LIC can be valued at ₹8-10 trillion.

Market experts say, at the time of filing, LIC will have to ensure its house is in order. Markets regulator Securities and Exchange Board of India (Sebi) follows a disclosure-based regime for IPOs. This entails disclosing all risks, assets, and investments to potential investors.

Sandeep Ghosh, financial services advisory leader, EY, said, "LIC's IPO will mean there will have to be recalibration on governance, transparency, disclosure norms, especially with respect to its investment portfolio."

Experts also said that the company might find it challenging to meet governance norms, which includes having 50 per cent independent directors on its board and separating the chairman and managing director positions in future. "From the board management standpoint, once LIC becomes a listed entity, it will not only have to keep in mind the interests of policyholders and the government, but also of minority shareholders," said Ghosh.

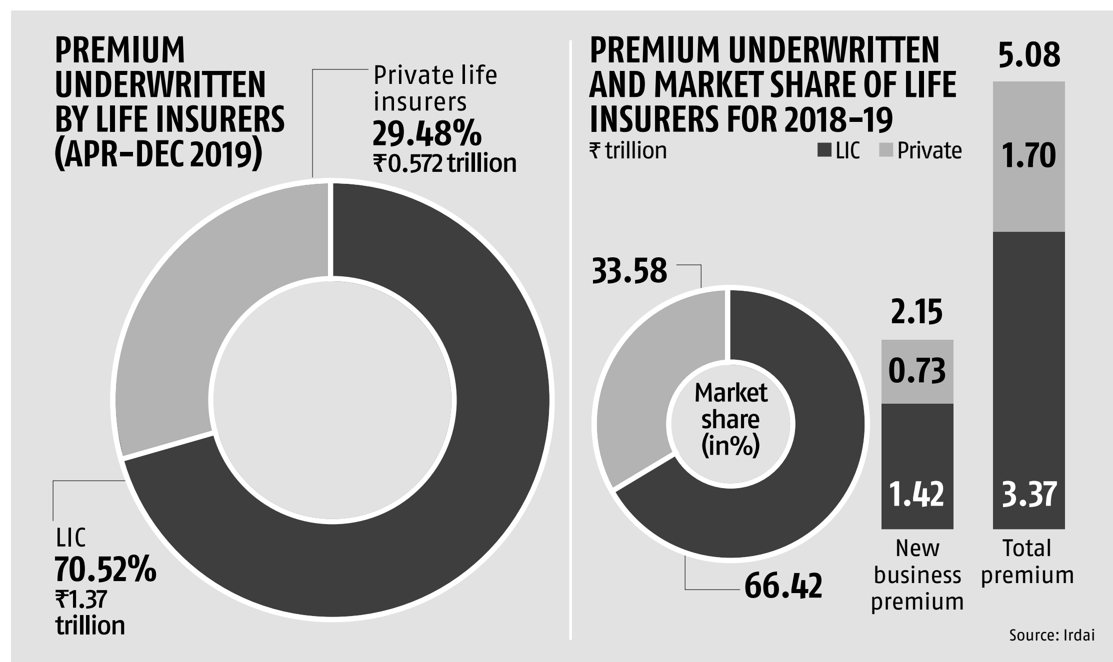
To add to that, LIC holds more than 10 per cent stake in certain companies in the capacity of an institutional shareholder, breaching the 10-per cent cap laid down by Irdai and Sebi.

After LIC becomes a listed company, it will be more accountable to shareholders.

This could mean it will no longer be able to play the white knight to the government. In the past, LIC had bailed out several share sales of public sector firms due to lack of organic demand from investors. Also, it was nudged to buy the beleaguered IDBI Bank and act as a promoter.

Ghosh adds that to comply with listing norms, it will have to go for further dilution beyond the initial proposed 10 per cent. "Eventually the government shareholding will have to come down to 75 per cent," he said.

LIC had a market share of 70.52 per cent in terms of premiums underwritten by life insurers in April-December 2019. It had underwritten premiums to the tune of ₹1.37 trillion in the same period.



THE FINE PRINT

Putting up a defendable target

HARSH GOENKA

EVER SINCE FINANCE Minister (FM) Nirmala Sitharaman took over, there has been a series of measures aimed at kick-starting a sluggish economy that threatened to go into hibernation. The corporate tax rate cut topped the list while measures like privatisation, export incentives and infrastructure push gave muscle to the endeavour. The Budget takes a few bolder steps forward providing substantial base for the economy to respond with verve.

The most striking aspect of this Budget is that it addresses a vast array of subjects. A record-breaking nearly three-hour-long speech is a testimony to it. A significant part of the Budget announcements was devoted to nation-building actions in agriculture, water, infrastructure and education. Initiatives on taxation were aimed at simplification rather than to make large-scale changes that we had seen earlier in the year. The removal of dividend distribution tax is a welcome move, which will leave more funds in the hands of the companies either to distribute or to invest into growth. The investments into a pipeline network for oil and gas, in addition to 100 airports by 2024 and solar capacities in the railways, augur well for these segments. The push for electronics manufacturing and smart metering for electricity are welcome moves. It is also encouraging to see that the minister has ventured to set right several anomalies in the system, including contract law enforcement, liquidity constraints for NBFC and housing finance companies and rationalising the deductions under the income tax.

The Budget takes a few bolder steps forward, providing substantial base for the economy to respond with verve

The Economic Survey has projected GDP growth of 6-6.5% for the next year. However, it has also cautioned on the over dependence on non-tax revenues. It is essential that we see an economic revival by the first half of the next fiscal year in order to get tax revenues up and steady the fiscal deficit. Stake sale in LIC and IDBI are the solutions for the time being. A normal monsoon and good agricultural productions are also the factors that we will have to bank on. A bit of luck is always needed when you have to compete not only against other economies, but also against global slowdown in consumption and other geopolitical events.

Global events are affecting the situation as well. China has been rocked by trade negotiations and just when things looked to be getting resolved, coronavirus has struck. In a connected world, these are the risks for all economies. The new decade is going to be one of the most radical in terms of social impact of business, technological advancements like electric vehicles and artificial intelligence. Therefore, it is reassuring to hear the finance minister speaks about emerging technologies several times in her speech.

A crucial trigger now is growth in consumption. A significant uptick in demand is necessary to boost private investment and job creation — two aspects that have been severely affected in the past few quarters. We have faced a slowdown that has impacted several key sectors like banking, housing, energy, capital goods and automobile. Recovery from such widespread slump is usually slow and painful. We have spent enough time trying to analyse the causes of this and now we must move forward to find solutions. This Budget makes an honest attempt at doing so.

The external and internal environment has severely constrained the minister's bandwidth for further stimulus packages, with privatisation getting pushed into the next fiscal year. Yet, the FM has decided to blend caution with optimism and decided to place her bets on batting first and putting up a defendable target.

The writer is the chairman of RPG Group

COMMENTS

VISHAL KAMPANI
Managing director, JM Financial Group

A few positive prescriptions for a slow cure

The second Budget during the second term of the government shows a clear continuity in the policies. When the Indian economy is suffering from multiple ailments, there were high expectations for some 'surgical interventions' to effect a swift cure with big bang stimulus. But it is short of big surprises. However, there are a few positive prescriptions for a slow cure, making the Budget pragmatic and balanced.

It is reassuring to see that the deficit target was kept within expected lines and 10 per cent growth in nominal gross domestic product is projected. The divestment target is the biggest ever and it reflects the government's intent to leave more space for the private sector, though the target looks somewhat challenging. Driven by this and the high growth in other non-tax revenues, it is estimated to drive a high 18 per cent year-on-year growth in capital expenditure — again one of the highest in recent years. It was surprising to note the tinkering of and reducing incentives for 80C exemptions, even as we set big targets for divestment. This is likely to be a drag on housing demand. A majority of people may not move to the new tax regime now, though the saving-averse but spending-happy millennials may grab the opportunity.

HIGH AND DRY

Housing demand to feel the squeeze despite sops

RAGHAVENDRA KAMATH & SAMREEN AHMED
Mumbai/Bengaluru, 2 February

While simplifying the tax regime, the finance minister said many of the tax exemptions would go. Analysts say there is confusion on exemption on home loan interest

With exemptions gone under the new income-tax regime, housing developers could see demand challenges in residential properties, said experts.

Shishir Baijal, chairman of Knight Frank, said the real issue is how to spur demand in housing. "With exemptions gone (under the new tax regime), there is no incentive to buy homes. Generating demand will be a big issue," he said.

While simplifying the tax regime, the finance minister said many of the tax exemptions would go. Analysts said there is confusion on exemption on home loan interest.

"The February Union Budget 2020-21 raises questions about the impact of doing away with the existing tax exemption of ₹2 lakh per annum on interest paid on home loans taken for residential property under the new tax regime," said Adhidev Chattopadhyay, research analyst, ICICI Securities.

Chattopadhyay said there is lack of clarity on whether one can avail of the additional tax benefit under Section 80EEA for interest on affordable home loans of ₹1.5 lakh per annum. However, J C Sharma, vice-chairman of Bengaluru-based Sobha, said salaried employees will continue to avail of exemptions under the old regime and hence, there will not be any new demand challenges emerging.

Knight Frank's Baijal said unless demand picks up across all price segments, there won't be any real recovery in real estate.

The big two property markets already have a huge inventory pile-up. Mumbai Metropolitan Region had the maximum unsold inventory of 51,721 units, followed by the National Capital Region, which had 49,027 unsold homes.

"The supply is more than the demand in the upper mid-segment, but in the lower mid-segment, there is more demand than supply. The government wants developers to focus on the second segment," said Amit Bhagat, chief executive, ASK Property Investment Advisors.

Sharad Mittal, director and head at Motilal Oswal Real Estate, said the government has been focusing on promoting affordable housing for the past four years. "It is up to the industry to walk down that road," he said.

Bhagat said the government's move to increase 10 per cent difference between circle rates and transaction is a good one in line with the market reality. "The government intervention to save homebuyers from harassment by the tax authorities will go a long way," he said.

However, Motilal Oswal's Mittal said this move will not push demand much.

ON HOLD

BSNL & MTNL staff taking VRS need to wait for their dues

MEGHA MANCHANDA
New Delhi, 2 February

Employees of Bharat Sanchar Nigam (BSNL) and Mahanagar Telephone Nigam (MTNL), who have opted for voluntary retirement scheme (VRS), will have to wait for the next fiscal year (2020-21) to receive their dues.

This is because the Union Budget does not have provision for any expenditure towards the programme in the current fiscal year.

According to the Budget, payment worth ₹37,268.42 crore due to voluntarily retirement of staff, capital infusion in BSNL and MTNL for 4G spectrum and grant for payment of GST have been budgeted for the next financial year. Barely, ₹528 crore has been provisioned in the current fiscal year by the government for payment towards 'implementation of the VRS'. On October 24, the Centre approved a package of nearly ₹70,000 crore for BSNL and MTNL and also drew up a timeline to merge them.

Monetising real estate assets worth ₹37,500 crore is part of the overall relief package that would be used to retire debt, upgrade networks and offer a VRS aimed at reducing the companies' employee strength by half.

The relief package includes a sovereign bond issue worth ₹15,000 crore, to be serviced by the two telcos.

Also, BSNL and MTNL will be allotted 4G spectrum at an administered price, pegged at the 2016 auction value. The two firms would be allotted 4G spectrum worth ₹20,140 crore, ₹29,937 crore for VRS, covering 50 per cent of their employees and ₹3,674 crore for goods and services tax (GST) that will be levied on allocation of radio waves. The ex gratia component of VRS, to be offered to employees aged 50 years and above, will require ₹17,169 crore budgetary support. The 4G spectrum to be allocated to BSNL and the railways has been excluded from the 2020 auctions.

CALLING CARD

Budget provisions FY21 (₹ cr)

Item	Amount
Capital infusion in BSNL for 4G spectrum	14,115
Capital infusion in MTNL for 4G spectrum	6,295
Ex gratia payment for VRS to BSNL/MTNL staff	9,889
Implementation of VRS	3,295
Grant to BSNL for GST payment	2,541
Grant to MTNL for GST payment	1,133

Source: Budget

EXTRA BURDEN

Amazon, Flipkart seek clarity on 1% tax deducted at source

PEERZADA ABRAR, NEHA ALAWADHI & SAMREEN AHMAD
Bengaluru/New Delhi, 2 February

In the wake of the new levy of 1 per cent tax deducted at source (TDS) on e-commerce transactions proposed in the Budget, Amazon and Flipkart said they are studying the proposal and will seek clarifications soon.

The duo is likely to be hit the most in case these proposals are implemented.

"We hope the tax regime is simple and uniform, so that millions of small and medium businesses can go online, digitise their operations and continue to contribute to growing the economy," said an Amazon spokesperson.

Moreover, Flipkart is looking at the details, particularly how the proposals impact micro, small and medium enterprises (MSMEs) and sellers on its platform. "We will discuss this with our seller partners and engage with government and other stakeholders in due course," said a spokesperson.

These proposals would also impact Uber, Myntra, Zomato and Swiggy, among others, and their sellers on such platforms.

In addition to making a customer's purchases on these platforms more costly, it will also mean sellers will have to face the brunt of reduced cash flows, amid already low margins for some.

Experts said e-commerce companies already deduct 1 per cent TDS under the goods and services tax (GST) Act. The new proposal is to take effect from April 1 as a new Section in the Income Tax Act.

Salman Waris, managing partner at Delhi-based specialist technology law firm TechLegis Advocates & Solicitors, said the proposed levy will further affect the working capital of e-commerce companies and reduce cash flow for e-sellers. He added, "Unless there is a relaxation of existing processes involved, this provision will be an additional compliance burden and further increase the cost of compliance for e-commerce companies."

The Budget documents define an e-commerce operator as "an entity owning, operating or managing the digital platform." It also defines an e-commerce participant as a "person and resident of India selling goods or providing services or both,

including digital products, through digital or electronic facility or platform for electronic commerce."

An executive from one of the large e-commerce companies said, "Cash will be stuck with the government in the refund system. And, most of these are MSMEs. "Tax was already being deducted under GST laws and the government had all the data to check any suspected evasion. Now, the levy of TDS under income tax will add to the compliance burden of e-commerce companies and reduce cash flow. This will be even more for SMEs (small and medium enterprises) and with no incremental transaction data for the government."

Impact on sellers

Though the 1 per cent TDS will not apply to sellers on the platforms who have total annual sales exceeding ₹5 lakh, it will still hit a substantial number of traders.

Kumar Rajagopalan, chief executive officer (CEO) of the Retailers Association of India, said the move can create traceability of seller transactions on marketplaces. This can weed out fly-by-night sellers.

"Most retailers have net profit margins of about three per cent and this means 33 per cent of their net income has been blocked as TDS," he added.

Daksha Baxi, head, international taxation, at law firm Cyril Amarchand Mangaldas, said the provision is aimed at ensuring all information relating to earning income by anyone is captured and whatever the minimum tax is collected.

Ankur Pahwa, partner at consultancy EY India said the provision would result in cash blockage for sellers, especially those who operate with minimal margins.

According to Anil Talreja, partner at Deloitte India, the provision may necessitate e-commerce operators to re-visit their model, contracts and systems to ensure compliance, given the enormous volumes transacted by the medium.

WTO issue

The latest move could also ruffle some feathers at the World Trade Organization WTO). Since 1998, the WTO has regularly placed a moratorium on imposing customs duties on electronic transmissions.

But India has argued at the top body that perpetual moratorium forces countries to give up their right to tax burgeoning transactions and lose revenues.

Currently, multinational payment service providers such as Visa and Mastercard control the underlying architecture of most payment gateways.

BUDGET 2020-21

PRICE RISE ON THE CARDS

FM prepares ground for new electronics policy

ARNAB DUTTA
New Delhi, 2 February

With an aim to reform the country's electronics manufacturing sector, Finance Minister Nirmala Sitharaman has introduced revised import duty rates for some key components used in mobile handsets and consumer appliances.

The move comes at a time when the government is finalising a electronics manufacturing policy to boost local production. But it may come with a downside risk of further rise in prices of several products.

In her Budget speech , the minister announced that the government would soon come up with a policy to promote local manufacturing of electronic items. While the fineprint is yet to be finalised, Sitharaman said, "I propose a scheme focused on encouraging manufacture of mobile phones, electronic equipment and semi-conductor packaging." According to sources, since the discontinuation of the Modified Special Incentive Package Scheme (M-SIPS), which used to primarily drive local manufacturing since 2012, no concrete scheme has been in place to incentivise manufacturers in the sector.

Like M-SIPS, the proposed scheme will offer attractive incentives through tax benefits and easy availability of amenities like electricity and land, to manufacturers, who set up plants in India. The benefit will be for procuring electronic components. It will also be aligned with the revised corporate tax rate of 15 per cent for new manufacturers.

However, the minister proposed increase in Customs duty on items like compressors for ACs and refrigerators (to 12.5 per cent from 10 per cent), printed circuit board assemblies or PCBAs (to 20 per cent from 10 per cent), display assembly and touch panels for mobiles and on components for electric vehicles (EVs).

Duty on smaller items like motor components used in fully finished air purifiers, washing machines and coolers have been raised to 10 per cent from 7.5 per cent.

The proposed hike in customs duty, just ahead of launch of the new scheme, is a step towards pushing sellers towards local production further. However, lack of a local manufacturing capacity for many of these products at the moment will lead to price rise.

Kamal Nandi, president of Consumer Electronics and Appliances Manufacturers Association (CEAMA) and executive vice-president of Godrej Appliances, said while the intention is good, it will lead to price escalation in the short run, on products like refrigerators, air conditioners, coolers, washing machines, air purifier and chest freezers. Reduction of goods and service tax (GST) rates on ACs and large screen TV sets (from 28 per cent to 18 per cent) will help manufacturers and buyers absorb some of the increase in cost and spur demand. Manish Sharma, president & CEO, Panasonic India & SA, and chairperson of electronics & manufacturing committee of FICCI, said, while promoting local manufacturing is a welcome move, a definitive timeline would have boosted the industry's sentiments.

Instead of supporting a nascent sector like EVs, increase in import duty on fully finished vehicles and components would not go down well, said Pankaj Tiwari, business head, Nexzu Mobility — a local manufacturer of electric scooters.

WHAT'S IN STORE

Item	Rise in Customs duty	Effect
PCBA, display assembly & touch panels for mobiles	10%	Cost of handsets to go up by 5-7%
Compressor and small motor	2.5%	AC, washing machine, air purifier, cooler prices to rise by 1-2%
SKD, CKD parts and finished EVs	10 to 40%	Electric vehicle prices to increase sharply

Source: Union Budget 2020 & industry

COMMENTS

Budget to bring back growth momentum

SANGITA REDDY
President, Ficci

The Union Budget 2020-21 presented by Finance Minister Nirmala Sitharaman is pragmatic and sends out positive signals for bringing back growth momentum in the economy. Reviving rural economy is crucial to uplift growth, and the 16-point action aid provided in the Budget to agriculture, allied sector and rural economy, with an allocation of ₹2.83 trillion, should help raise rural income and drive consumption.

Consumption growth is also expected to be driven by the new personal income-tax regime structure being offered to individuals who opt out of various exemptions. This lower tax regime is expected to leave more income in the hands of consumers, thus, giving the much-needed push to demand. Together with the consumption boost, the Budget also lays down proposals to step up investments. The ₹100-trillion infrastructure investment plan that was announced last year will get a significant push, with tax exemption being provided to infrastructure investments by sovereign wealth funds. We are happy to note that government will set up a portal-based Investment Clearance Cell for end-to-end facilitation and support, including preinvestment advisory, information related to land banks, and facilitate clearances at the Centre and state level. Micro, small and medium enterprises are also set to benefit from the enhanced ease of doing business, especially with the raising of the threshold limit for audit to ₹5 crore.

BUDGET 2020-21

REVENUE LOSS

States' share in central tax pool seen at 50-yr low

They will get ₹6.56 trn in FY20 against BE of ₹8.1 trillion, shows RE

KRISHNA KANT
Mumbai, 2 February

As the economic slowdown takes a toll on the central government's tax revenues, state governments are being asked to share a bigger burden of the fiscal slippages. The share of states in the central tax pool is set to decline 13.8 per cent year-on-year (YoY) during fiscal year 2019-20 (FY20). This will be the biggest fall in states' share of central taxes in 50 years, according to the data from the Reserve Bank of India.

The states' revenue from the central tax pool was up 25.8 per cent YoY in FY19, while it was down 0.4 per cent YoY in FY18. The current fiscal year will only be the third occasion in the past 50 years when states' share in taxes will decline on a YoY basis. The revenue of states had fallen for the first time in FY1998-99 followed by a decline in FY18.

The tax receipt data for central and state governments in only available since FY1970-71.

Lower tax transfer to states spared the central government the blushes as gross tax is estimated to grow by just 4 per cent YoY in FY20, against 16.5 per cent YoY in the central government's total expenditure during the year. As a result, the central government's expenditure is down by only around ₹88,000 crore in Revised Estimates for FY20 against a ₹3-trillion shortfall in gross tax collections.

Foreign brokerage Credit Suisse (CS) flagged it off as a risk. "States appear to be bearing a large part of the tax slippages. Revenue transfer to states drops by nearly 50 per cent of the cut in gross tax receipt assumptions," write CS analysts, led by Neelkanth Mishra and Prateek Singh.

The central government's gross tax collections are down by nearly ₹3 trillion in the Revised Estimates (RE) for FY20 over the Budget Estimates (BE) presented in the last year's Budget. Of this, states absorbed a tax blow of ₹1.543 trillion. According to the RE, states will now receive ₹6.56 trillion from the central tax pool in FY20 against the BE of ₹8.1 trillion.

The decline in states' share in FY20 is similar to the expected decline in corporation tax collection, which is likely to be lower by ₹1.55 trillion in the RE for FY20 over the BE.

As a result, the share in central taxes will now account for only 29.6 per cent of states' total tax revenues, lowest since FY03, when it had hit a low of 29.3 per cent.

Economists say that decline in states share could adversely affect states' finances besides hitting overall capital expenditure in the economy. "States' spending on capital expenditure is far larger than the central government capex. After a cut in their revenue share, states will either have to adjust their expenditure to fit lower revenues or they will have to borrow more that will worsen their fiscal math," says Devendra Pant, head economist India Ratings & Research.

A large part of states' capital expenditure is towards irrigation, roads, education, health care, water supply and sanitation. The worry is the new fiscal math may force many states to either abandon or defer new projects on these areas adversely affecting the overall capex in the economy.

Additional borrowing by state government is also likely to push up bond yields and interest rates. This in turn will also increase borrowings costs for corporate entities and individuals.

HISTORICAL TREND

States' share in central taxes; YoY chg (%) (RHS)

800,000 / 700,000 / 600,000 / 500,000 / 400,000 / 300,000 / 200,000 / 100,000 / 0; 60 / 50 / 40 / 30 / 20 / 10 / 0 / -10 / -20

8.7; 14,242; 656,046; -13.8; FY91; FY20

Source: Reserve Bank of India, Budget

A HIGH COST TO PAY

Centre's reliance on small savings makes rate transmission difficult

ANUP ROY
Mumbai, 2 February

The government's increased reliance on small savings is bad news for rates transmission no matter what the Reserve Bank of India (RBI) instructs banks.

The central bank has lowered repo rate by 135 basis points since February, but the banks have lowered their lending rate by less than 50 basis points. This comes even as the money market had passed on the lower rates fully.

Banks, however, for long, have complained that they cannot lower their lending rates if deposit rates cannot be lowered too. And, deposit rates cannot fall much below the small savings rates offered by the government itself.

The reliance on small savings comes at a higher cost for the Centre, as these savings have a higher interest rate than government bonds.

The interest rates for National Savings Certificates and Kisan Vikas Patras range between 7.6 per cent (for 5 years) and 7.9 per cent (113 months).

The Sukanya Samriddhi Account Scheme comes with an interest rate of 8.4 per cent. Compared to this, the 10-year government bond yields closed at 6.60 per cent on January 31.

The government plans to bridge its deficit using small savings worth ₹2.4 trillion both in fiscal year 2019-20 and 2020-21. This is financing roughly 30 per cent of the deficits for both the years.

Small savings would also be used to finance the Food Corporation of India (FCI), which is borrowing ₹1.1 trillion in 2019-20 and ₹1.4 trillion in 2020-21.

That would mean that the scope to lower interest rates in small savings is marginal, as that would turn off investors at a time when the government is also giving an option to avail lower income tax rate for forgoing exemptions.

The sheer supply of government and public sector unit bonds would continue to put pressure on the bond market, even without considering state government bonds.

Including redemptions, the government will be borrowing ₹8.1 trillion from the market in fiscal 2020-21. Extra-budgetary resources raised through bonds, which would be fully serviced by the government, are pegged at another 0.8 per cent of gross domestic product (GDP) in FY21.

Central public sector enterprises would borrow another 1.9 per cent of GDP in FY21, based on budget estimates for their capital expenditure.

This would take the total public sector borrowings requirement (excluding state governments) to about 6.2 per cent of GDP in FY21, said Gaurav Kapur, chief economist of IndusInd Bank.

"Financing this large borrowings requirement through domestic resources (largely net household financial savings) could exert upward pressure on interest rates. But measures to open up certain debt securities without restriction for foreign investors would help," Kapur said.

In such a scenario, banks won't be under any obligation to lower their lending rates, especially because the bond yields cannot be softened much even after measures by the RBI. The surplus banking system liquidity now stands at over ₹3 trillion. And if the RBI buys bonds from the secondary market under its open market operations (OMO) programme, it will add more liquidity to the system, which could fuel inflation.

To bring down inflation, the textbook prescription is to increase interest rates, which theoretically brings down the growth rate of the economy even further.

"Rate transmission would face more challenges and banks may increasingly differentiate widely between good borrowers and others in the coming days," said Soumyajit Niyogi, associate director, India Ratings and Research.

"Challenges like minimal expectation of rate cut and OMO purchase, elevated small savings rate, high supply of central and state bonds and pressure on corporate performance, amid weak economic environment, will make it very difficult for banks to respond on transmission," Niyogi added.

According to Anubhuti Sahay, the RBI would likely maintain status quo on its monetary policy in the February policy. It would most likely continue with its accommodative stance for now. The central bank would rather focus on transmission of policy rates, she said.

According to Abhishek Gupta, economist at Bloomberg, any rate cut would only come in June. But the central bank would most likely assure the market that bond yields would be contained using special operations and buyback of bonds.

"In our view, the burden of recovery now falls solely on the RBI. With inflation breaching RBI's target at present, any rate cuts by the central bank are likely to be delayed and contingent upon inflation falling below the upper end of its 2-6 per cent target range," said Gupta.

Bond yields will also be under pressure due to ₹2.7 trillion of switches in FY21, which increases duration risk.

"While most of the switches are likely to be with the RBI, we expect such largescale switches to exert a steepening pressure on the government yield curve," Sahay said.

In this environment, banks' marginal cost is unlikely to come down, which would prevent them from lowering their marginal cost of funds-based lending rate (MCLR).

DEBT RECEIPTS AND OTHER SOURCES

₹ crore

	2018-2019 Actuals	2019-2020 RE	2020-21 BE
Gross borrowings	571,000	710,000	810,000
Short term/T-Bill borrowings	6,896.58	25,000	25,000
External loan (net)	5,519.28	4,933.12	4,621.65
Securities issued against small savings	124,999.95	240,000	240,000
State provident fund (net)	16,059.05	18,000	18,000
Other receipts (net)	73,997.43	4,940.87	50,848.54

Source: Receipts, Budget

INCOME THAT'S NOT TAXED

DDT move to broaden capital market: Govt

SHRIMI KUMARI CHOUDHARY
New Delhi, 2 February

The abolition of dividend distribution tax (DDT) is expected to broaden the capital market investor base.

It will improve dividend payout by companies. Hence, hoped a source in the government, "encourage lower-income group people (annual income up to ₹5 lakh) to invest in the capital market, as there is no tax liability on dividend for them, as against over 20 per cent paid by them under the previous regime". Currently, 3 per cent of India's population invests in this market.

However, on Saturday, the stock markets did not react positively, contrary to the government's expectation. Instead, the benchmark indices fell over 900 points. Official sources said the dividend regime was scrapped as a single rate of taxation invariably favours taxpayers in the higher brackets.

Non-residents were taxed at a higher rate than the treaty rate, and they could not claim tax credit in home country. Further, the new move is likely to encourage the debt mutual fund market. For, most individuals would now pay tax at a lower rate on income received from debt funds, in comparison to the earlier rules.

A person with annual income up to ₹5 lakh will not have to pay dividend income, as against 20.56 per cent paid by them through indirect means. The source quoted earlier explains that the 15 per cent DDT rate came to a gross 17.65 per cent; after surcharge of 12 per cent and cess of 4 per cent, this became 20.56 per cent. Also, a resident was required to pay tax at 10 per cent along with surcharge and cess if dividend income in a year exceeded ₹10 lakh.

Sources say only a few countries — Australia is one — allow credit of tax paid by a company while taxing dividends in the hands of shareholders. All other nations tax dividend in the hands of shareholders or at a flat rate of 10 per cent to 30 per cent.

COMMENTS

SUJEET KUMAR, co-founder, Udaan

Aimed at boosting infrastructure

"With the target of achieving the $5-trillion economy, the government has put out a progressive and encouraging Budget aimed at boosting infrastructure and building a sustainable economy. It has restored confidence of businesses as well as provided on-ground support that MSMEs need and farmers deserve"

COMMENTS

AJIT MENON, CEO, PGIM India Mutual Fund

Big positives in tax exemptions

There were expectations the government would announce significant measures. However, we should bear in mind that such measures can be announced outside the Budget as and when required, like we saw in September 2019, with the corporate tax rate cut. A big positive in this Budget is tax exemptions given to sovereign wealth funds. Also, abolishing DDT will attract investments

STATSGURU

Fiscal maths gone awry

FINANCE MINISTER NIRMALA SITHARAMAN presented an ambitious Budget for 2020-21 last weekend, but the impact of economic slump was visible in the fine print. Let us see through this, step-by-step, to understand how the Budget math was worked out.

The overall spending in 2019-20 was curtailed by nearly ₹90,000 crore in comparison to the expected spending. This happened despite the fact that fiscal deficit was raised from 3.3 per cent of gross domestic product (GDP) to 3.8 per cent, showing that deficit widened with expenditure, a big worry (Chart 1).

Slowdown in economic growth has taken a toll on revenue growth, as Chart 2 shows. But the government expects economic activity to pick up in FY21, and push revenue growth up, too.

The externalities of this are severe. For instance, cheaper food for the poor would be increasingly financed from investments made by small savers, as government is unable to spend from its coffers (Chart 3).

Such financing by tapping into the National Small Savings Fund would take the real fiscal deficit close to 4.4 per cent of GDP (Chart 4).

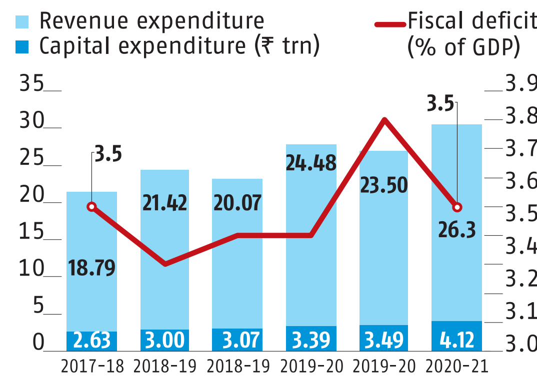
A bigger worry, however, is the nature of the fiscal deficit. In FY21, a bigger part of the fiscal deficit will be used to fund revenue expenses, such as welfare schemes, salaries and pensions, and interest payments (Chart 5).

Capex is rising, but its load is being taken up by public enterprises in the last few years, so much so that the latter has fast outpaced the former (Chart 6).

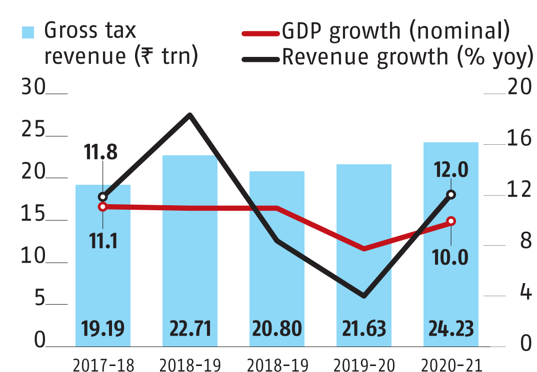
The uncertainty about budgetary spending, widening of deficit, and ambiguity on growth uptick would weigh on monetary policy decision. But a bigger worry is bond yields remaining stubborn, or worse, rising (Chart 7).

ABHISHEK WAGHMARE

1: FISCAL DEFICIT RISES DESPITE A CUT IN SPENDING

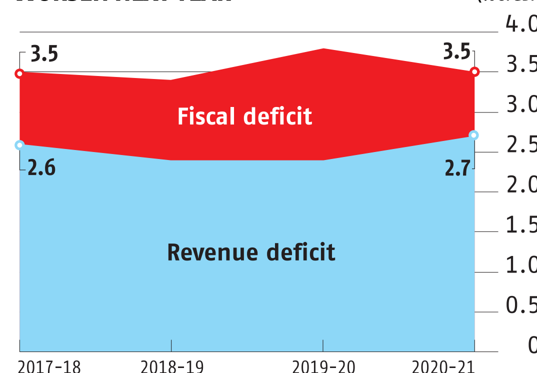


2: REVENUE GROWTH FOLLOWS ECONOMIC GROWTH



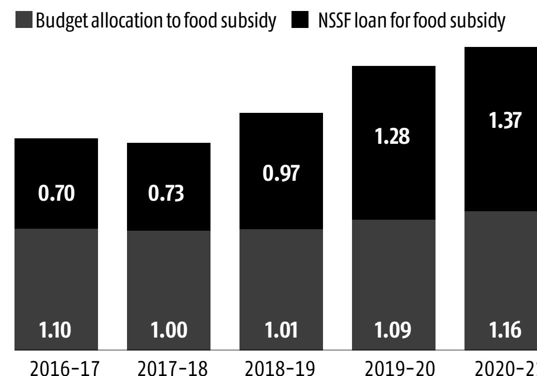
5: QUALITY OF FISCAL DEFICIT TO WORSEN NEXT YEAR

(% of GDP)



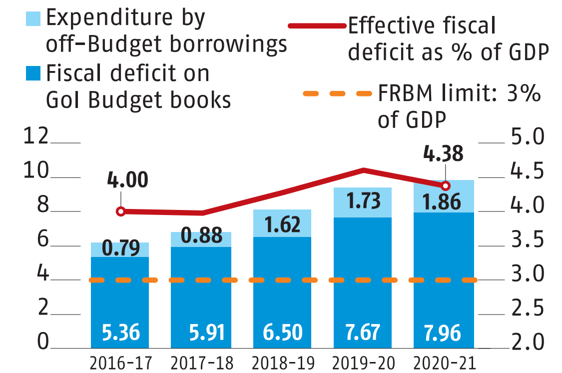
3: SMALL INVESTORS FINANCE POOR MAN'S FOOD SECURITY

₹ trillion



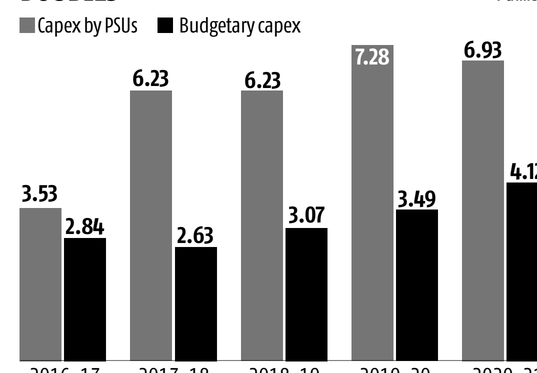
4: SUCH LOANS WIDEN FISCAL DEFICIT WAY ABOVE LIMIT

₹ trillion



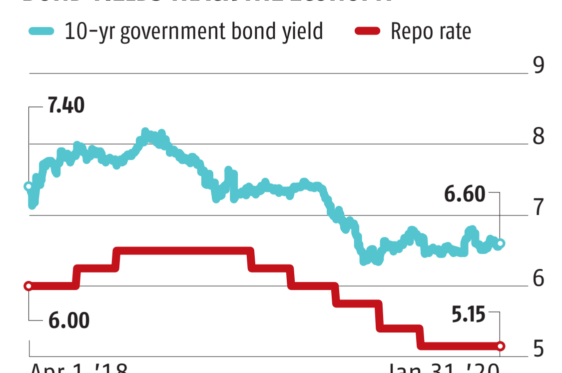
6: CAPEX LOAD ON STATE-OWNED COMPANIES DOUBLES

₹ trillion



Source: Union Budget

7: MONETARY POLICY EFFICACY LIMITED, BOND YIELDS TRACK THE ECONOMY



Source: BS Research Bureau, RBI

StatsGuru is a weekly feature. Every Monday, *Business Standard* guides you through the numbers you need to know to make sense of the headlines

Compiled by BS Research Bureau

FROM PAGE 1

FM's Budget goal...

Sources in the finance ministry said 53 million out of a total of 57 million taxpayers in 2018-19 had claimed exemptions of less than ₹2 lakh. In other words, only 4 million or less than 10 per cent taxpayers took exemptions of more than ₹2 lakh.

Analysts based their analyses on those claiming deductions in the range of ₹4 lakh to 5 lakh, which is a small proportion of the taxpayer base.

Archit Gupta, founder of Cleartax, said, "With the optional new regime, taxpayers will have to evaluate what works better for them. Those committed to long-term savings and investing via 80C may be discouraged and this may likely demotivate them from investing in tax-saving asset classes."

Among others, Biocon CMD Kiran Mazumdar-Shaw tweeted that removal of exemptions and dividend distribution tax would hurt the individual taxpayer, impacting consumer spending.

Ajit Mishra of Religare Broking said the widely expected personal income tax cuts had come in with lots of caveats, leaving no major impact.

To a query that removal of exemptions would hit insurance companies, Sitharaman said the government was giving more money to the people and it's up to them to choose a product.

NRI tax...

"Have I got even a sovereign right to take that into my consideration or not? I am not taxing what you earn in Dubai," she added.

Adding to that narrative, the Central Board of Direct Taxes (CBDT) also put out a clarification on Sunday saying, "the new provision is not intended to include in tax net those Indian citizens who are bonafide workers in other countries."

It added that in some sections of the media, the new provision is being interpreted as one creating an impression that those Indians who are bonafide workers in other countries, including in West Asia, and who are not liable to pay tax in these countries, will be taxed in India on the income that they have earned there. "This interpretation is not correct," CBDT said.

Amit Maheshwari, Partner, Ashok Maheshwary & Associates LLP, states, "The intent seems to be to only tax the Indian incomes or those overseas incomes which are derived from an Indian business or profession, of such stateless NRIs. This is an anti-abuse provision and would target NRIs who have arranged their affairs in a way to avoid Indian taxes."

The move was triggered by several cases where the income-tax department had issued notices to NRIs to reopen tax assessments of the last five to six years, seeking photocopies of their passports.

The tax department is of the view that NRIs and entities, which were named in various global leaks such as Panama and Paradise Papers and being probed under the Act, had shifted base to conceal their foreign accounts.

Markets...

Further, fund managers say a broader market recovery could get delayed as markets digest the implications of the Budget.

Flows from foreign portfolio investors (FPIs) can come back into the markets as the Budget relaxed taxation for overseas investors. For FPIs, dividend distribution tax would be calculated at the treaty agreements, and not attract domestic taxation rates. According to experts, this can have a material impact on the net equity returns of FPIs. On Saturday, FPIs sold ₹1,200 crore worth of equities.

"We are generally positive on the Budget and we believe the market will gradually understand the positives from the Budget, after the knee-jerk reaction," said Shankar Sharma, vice-chairman and joint managing director of First Global. Experts add that once the Budget-related noise abates, the market focus is likely to shift to earnings and global cues. "Future FPI inflows will depend on how economic and earnings growth play out," said a fund manager.

For domestic investors, it was expected that the holding period for calculating LTCG tax on equity would be increased to two years. The stock market could find a stable footing on Monday as the China market is resuming trade and the Chinese government will be launching $173 billion worth of liquidity. Also, experts say the fallout of novel coronavirus will have an impact on emerging markets and India in the coming days.

BS SUDOKU # 2963

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SOLUTION TO #2962

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Medium: ★★★

Solution tomorrow

HOW TO PLAY

Fill in the grid so that every row, every column and every 3x3 box contains the digits 1 to 9

BUDGET 2020-21

NO TO RISK-BASED PREMIUM

Deposit insurance premium to be flat

Finance Secretary Rajiv Kumar says it's not the right time to put differential premium on banks

SOMESH JHA
New Delhi, 2 February

The premiums charged to banks to cover deposit insurance of customers may rise to 12-13 paise per deposit of ₹100 every year, Finance Secretary Rajiv Kumar said on Sunday, asserting the government is not in favour of a risk-based premium regime.

"Banks cannot pass on the hike in premiums to its customers, according to the norms. The premium won't go up substantially in any case and may be hiked to 12-13 paise (per deposit of ₹100 a year)," Kumar said in a media interaction.

Finance minister had announced hiking the deposit insurance limit to ₹5 lakh for each bank depositor

The premium payable by any insured bank cannot exceed 15 paise per annum for every ₹100, according to the Deposit Insurance and Credit Guarantee Corporation (DICGC) Act.

Bank deposits up to ₹1 lakh of each customer are insured by DICGC, which is a wholly-owned subsidiary of the Reserve Bank of India (RBI) and guarantees depositors' money. Finance Minister Nirmala Sitharaman had announced hiking the deposit insurance limit to ₹5 lakh for each bank depositor.

"This is not the right stage to put a differential premium on banks. If that happens then the weaker bank will have to pay more and it will in a way disclose that it is not safe. We do not want to put the depositors at risk at any stage. The current system of premium will continue," the finance secretary said.

Last year, the RBI had asked DICGC to explore a risk-based system for collecting premiums from banks to cover the deposit insurance of customers.

In other words, banks be charged a premium depending upon their risk profile as against a flat rate, which is done now. Official data showed, between 2009-10 and 2018-19, only one of the 429 claims pertained to a commercial bank and the rest were meant for co-operative banks.

The finance secretary said the government would bring in regulatory capital and management norms for the co-operative banks in the next fiscal year. Sitharaman had announced in the Budget that the Banking Regulation Act would be amended to strengthen co-operative banks for increasing their professionalism, enabling access to capital, and improving governance and oversight for sound banking through the RBI.

"For the first time, co-operative banks will be required to maintain minimum level of capital, as is in the case of other commercial banks. We will introduce governance norms in a way that there is no conflict of interest on the board of such banks," Kumar said.

He, however, hinted the minimum capital requirement for co-operative banks might not be similar to other commercial banks and a differentiated regulatory regime may be followed.

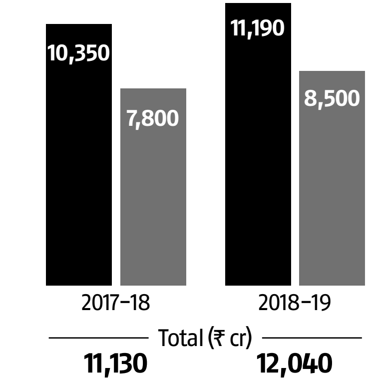
For governance reforms in public sector banks, the government is considering to offer employee stock ownership plans. The finance ministry has been working on this for at least two years now.

WHAT'S ON THE CARDS

- Multi-state urban co-operative banks will have to follow capital adequacy norms
- Capital adequacy norms for co-operative banks may be different from commercial banks
- Government might set qualification and conflict-of-interest norms to reform co-operative bank boards
- Group exposure norms and individual exposure norms for co-operative banks may be introduced
- Govt to include guarantee on pass-through certificates for NBFCs in its partial credit guarantee scheme
- Flat premium on bank deposit insurance to continue, may be hiked to 12-13 paise per ₹100 deposit for banks every year

PREMIUM COLLECTED BY DICGC

More than 90% of the premium collected by DICGC comes from commercial banks



Source: DICGC annual reports

THE FINE PRINT

A prudent Budget that is unlikely to revive growth

SUDIPTO MUNDLE

BUDGET SPEECHES ARE misleading. They highlight at great length populist expenditure schemes, even if the allocations involved are meagre, and then quickly go over awkward issues such as overshooting fiscal deficit targets or tax measures that Corporate India or the 'middle class' may complain about. Nirmala Sitharaman also spoke at great length about various expenditure schemes, so much so that she was quite exhausted and had to cut short her speech.

She started by elaborating on the government's initiatives for agriculture and allied activities, and the social sectors. It turns out that the increase in spending is indeed highest in these two sectors at 12.4 per cent and 11.7 per cent, respectively. This is much higher than the increase of 8.7 per cent and 9.5 per cent for transport and power, part of the infrastructure sector that typically gets the lion's share, especially under the National Democratic Alliance government.

Whether or not this pattern of spending will provide the required stimulus to revive growth depends on the multiplier effect of specific expenditure items. The increase in social service expenditure is mainly for health services, the allocation for education has increased by only 3.3 per cent. Taken together, education and health account for just 2.6 per cent of total expenditure.

In agriculture and allied activities, the big items of increased expenditure are crop husbandry and warehousing along with storage. The increase has come largely at the cost of rural development, including MNREGA, where the allocation has been reduced by over 13 per cent. Together, the two sectors account for about 10 per cent of total expenditure compared to 13.6 per cent for infrastructure services (transport and power).

The largest chunk of expenditure is neither to social services nor economic services but to general services which the finance minister did not talk about

The largest chunk of expenditure is, of course, allocated neither to social services nor economic services, but to general services, which the finance minister did not talk about. This includes interest payments — the single largest item of expenditure — that will absorb as much as 22 per cent of total expenditure, followed by defence which will account for 10 per cent of the total Budget expenditure.

One of the main expectations from the Budget was that it would provide stimulus to revive faltering growth. While the increases in expenditure on infrastructure, defence, crop husbandry, etc will stimulate demand, the same cannot be said about leakages in the form of interest payments or warehousing costs, which are also largely interest on working capital.

Moreover, the overall increase in expenditure has been capped at just over 9 per cent. This is in line with a realistic revenue growth projection of 8.7 per cent, a relief after last year's fairytale revenue projections, and slippage in the fiscal deficit target to 3.8 per cent, compared to the original Fiscal Responsibility and Budget Management Act target of 3 per cent for 2020-21. Thus, the overall assessment on the stimulus question is that, the slippage in the deficit notwithstanding, fiscal prudence has been given priority over fiscal stimulus. This will contain the growth of debt liabilities, but it will not provide the strong public expenditure push required for reviving growth.

On the receipts side, the big move is the proposed sale of Life Insurance Corporation of India shares, along with Air India, accounting for the massive increase in non-debt capital receipts to ₹2.2 trillion. Whether or not these proceeds will finance capital expenditure remains to be seen. The reduction in personal income tax rates below ₹15 lakh will be partly offset by the elimination of concessions, so the net revenue impact will be modest. The other main change is abolishing the dividend distribution tax, which mainly accounts for the revenue foregone estimate of ₹40,000 crore. This, together with other incentives for foreign investment, suggests that attracting foreign capital is a major goal of this Budget, apart from fiscal prudence. On the indirect taxes side, there is further regression to protectionism, raising some Customs duties. This will further reduce India's weak competitiveness in the global markets.

In summary, a prudent Budget, designed to attract foreign capital but discourage imports, and unlikely to revive faltering growth.

The writer is Distinguished Fellow, National Council of Applied Economic Research

COMMENTS

NAKUL ANAND
Executive director, ITC; Chairman, FAITH

Medical inbound tourism poised to get a push

On behalf of Federation of Associations in Indian Tourism and Hospitality (FAITH), we would like to thank Finance Minister Nirmala Sitharaman for the enhanced allocation of ₹2,500 crore to the ministry of tourism. The allocation to develop 100 airports by 2024 and soon-to-be introduced Tejas Express trains for iconic destinations are advancements in modern infrastructure that augur well for Indian tourism.

Brand Made in India shines in this Budget and gets further strengthened with the development of five new iconic Indian archaeological heritage sites and showcasing India through a tribal and maritime museum while four existing museums will be upgraded to global scale to boost cultural tourism.

Medical inbound tourism, already on the rise, will get a boost with addition of Tier-II and -III hospitals. The announcement of setting up a national-deemed university for heritage tourism will deepen skills in heritage tourism in India. This is bound to have a multiplier effect on both employment and the economy aiding wealth creation for the country.

TAX RELIEF FOR SOVEREIGN FUNDS

Incentives to boost public sector monetisation

AMRITHA PILLAY
Mumbai, 2 February

Tax exemption for sovereign wealth funds and benefits for investment in infrastructure investment trusts (InvITs) are expected to help public sector entities in their asset monetisation drive. Experts see the Budget announcement positive for investments in both InvITs and the toll-operate-transfer mode (TOT).

To incentivise investments from sovereign wealth funds in priority sectors, Finance Minister Nirmala Sitharaman said, a 100 per cent tax exemption to their interest, dividend and capital gains income in respect of investment would be allowed. These are to be made in infrastructure and other 36 notified sectors before March 31, 2024, and with a minimum lock-in period of three years.

"The incentives to sovereign funds will help India with its monetisation drive," said Ratnam Raju, associate director (group head of Infrastructure and Project Finance) at CARE Ratings. The Abu Dhabi Investment Authority and Singapore's GIC are some sovereign funds with investments in India. According to the Finance Bill, these incentives will apply to sovereign funds, wholly owned and controlled, directly or indirectly, by the government of a foreign country. Experts said the definition to allow for direct and indirect control made it a wide ambit for most funds to qualify.

"Incentives given to sovereign funds and the tax benefit extended to unlisted InvITs will help the government attract more foreign investment and investor interest in general to InvITs. This should largely help and is in line with plans of InvIT by the NHAI and other state-run entities," said Shubham Jain, senior vice-president and group head of corporate ratings for ICRA.

Others also expect the removal of dividend distribution tax (DDT) will help government authorities attract higher interest in roads offered under the TOT model.

THE GOOD AND BAD

HITS

- Incentive for sovereign wealth funds to invest in India
- No DDT will attract investor interest in TOT model
- Tax benefits for listed, unlisted InvITs on a par

MISSES

- No more tax advantage for promoters to choose InvITs over IPOs
- Indian investors in InvITs to pay higher tax on dividend income

Protection, evasion prime concerns

EXIM MATTERS

T N C RAJAGOPALAN

This Union Budget takes forward the government's agenda to protect Indian industries from import and strengthen the enforcement mechanisms to counter evasion or circumvention of duties.

Duty exemptions are being pruned for import of certain agro and animal-based products, some items of basic metals, machinery for use in specified projects, copper and certain articles for use in manufacture of electronic items, and some sundry items. Import duty is raised on household goods and appliances, electrical appliances, footwear, furniture goods, stationery items, toys, certain machinery and miscellaneous products. Also under the phased manufacturing programme on electric vehicles and components of cellular mobile phones. Parts of a few electronic goods and specified food items, automobile and auto parts, chemicals and plastics also now attract higher Customs duty.

To achieve higher export credit disbursement, a new scheme, NIRVIK, is being launched

Import of some raw materials and inputs by domestic manufacturers, such as specified fuels and chemicals, precious metals, machinery and electronic goods, sports goods and newsprint attract lower duty. A health cess at 5 per cent is to be imposed on import of medical devices. Exemption from social welfare surcharge has been removed on many items.

The Finance Bill proposes to bring all goods under the purview of Section 11 of the Customs Act. Which gives the central government the power to prohibit export or import of any goods, either absolutely or subject to such conditions as may be notified. The specified 22 purposes for which a notification under Section 11 can be issued include maintenance of the security of India, prevention of injury to economy of the country, conservation of foreign exchange, safeguarding balance of payments and so on. Rules for anti-dumping and countervailing measures are being amended to cope with circumvention.

A new Section 28DA is being introduced in the Customs Act, casting certain obligations on an importer who claims lower duty rates under trade agreements and prescribing for time-bound verification of origin criterion from the exporting country in case of doubt. Pending verification, preferential tariff treatment shall be suspended and goods cleared only on furnishing security equal to the differential duty. In some cases, preferential tariff treatment may be denied without further verification.

Section 8B of the Customs Tariff Act provides for imposition of safeguard duty as a trade remedy against surge in import of a commodity. This is being amended to make provisions for application of other safeguard measures such as Tariff Rate Quota and any other measure as the central government may deem necessary to protect domestic industry from injury due to significant surge in import.

Section 132 of the Central Goods and Services Act is being amended. This is to make the offence of fraudulent availing of input tax credit without invoice or bill a cognisable and non-bailable offence. And, to make liable for punishment any person who commits or causes the commission or retains the benefit of transactions arising out of the specified offences.

To achieve higher export credit disbursement, a new scheme, NIRVIK, is being launched. It provides for higher insurance coverage, reduction in premium for small exporters and a simplified procedure for claim settlements. A new scheme of ₹10 billion to help mid-size companies to upgrade technology, pursue research and development, business strategy, etc, has also been announced.

These measures are not going to suffice for boosting of export.

Email: ncrajagopalan@gmail.com

INVESTMENT CLEARANCE CELL

Coming soon: One-stop online portal for foreign investors

The window will map land banks, provide necessary clearances

SUBHAYAN CHAKRABORTY
New Delhi, 2 February

The government will soon roll out a single window system for foreign investors to scout investment opportunities and get requisite clearances at the same time. The Department for Promotion of Industry and Internal Trade's (DPIIT's) five-year-old plan to have a one-stop online portal for foreign investors is being vetted and in final stages of update, multiple sources confirm.

On Saturday, Finance Minister Nirmala Sitharaman announced the investment clearance cell would provide end-to-end facilitation and support, including pre-investment advisory, information related to land banks, and facilitate clearances at both the Centre and State levels.

A senior industry department official said the portal was initially being built keeping in mind foreign investors but would be equally helpful for domestic entrepreneurs and investors.

Land data finally

The portal will also provide data on all available land banks held by central and state governments on detailed maps. These will be categorised on the basis of industries that may be viable for being set up. Lists of manufacturing clusters, transportation outlays, and logistic facilities nearby will be overlaid on the maps.

Since 2016, the Centre has prodded all states to map the land at their disposable and create clusters of well-connected land banks that can attract foreign investments. The level of work done in this regard varies widely among states with legislatures struggling to amend regulations regarding common lands in panchayat areas, which open them up to industrial development. Also, heavily populated states like West Bengal, Bihar, and Uttar Pradesh have struggled to create industrial land parcels while conflicts around land have risen, according to Land Conflict Watch.org, an online data research project that says 7 million people are affected by growing fight over farmland.

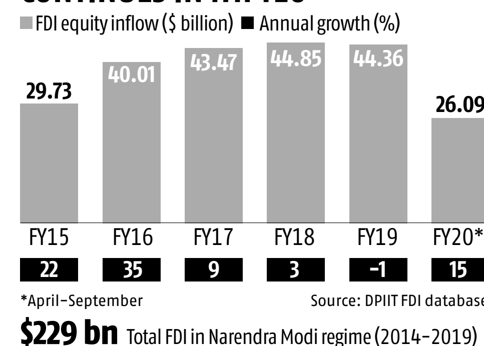
Easing business troubles

The portal is being set up to provide a major boost to ease of doing business, and is being primed by the DPIIT to drastically change India's global rankings in the World Bank index. More than half a decade after the Narendra Modi government pushed for reducing and consolidating the process, clearances still have to be secured by entrepreneurs from multiple departments.

The Economic Survey 2020-21 shows that to start manufacturing in India, a person, on an average, needs to abide by 6,796 separate compliance items mandated by 51 central and state laws. To start other businesses, the maze of laws is also equally confusing. Case in point, to legally sell food in Delhi, one needs a 'Police Eating House License' from Delhi Police that asks for 45 documents, as compared to just 19 needed to buy a gun.

ILLUSTRATION: AJAYA MOHANTY

INBOUND INVESTMENT GROWTH CONTINUES IN H1FY20



*April-September

Source: DPIIT FDI database

$229 bn Total FDI in Narendra Modi regime (2014-2019)

BUDGET 2020-21

GREEN ENERGY

Tax exemption to spur renewables

NTPC, clean projects get a shot in the arm

AMRITHA PILLAY & SHREYA JAI
Mumbai/New Delhi, 2 February

The finance ministry's decision to offer concessional corporate tax to new power projects will stand to benefit state-owned NTPC and upcoming renewable energy projects.

In her Budget speech on Saturday, Finance Minister Nirmala Sitharaman said the Centre is extending "concessional corporate tax rate of 15 per cent to new domestic companies engaged in the generation of electricity" in order to promote investment in the power generation sector.

Sector executives, however, said no other company, apart from NTPC, is planning new projects in the thermal power sector.

India's largest power generating company has 20 gigawatt (Gw) of projects in the pipeline for the next three years. It has an equivalent amount planned to set up renewable power projects. At the same time, India has an ambitious target of setting up 175 Gw of renewable energy capacity by 2022. Of this, 85 Gw has been commissioned.

Some industry captains, however, expressed concern about the lack of clarity if the concession applies to new companies or new projects, or both.

In either case, the tariff from these power plants will come down. "As such, costs are a passthrough; the consumer will benefit with cheaper power," said an executive.

Kameswara Rao, leader (government reforms and infrastructure development), PwC India, said the 15 per cent tax for new electricity generation companies should apply to new companies as well as new power plants.

"We need to see if it will also apply to stalled hydro plants and associated facilities, such as washeries. The ultimate beneficiary would be the consumer, as the cost of producing this electricity is cheaper. Companies also stand to gain from the benefits of a favourable position in the merit order due to lower tariff," said Rao.

CRISIL, in its post-Budget report, said this decision could lead to 80-100 basis points (bps) improvement in the equity internal rate of return of renewable companies and a 50-60 bps rise for conventional projects (for setting up of new capacities).

Private equity has been playing a significant role in the renewable energy space in India. "They had to grapple with equity versus convertible debentures, which we consider more tax efficient," said Pawan Singh, managing director and chief executive officer, PTC India Financial Services.

The renewable energy sector is elated that the benefit will come to them, given no future pipeline of any thermal power projects.

On top of this, in a separate decision, the Centre has also proposed closing thermal power plants where the emission levels are higher than the prescribed limit. CRISIL said close to 10 Gw of thermal power plants could be impacted by this.

"This will help ease overcapacity in the sector somewhat," it said.

GETTING FUTURE-READY

- The FM said the Centre will extend concessional corporation tax rate of 15% to new domestic firms engaged in the generation of electricity
- Industry, however, says no other firm except NTPC is planning new projects in the thermal sector
- Some executives worried over lack of clarity on concession applying to new firms or new projects, or both
- Private equity has been playing a significant role in renewables
- Renewable sector elated on getting the impending benefit, given no future pipeline of any thermal power projects
- In a separate decision, the Centre has proposed closing thermal power plants where emission levels are higher than the prescribed limit

Ambiguity over Customs duty on solar equipment

Solar power producers are in a knot over the proposed basic Customs duty (BCD) on imported solar cells and modules in the Budget, in which she mentioned two new item heads to be inducted in the Customs duty bracket.

The Budget has proposed 20 per cent BCD on solar equipment. "Create tariff items 8541 40 11 for *Solar Cells, not assembled* and tariff item 8541 40 12 for *Solar Cells assembled in modules or made up into panels*".

The tariff rate for these items is 20 per cent. However, these items will continue at 'Nil' BCD," said the Budget.

However, solar cells and modules (under item no. 8541) are exempted from any BCD, according to a 2005 notification of the Department of Revenue. This effectively translates into no BCD on the imported solar cells and modules. There is existing safeguard duty of 15 per cent levied on imported solar cells and modules, especially those coming from China. Executives said if the BCD is imposed, the cost of imported solar equipment will go up in the range of 35-40 per cent. This would lead to solar tariff likely going up by ₹3 per unit, said an executive. SHREYA JAI

THE FINE PRINT

Measures will give impetus to rural economy

AJAY SHRIRAM

IT'S HEARTENING to see that the major themes of the Union Budget were Aspirational India, economic development for all, and a caring society.

Finance Minister Sitharaman said the Centre was committed to doubling farmers' income by 2022. Considering the multiple pulls and pressures, the FM has managed to achieve a fine balancing act. After laying the foundation for a new India in last year's Budget, the FM has reiterated the government's resolve to make India a $5-trillion economy. The plan announced for farmers, comprising 16 action points, will definitely boost the agriculture sector. It will work towards liberalising farm markets and making the sector more competitive, especially if it is accompanied with a much-needed nudge to state governments. This Budget endeavours to handhold farmers towards sustainable cropping patterns and the use of new-age fertilisers.

Talking about figures, the outlay on agriculture and allied activities, irrigation, and rural development has increased to an impressive ₹2.83 trillion. The insurance and financial support to farmers, suffering crop loss/damage arising out of unforeseen events, will now reach 61.1 million farmers under the Pradhan Mantri Fasal Bima Yojana. This will help substantially in stabilising their income, thus ensuring risk mitigation.

An initiative like Kisan Rail is a good solution to develop a national cold supply chain for perishables, based on a PPP model. This measure, along with 'The Village Storage Scheme' and NABARD's exercise of mapping and geo-tagging agricultural warehouses, will work towards improving efficiencies in the entire logistics space for agriculture, and help farmers get better value realisation.

Further, the Village Storage Scheme, to be run by self-help groups, will result in restoring the status of women in villages as Dhanya Lakshmi. The Budget encourages states to adopt three central model laws relating to land leasing, marketing reforms, and contract farming. This should help in transformation of agriculture — a point strongly made in the economic survey.

High usage of urea fertilisers had become a bane in recent years, and the Budget encourages balanced use of fertilisers. It also focuses on initiating comprehensive measures for 100 water-stressed districts, under the Jal Jivan Mission. This measure will go a long way in helping districts that have faced water crisis historically.

Expanding the PM Kusum scheme to reach out to 2 million farmers for setting up stand-alone solar pumps will remove dependence on kerosene. It will encourage clean energy, in line with our international commitments. A scheme for use of fallow land for generating solar power will be an additional source of income.

The NABARD Refinancing Scheme has been further expanded and covers NBFCs and cooperatives that are active in agriculture lending. The agri credit target has been set at ₹15 trillion for FY21. This measure will not only result in increased and uninterrupted flow of credit to farmers, but also give a boost to capital formation in the agriculture sector.

The concept of one product for one district for supporting states will help in giving momentum to horticulture, by better marketing and support. The FM has also proposed integration of negotiable warehousing receipts (e-NWR) and National Agricultural Market (e-NAM). Another scheme that will give wings to the farmer is Krishi UDAN. This will be launched by the Ministry of Civil Aviation on international and national routes. It will improve value realisation in the north-east and tribal districts.

The government has done well by bringing all these initiatives to address some of the challenges in the agriculture sector. An area where the government needs to act on is direct subsidy for fertilisers. It can link Aadhaar for the same, which will eliminate leakages and errors in the system. Conservation of water needs top priority. A pricing mechanism to ensure prudent use of water could lead to curtailment of unnecessary and excessive usage.

Overall, measures in this Budget look promising and will definitely give an impetus to the rural economy. We should see higher productivity and efficiency in the value chain, which would result in making the PM's vision of doubling farmer's income by 2022 a reality. Needless to say, the execution with the support of the States will be a deciding factor.

The writer is chairman & senior managing director, DCM Shriram

COMMENT

KAKU NAKHATE
President and country head, Bank of America

Long-term growth narrative has been set by Sitharaman

The bond markets will cheer on Monday as the government's net borrowing target of $75 billion, for FY21, is lower than Street estimates. Further, the opening up of NRI investments into G-Secs (government securities) is a step towards getting India included in the global bond indices.

Tax exemption to sovereign wealth funds on infra investments, equity infusion into IIFCL and the National Investment and Infrastructure Fund, as well as proposed InvIT (infrastructure investment trusts) structures for roads and power grids, will attract new pools of institutional money into the infrastructure sector.

The government's decision of upholding power purchase agreements as well as the opening up of railways, city gas distribution, and electricity supply to the private sector, are welcome steps. These will help break long-standing monopolies and benefit consumers with better pricing and services.

The on-shoring of the bullion market at the IFSC at GIFT City will enable price discovery of precious metals traded overseas by Indians. Also, trading in rupee derivatives and withholding tax incentive on listing of masala bonds will make GIFT City compete well with other IFSCs. Overall, the Budget is reformative in nature and the FM has set a long-term growth narrative for the economy.

FOOD SUBSIDY

Borrowings by FCI will rise 24% to ₹1.36 trillion

SANJEEB MUKHERJEE
New Delhi, 2 February

The Food Corporation of India (FCI) will borrow a whopping ₹1.36 trillion from the National Small Savings Fund (NSSF) to finance its burgeoning food subsidy bill in 2020-21, Budget documents showed. This is the highest in the past five years and almost 24 per cent more than last year.

This, perhaps, explains the so-called 'under-provisioning' of food subsidy in the 2020-21 Union Budget for FCI. This is because together with the budgetary allocation of ₹77,982 crore, the total funds available to it to procure grains from farmers and distribute it at cheap rates to ration card holders comes to around ₹2.15 trillion.

This is based on the assumption that during the course of 2020-21, the Centre releases the entire budgeted amount. If there is any reduction in this amount, it would force the corporation to borrow more from the NSSF.

In the current financial year (2019-20), Budget documents show that though the budgetary allocation for FCI was lowered from ₹1.51 trillion in BE to ₹75,000 crore at the RE stage. NSSF loans of around ₹1.1 trillion came to the rescue. As a result, the corporation spent around ₹1.85 trillion as food subsidy. The subsidy amount does not include the amount spent by FCI on decentralised procurement of foodgrains under the National Food Security Act.

The fallout of relentless drawing of loans from the NSSF to bridge the gap in budgetary allocation towards food subsidy means higher outstandings.

By the end of 2020-21, the total outstanding balance with the NSSF from the FCI will be close to ₹3.22 trillion. This will be after accounting for ₹68,400 crore repayment from the FCI for loans taken in the previous year. By March 31, 2020, this outstanding amount with the NSSF is expected to be almost ₹2.5 trillion.

The number could have been lower had the government released the entire allocated ₹1.51 trillion to the FCI as food subsidy in 2019-20.

However, it released just ₹75,000 crore as the revised estimates show.

The corporation has been facing huge financial arrears as much of its food subsidy since 2016-17 is funded through off-Budget measures. The bulk of this is through loans from the NSSF. In 2019-20, the FCI had to repay around ₹46,400 crore to the NSSF for loans taken in previous years, which will rise to ₹68,400 crore in 2020-21. In 2018-19, it repaid back a sum of ₹27,000 crore to the NSSF.

> **The number could have been lower had the govt released the entire allocated ₹1.51 trillion to the FCI as food subsidy in 2019-20**

FCI's current financial position is largely the result of its grain procurement far exceeding its distribution through ration shops in the last few years.

It is also because of a cap on the price at which they are sold at – ₹3 a kg for rice, ₹2 a kg for wheat and ₹1 a kg for coarse grains.

Data shows that each ₹1 (per kg) increase in issue price of grains could result in savings of food subsidy of over ₹5,000 crore annually.

For 2018-19, while FCI's issue price of grains to the states under the NFSA remains at ₹3 per kg for rice and ₹2 per kg for wheat, the economic cost of grains is ₹33.1 (rice) and ₹24.45 (wheat) per kg, respectively.

This means that for every kg of rice sold through the over 500,000 ration shops across the country, the government incurs a subsidy of ₹30 a kg.

CORPORATION TAX

Mop-up target of 12% 'unrealistic': India Inc officials

DEV CHATTERJEE
Mumbai, 2 February

Even as the central government announced in the Budget that it would fall short in meeting the corporation tax collection target for the current year, it has set an ambitious 12 per cent growth target in tax collections from India Inc for the next fiscal year.

"The tax collection targets from Corporate India are unrealistic and are too ambitious, especially when the government has announced hefty tax cuts," said a chief financial officer of a large company.

The increased tax target comes at a time when consumer spending and sales growth are slowing down and most companies are not investing in new capacities. The average capacity utilisation of factories is hovering around 76 per cent, and electricity production is falling.

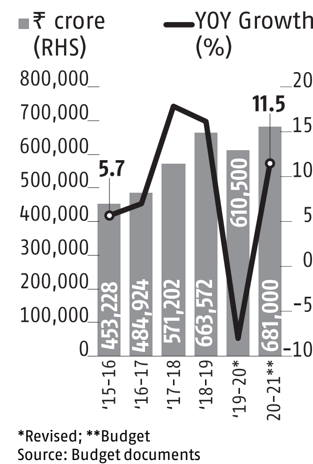
In the Revised Estimates for 2018-19, the government is expecting corporate tax collections to fall 8 per cent — this was mainly due to a sharp cut in corporate tax rates announced in October last year. The corporation tax cuts were effective from April 1, 2019. Chief executive officers said the corporate tax targets look aggressive, and how the government will achieve the target is not specified.

"Unless there is sharp increase in tax compliance, it is quite likely the government will have to cut current spending, as was the case in 2019-20 (FY20)," said an analyst with a foreign brokerage.

Besides, with budgeted nominal gross domestic product growth of 10 per cent year-on-year (YoY) and gross tax revenue growth of 12 per cent YoY, the implied tax buoyancy stands at 1.2, which continues to appear ambitious versus the 0.5 tax buoyancy achieved in FY20, he said.

"How the nominal GDP will grow to 10 per cent is a mystery," said another analyst. Overall, analysts estimate the government's net tax revenue collections to fall short of budgeted numbers by roughly ₹60,000 crore in both FY20 and FY21, according to a *Bloomberg* estimate.

HIGH EXPECTATIONS



*Revised; **Budget
Source: Budget documents

Centre to put a check on imports via strict norms

SUBHAYAN CHAKRABORTY
New Delhi, 2 February

Apart from raising import duties on hundreds of goods, the government has also added tougher provisions to all Customs rules in order to tighten the screws on imports. A string of measures includes specific provisions in rules governing anti-dumping, safeguards, as well as basic Customs duties.

A case in point, when importing from countries which have already been slapped with anti-dumping duties: an importer may fall foul of the rules if the imported product in an unassembled form is less than 35 per cent of the value addition, compared to its manufacturing cost.

The latest rules also stipulate that for calculation of value addition, expenses on account of procurement of technology, such as patent, copyright, trademark, royalty, technical know-how, etc, shall not be included in the value of the parts brought in. On the other hand, when importers bring in an item already subject to anti-dumping duties from a nation which hasn't been slapped with such duties, they run the risk of violating the law. According to the latest diktat, they 'can't change their trade practice, pattern of trade or channels of sales of the article' suddenly. However, traders said this will leave them open to unfair prosecution by Customs officials at the ground level. The government has also said in cases where imports of a product from more than one country are being simultaneously subject to anti-dumping investigation, the government will cumulatively assess the effect of such imports in certain cases.

INFRA IN FOCUS

NHAI to borrow less next year while targets elude

MEGHA MANCHANDA
New Delhi, 2 February

Government allocation for infrastructure does not tie in with the road map laid down by the National Infrastructure Pipeline (NIP), which projected about ₹4.9 trillion and ₹6.7 trillion for FY20 and FY21, respectively.

In her second Budget, Union Finance Minister Nirmala Sitharaman proposed an allocation of ₹1.7 trillion for transport infrastructure in FY21.

In the highways sector, the debt of the National Highways Authority of India (NHAI) has weighed down on the projections for next year. The borrowing limit for the body has been reduced by about 13.3 per cent to ₹65,000 crore. This is the first reduction in the last few years.

While budgetary support by the government for the NHAI has risen about 16 per cent, the outlay is down around 4 per cent to ₹1.075 trillion from about ₹1.12 trillion in 2019-20.

MAIN AREAS OF CAPITAL OUTLAY (ASSET CREATION) IN 2020-21

(in ₹trillion)

Ministry	Budgetary support	IEBR of public enterprises	Total capital outlay
Defence	113,734	620	114,354
Railways	70,000	90,792	160,792
Roads & bridges	77,245	65,000	142,245
Agriculture & allied services	2,377		2,377
Power	707	49,884	50,591
Communication	25,070	15,196	40,266
Space research	7,775		7,775
Renewable energy	52	13,727	13,779
Rural development	–	10,000	10,000

IEBR: Internal and Extra Budgetary Resources
Source: CARE

Budgetary support for the authority in the current fiscal year is ₹36,691 crore, and it has been raised to ₹42,500 crore in FY21.

The overall plan outlay for roads and bridges is about ₹1.43 trillion, for which government support is ₹77,245 crore.

"The NIP for 2019-2025 has pegged the projected capital expenditure for transportation (covering roads, railways, ports, and airports) at about ₹35.7 trillion, of which about ₹4.9 trillion and ₹6.7 trillion were projected for FY20 and FY21. In the Budget, the finance minister proposed an allocation of ₹1.7 trillion for transport infrastructure for FY21. This is marginally higher than the ₹1.6 trillion in the previous year's Budget," said Peeyush Naidu, Partner, Deloitte India.

The decrease in the NHAI borrowing target seems to be because of worries on its debt burden. This will, however, mean that government dependence on private investment will increase.

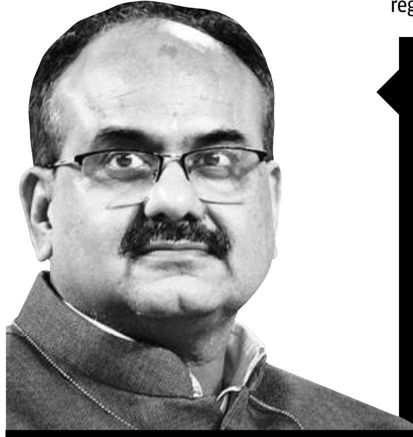
Railways and roads account for nearly 30 per cent of the capital outlay while defence accounts for 30 per cent of budgetary support.

The NIP, worth ₹1.03 trillion, consists of more than 6,500 projects, which range across sectors and are classified in accordance with their size and stage of development.

These new projects include housing, safe drinking-water, access to clean and affordable energy, health care for all, world-class educational institutes, modern railway stations, airports, bus terminals, metro and railway transportation, logistics and warehousing, and irrigation projects.

'Those taking I-T exemptions will gain if they shift'

Revenue Secretary **A B PANDEY** tells **Indivjal Dhasmana** that most people took exemption up to ₹1 lakh in 2018-19. They will gain if they switch to the new tax regime, he says. Edited excerpts:



"IF WE FIND MORE PEOPLE SWITCHING TO THE NEW TAX REGIME, WE WILL TAKE A CALL ON LOWERING TAX RATES AT AN APPROPRIATE TIME"

Won't options given to taxpayers who earn up to ₹15 lakh a year to choose between two tax regimes make things complicated for them?

The new regime is simple. One has to see the exemptions one was taking earlier and compare the new tax rates without those exemptions. Income-tax returns will give him the two options, so that the taxpayer can decide.

Will it lead to a lower tax regime in the coming years?

We have to see how many people have found it beneficial. If we find more people switching to the new tax regime, we will take a call on lowering tax rates at an appropriate time.

A B PANDEY
Revenue secretary

But many analyses found the new tax regime will not be beneficial for people claiming exemption. Your take?

Only 5 million people of the 57 million who filed returns in 2018-19 claimed exemptions of more than ₹2 lakh. This means less than 10 per cent taxpayers fall in this category. Analyses in the media concentrated on this category. According to our internal analysis, most people take tax exemption up to ₹1 lakh. If they decide to choose the new tax regime, they will gain.

This new provision would lead to loss of business for insurance companies. Don't you think so?

It is individuals who decide whether a particular scheme is beneficial for them or not. I am sure these companies will come up with innovative products to increase sales. No company should be entirely dependent on tax incentives. That is not an efficient way of conducting business in the long run. The product itself should be attractive enough to woo buyers.

When the economy is likely to grow 7.5 per cent at current prices, tax buoyancy taken was 0.5 per cent, but when the economy is assumed to grow 10 per cent, the buoyancy taken is 1.2 per cent. Why is it so?

You have to see the impact of corporation tax rate cuts as well. Buoyancy will be 1.4 per cent this year if you include the revenues foregone because of these cuts. As such, 1.2 per cent is entirely feasible.

More on www.business-standard.com

BUDGET 2020-21

'10% GDP growth a conservative estimate'

The GDP growth and tax revenue forecasts announced in the Budget are realistic and conservative, Economic Affairs Secretary **ATANU CHAKRABORTY** told **Arup Roychoudhury** in an interview. Chakraborty, who contributed to the finance minister's speech, said NSSF loans are crucial for Food Corporation of India to initiate a clean-up, and the proposed exchange-traded fund for government securities will be launched in H2FY21. Edited excerpts:

What are your assumptions behind the 10 per cent nominal GDP growth rate? Are your real GDP growth estimates similar to those in the Economic Survey?

Overall, a 10 per cent nominal GDP growth rate is a conservative figure. If you look at its break-up, real GDP growth is in the range of 6.0-6.5 per cent, with the inflation component at broadly 3.5-4.0 per cent. This is the range being projected by various agencies. With a conservative lens, these are the numbers that looked plausible.

ATANU CHAKRABORTY
Economic affairs secretary

At 10 per cent growth, how feasible is gross tax revenue growth of 12 per cent and personal income tax (I-T) growth of 14 per cent, despite foregoing revenue of ₹40,000 crore because of reductions? Where do you see the growth coming from?

If you look at the numbers on the receipt side, the budgeted estimate for gross tax revenue during FY21, at ₹24.2 trillion, is less even than FY20's budgeted estimates of ₹24.61 trillion. This shows the conservatism. We have also been conservative on revised estimates for FY20, at ₹21.6 trillion. If you take the revenue foregone, the year-on-year rise has to be much higher than before.

We wanted to be conservative because last year, people were blaming us for being a bit optimistic. These are safe and realistic estimates. We expect some revenue to come in from dispute settlement schemes, including Sabka Vishwas. Naturally, the disputes will get settled and the environment of disputes will also go away, because now a lot of money gets stuck in disputes. Therefore, we are expecting some good amount from that, in spite of foregoing ₹40,000 crore in various sops.

"WHATEVER THE FCI TAKES FROM THE NSSF WILL BE REPAID, AND IT HAS BEEN PROVIDED FOR FROM THE CONSOLIDATED FUND OF INDIA — BOTH THE INTEREST AND PRINCIPAL"

Net tax revenue shortfall for FY20 was at 0.7 per cent of GDP, and fiscal slippage was at 0.5 per cent. Did the fiscal slippage entirely compensate for tax shortfall and not for any expenditure?

Just because it's fungible, how can you say it is meant just for that? This year, we knew that growth rates were coming down and this was a good opportunity for the government to ensure efficient and quality expenditure. Hence, the entire capex was up-fronted. If you see our capex at December 2019 vis-à-vis December 2018, it was 16 per cent higher.

More on www.business-standard.com

'We will see a second wave of privatisation in FY21'

As the Department of Investment and Public Asset Management was handed its highest-ever target of ₹2.1 trillion for FY21, its Secretary **TUHIN KANTA PANDEY** spoke to **Arup Roychoudhury** a day after the Budget. Edited excerpts:

"WE THINK THE FOUR BIG PRIVATISATION TRANSACTIONS — AIR INDIA, BPCL, SHIPPING CORPORATION OF INDIA, CONCOR — COULD BE CONCLUDED IN H1FY21"

From your Revised Estimate of ₹65,000 crore for 2019-20, you are at ₹18,000 crore now. Which companies do you plan to divest or privatise before March 31 to reach that target?

We have mopped up ₹18,000 crore so far. From the latest tranche of Bharat 22 exchange-traded fund, we will get ₹16,500 crore. We have reached ₹34,500 crore. For the remainder ₹30,500 crore, we have the strategic sale of THDC and NEEPCO to NTPC. We don't have the figures as the valuation is being done. We have some initial public offerings lined up, including IRFC, and some offer for sales and buybacks.

TUHIN KANTA PANDEY
DIPAM secretary

For FY21, you expect ₹90,000 crore to come from financial institutions. First you have IDBI Bank. Will the Centre's stake (currently valued at ₹18,000 crore) be offloaded or will Life Insurance Corporation (LIC) of India also offload its stake in the bank (LIC stake is valued at ₹19,700 crore)?

The finance minister has announced the sale of only the Centre's holdings. We can only talk about our holdings.

How much can the Centre expect from the mega LIC IPO?

When we are doing a Budget Estimate, we are not giving the exact value of each transaction. These are estimates. You have to allow the government time to decide the structure, timing, quantum, and the number of transactions. We have to finalise with the Department of Financial Services (DFS). DFS has to take the lead in the LIC IPO.

For the remainder ₹1.2 trillion, what is the road map?

A large part of this ₹1.2 trillion will come by way of privatisation. Realistically speaking, we think the four big privatisation transactions — Air India, Bharat Petroleum, Shipping Corporation of India, and Concor — could be concluded in the first half of the next fiscal year. If all goes well, we should have qualified bidders for Air India by March 31. Similarly for BPCL, the expression of interest will be issued in a few days. We would have a pipeline of big-ticket disinvestments when we step into FY21.

Do you see a second wave of privatisation in FY21?

We are moving towards privatisation after a long time. If you look at the Economic Survey, it has actually analysed some of those transactions done during the Vajpayee era, and how well those companies have fared, whether you consider the return on equity, return on capital, sales turnover, profit margins, or you look at the earnings per share. In a sense, there will be a second wave of privatisation.

Risks of revised estimates

How a potential fiscal deficit of 4.65 per cent of GDP was brought down in the 2019-20 revised estimates

RAISINA HILL

A K BHATTACHARYA

A closer look at the expenditure numbers presented in the Union Budget for 2020-21 offers fresh insights on how the Union government has tried to manage its finances for the current year. They also add a new dimension to the government's efforts to reduce expenditure in the current year to restrict the slippage in fiscal deficit to only 0.5 percentage point.

The need for slashing expenditure in 2019-20 was acute as the government's revenue estimates, provided in July 2019, went completely awry. Net tax revenues fell short by ₹1.45 trillion and disinvestment revenues were lower than the estimates by ₹40,000 crore. The total shortfall was ₹1.85 trillion or 0.9 per cent of gross domestic product (GDP).

In addition, there was the problem of excess expenditure under various heads like grants to Union territories, defence, the rural employment guarantee programme, pensions, relief for natural calamities, police, railways, education, petroleum subsidy and capital subsidy for space research. The excess expenditure was estimated at ₹70,900 crore.

Add this amount to the revenue shortfall of ₹1.85 trillion, you get a total additional burden of ₹2.56 trillion. This is equivalent to 1.25 per cent of GDP.

If the government had done nothing, its fiscal deficit would have widened to 4.65 per cent of GDP in 2019-20. Remember that the Budget estimate for fiscal deficit in 2019-20 was 3.3 per cent. But since the economy had slowed considerably, the resultant fiscal deficit had already gone up to 3.4 per cent.

The government in its wisdom decided against allowing the headline fiscal deficit number to be breached by more than 0.5 percentage point to stay within the ambit of the fiscal responsibility law. So, what did it do?

What could have come to its rescue was the ₹1.76 trillion of additional money that the Reserve Bank of India (RBI) was required to transfer to the Centre following the acceptance of the recommendations of the Bimal Jalan committee on the central bank's economic capital framework. But the actual additional financial bonanza for the Centre turned out to be only ₹58,000 crore for the current year.

This was because the Budget estimate for 2019-20 had already provided for ₹90,000 crore of receipts from the RBI during the year on this account. Another ₹28,000 crore had been pocketed in advance by the Centre for meeting its fiscal deficit in 2018-19 and that amount was received as interim dividend last year. The remaining amount of ₹58,000 crore was what the Centre could have got this year to boost its receipts.

But there were shortfalls of about ₹22,000 crore in dividends from other public sector banks and public sector undertakings. The net additional benefit to the Centre from dividends and profits of RBI and public sector entities was thus only ₹36,000 crore.

The extra dividends helped bring down the government's deficit from ₹2.56 trillion to ₹2.2 trillion. Another ₹35,300 crore was saved on account of reduced interest payment The government also looked at various expenditure heads and succeeded in reducing its expenditure by ₹48,000 crore, almost half of which was possible because the government could not spend as much as ₹20,630 crore from what was allocated under the Pradhan Mantri Kisan Samman Nidhi. But the gap was now reduced to ₹1.37 trillion.

It was then that the government began using the route of extra-Budget borrowing. The food subsidy bill was reduced from ₹1.84 trillion to ₹1.08 trillion, a saving of about ₹75,500 crore. This brought down the excess over expenditure to only ₹62,000 crore, which was within the safe limit of a 0.5 percentage point slippage over the budgeted fiscal deficit.

But that reduction in food subsidy was not really a reduction. The entire burden of ₹75,500 crore was met through loans from the National Small Savings Fund (NSSF). Indeed, the government borrowed a higher amount of ₹1.1 trillion from the NSSF. While ₹75,500 crore was meant for meeting the current year's food subsidy bills and the remaining ₹34,500 crore was used to settle previous year's food subsidy bills, which should have reduced the arrears of the Food Corporation of India.

What is, however, more worrying, is that the government intends to borrow ₹1.36 trillion from the NSSF in 2020-21 also to meet its food subsidy bill. Surprisingly, the government's food subsidy bill for next year is only ₹1.15 trillion and it is borrowing much more than that from the NSSF.

While for the government's 2019-20 account, the fiscal deficit has been contained at 3.8 per cent of GDP, what should not be forgotten is that these are all revised estimates. Remember what happened to the revised estimates on revenues and expenditure for 2018-19? They were presented in February 2019 and it became clear by June that year that the provisional actuals were significantly different from what the revised estimates had stated, creating fresh budgeting challenges for the government. Hopefully, by June 2020, nothing similar would take place.

CHINESE WHISPERS

Budget sparks ahead

Opposition parties on Sunday busied themselves with selecting their speakers for debate in Parliament on the Budget and also on the motion of thanks on the President's address. The government could face embarrassment on the President's speech, with the Communist Party of India (Marxist), or CPI(M), proposing amendments to it. The CPI(M) has furnished proof that the President misquoted Mahatma Gandhi on giving citizenship to Hindus and Sikhs from Pakistan. It is planning to bring an amendment, which the rest of the Opposition is set to support. The CPI(M) has verified the quote from the *Collected Works of Mahatma Gandhi*, the most authoritative source of Gandhi's speeches, statements, and writings. The Trinamool Congress has picked Abhishek Banerjee as its lead speaker on the debate on the Budget in the Lok Sabha and Manas Bhunia in the Rajya Sabha, while on the motion of thanks on the President's address, the party will field Saugata Roy and Mahua Moitra in the Lok Sabha, and Sukhendu Sekhar Ray in the Rajya Sabha. The Congress is expected to be led by P Chidambaram in the Rajya Sabha in the debate on the Budget.

Yediyurappa's dilemma

The expansion of the Karnataka cabinet on February 6 will be far from being a cakewalk for Chief Minister B S Yediyurappa (*pictured*). It has been postponed several times. Yediyurappa had made it clear that all the 11 who had revolted against the Congress and Janata Dal (Secular) government, leading to its fall, and then got re-elected in the bypolls on the Bharatiya Janata Party (BJP) ticket, will be made ministers. But sources say the central leadership is not keen on inducting all of them and wants to give old BJP hands a berth in the cabinet. It will not be an easy task for the chief minister who has to ensure adequate representation to various castes and regions in his cabinet.

Kishor's next assignment

Poll strategist Prashant Kishor will now manage the Dravida Munnetra Kazhagam's (DMK's) strategy in the run-up to the 2021 Assembly polls in Tamil Nadu. Kishor had managed the election campaigns of Prime Minister Narendra Modi in 2014, Bihar Chief Minister Nitish Kumar in 2015, and Punjab Chief Minister Amarinder Singh in 2017. He also boosted the campaign for the Jagan Mohan Reddy-led YSR Congress Party, or YSRCP, in the Andhra Pradesh Assembly election last year. The political strategist's work with the Congress for the 2017 Uttar Pradesh Assembly election was unsuccessful, with the party winning just seven seats in the state and losing all four in Amethi, Rahul Gandhi's Lok Sabha constituency then.

RBI's pause and no change in stance may continue

A rate cut or even a hike can happen, if at all, in the second half of the next financial year

BANKER'S TRUST

TAMAL BANDYOPADHYAY

The Budget of aspiration, economic development and care for all is behind us. Let's focus on the next big event — the last bimonthly meeting of the central bank's Monetary Policy Committee (MPC) in the current financial year. The Budget is its backdrop. The Reserve Bank of India (RBI) has got a new deputy governor, Michael Patra, overseeing the monetary policy department, including its forecasting and modelling unit. There is also a new member — Executive Director Janak Raj — at the central bank's rate-setting body, the MPC.

On expected lines, the Budget has revised the fiscal deficit target for 2020 to 3.8 per cent of GDP and pegged the deficit for the next financial year at 3.5 per cent. The original estimate for the fiscal deficit for 2020 was 3.3 per cent; the half a per cent rise is in sync with the so-called escape clause in the Fiscal Responsibility and Budget Management Act which, among other things, allows such a deviation in case there are far-reaching structural reforms in the economy with unanticipated fiscal implications. Of course, it mandates that such a deviation should be accompanied by a clear commitment to return to the original fiscal target in the ensuing fiscal year. For 2021, the estimated deficit target is 3.5 per cent of GDP.

There is no surprise in the government borrowing targets too. In the current fiscal, the gross borrowing target remains unchanged at ₹7.1 trillion. For the next year, the gross borrowing target has been raised to ₹8.1 trillion. It may look a bit intimidating but it will sail through without putting pressure on the bond yields. In fact, yields could drop this week.

There is ample liquidity in the system (surplus daily liquidity is currently pegged around ₹2.80 trillion, thanks to government spending) and it is fairly certain that the RBI would continue with its Operation Twist (OT) to manage the yield.

From December 2019, the RBI started conducting OT by simultaneous buy and sale of government securities. It is buying long-tenure bonds (10-year papers) and selling short-term ones (up to two years) to bring down the bond yields and flatten the curve, narrowing the term premium. The 10-year bond yield, which rose to 6.8 per cent in the recent past fearing higher government borrowing to bridge the widening fiscal deficit, closed last week at 6.6 per cent.

Just before the first round of such buy-sell auction took place, the 10-year government bond yield was 6.75 per cent. However, the 15 basis points (bps) drop in bond yield does not give the correct assessment of the impact of OT. In the absence of this, the bond yield would have risen further, inching towards 7 per cent. One bps is a hundredth of a percentage point.

OT "manages" bond yields, brings down the cost of borrowing for the government and saves banks from treasury losses. However, what we are seeing now is a combination of OT and the so-called open market operations (OMO) of the RBI as it is buying more and selling less. Through four such auctions, the central bank has bought bonds worth ₹40,000 crore but sold ₹28,200 crore. Traditionally, bond buying through OMO is done to create liquidity; this time around, the objective is clearly to "manage" bond yields. This is likely to continue to ensure a smooth sailing for the government borrowing programme without increasing the cost.

The Indian economy grew at 4.5 per cent in the September quarter, falling for the sixth quarter in a row. The Economic Survey has pegged the growth for the current year at 5 per cent and the next year at 6-6.5 per cent. The Budget estimate of growth for 2021 is more conservative — a nominal GDP growth of 10 per cent. What will be MPC's projection of growth in this round? Since February, each policy meeting, including the last in December, cut the growth estimate — overall by 240 bps, from 7.4 per cent to 5 per cent.

In December, all six members of the MPC took a call for status quo. Before that, since the beginning of the rate cutting cycle in February 2019, the MPC always cut the rate — cumulatively by 135 bps, from 6.5 per cent to 5.15 per cent.

Of course, in December it had an unambiguous forward guidance: The pause is temporary and there is monetary policy space for future action.

With further rise in inflation, one would assume the RBI would continue to be in a pause mode but there would not be any change in its accommodative stance. The future action will depend on data — both inflation and growth.

In the December policy, the RBI moved the retail inflation projection sharply upwards to 5.1-4.7 per cent for the second quarter of 2020 with food, fuel and a hike in telecom tariff contributing to it. The December retail inflation rose to 7.35 per cent, a 64-month high, breaching consensus estimates of analysts and sailing past the upper end of RBI's inflation target band (4-6 per cent). In November, the retail inflation was 5.5 per cent.

Most analysts expect the January inflation number to be way above 7 per cent and more than 6 per cent at least till March. The surge may not last for long and, in the second half of 2021, retail inflation could come down to 5 per cent and drop further.

The MPC will keep a hawk's eye on inflation but is unlikely to act at this point. An extended pause and accommodative stance are likely to continue till the growth momentum picks up. Depending on the growth-inflation dynamics, we may see a rate cut or even a hike in the second half of 2021.

The writer, a consulting editor with Business Standard, is an author and senior adviser to Jana Small Finance Bank Ltd. Twitter: TamalBandyo

AS I SEE IT

Nehru and Sardar

A new book more or less confirms something about which there has been a lot of speculation: Nehru did not intend to make Sardar Patel a member of his first Cabinet

KARAN THAPAR

No one has ever explained why Vappala Pangunni Menon, who played a critical role in the transfer of power and the integration of Indian states in the 1940s and '50s, has been ignored by historians. There are no books or biographies on him. He's simply forgotten. Yet, this was a man who began life as a typist but rose to the very highest rungs of the civil service. Under the British, he was, in fact, the Constitutional Advisor to the Viceroy. This was unprecedented.

Fortunately, this lapse and injustice has been corrected. On the 12th, the first biography of this neglected hero will be released. Written by his great-granddaughter Narayani Basu — who also happens to be my niece — it's called *V. P. Menon: The Unsung Architect of Modern India*.

Historians will pay attention to what Narayani reveals of VP's key role in two critical areas. He saved India from the terrible balkanisation that Mountbatten's original devolution of power would have entailed. Virtually, at the last moment, the Viceroy accepted Menon's advice and the transfer of power happened in accordance with VP's suggestions. Menon also played a vital role in the integration of the Indian states. He ensured that 565 different pieces came together to create a single country. But I want to write about a different subject. I suspect it will attract greater attention in the present political environment.

Narayani more or less confirms something about which there has been a lot of speculation. Nehru did not intend to make Sardar Patel a member of his first Cabinet until V. P. Menon stepped-in and ensured the Sardar's inclusion.

The issue first cropped up 18 days before Independence. A report of a staff meeting at Viceroy's House dated 28th July 1947 says: "VPM said he was concerned about the way things were going in regard to the selection of Ministers... he had hoped that this would be a Ministry of Talents, possibly including a number of young men. However, it appeared that Pandit Nehru was having great difficulty forgetting his loyalties..." As a result, Narayani writes, "Mountbatten sent for Nehru and advised him to let go of those he was holding on to, simply because they were his old friends... 'With such a Cabinet, Congress could remain in power for the next few years', Mountbatten told Jawaharlal. 'Without it, it will be done'."

However, Nehru didn't get the message. Narayani writes: "In the first week of August, Nehru submitted his official list of the people he wanted to serve in independent India's first Cabinet. The list should have been headed by Sardar Patel. It wasn't." This is when VP got into action.

Relying on his tape-recorded interviews to Harry Hodson, which are part of the Hodson papers at the School of Oriental and African Studies, Narayani writes: "When news of this reached VP, he was aghast. 'I went straight away to Mountbatten. I told him if you do this, you will start a war of succession. Congress will be split in two. Have no doubt about it... So, Mountbatten went to meet Gandhiji and as a sop, Sardar's name was finally included'."

The Hodson papers also carry interviews with Mountbatten that confirm this. "Now, to be honest, this story does ring a very faint bell with me," Mountbatten told Hodson. "I have a feeling that this was such a very hot potato that I probably just mentioned this to Nehru at tea time and made a point of not recording it anywhere and probably not even of passing on the story."

It's hard to believe Nehru contemplated excluding Patel from his government but that does seem to have been established by Narayani. "Mountbatten's correspondence with Hodson provides sufficient corroboration of VP's assertion that Jawaharlal, whether out of spite or fear of the Sardar, intended to exclude his only potential rival — and the one person who could govern India better than himself — from the Cabinet."

However, Narayani's book goes one critical step further. She also writes VP believed "Nehru had begun a sustained and deeply calculated move to whitewash Sardar Patel from public memory... an allegation he stood by until the end of his life. 'When he (Sardar) died, a deliberate campaign was begun to efface his memory', VP asserted. 'I know this, because I have seen it...'."

Now, if only Nehru could respond.

LETTERS

Utter disappointment

The Budget is a disappointment. The Indian economy has been spluttering for the last two years. GDP growth rates have declined from 8 per cent to about 4.5 per cent. Unemployment is running high at 6 per cent. Consumption is falling in every sector; be it cars, houses, two-wheelers etc. Companies are laying off workers in large numbers. It was thus widely expected that the Budget would be dynamic and lead to demand and investment revival. Unfortunately, the finance minister has presented a pedantic Budget, which will not provide the desperately needed stimulus to the economy. The Sensex fell by 1,000 points underscoring the lack of confidence in the new Budget proposals. A golden opportunity to boost the economy and provide jobs has been lost.

Rajendra Aneja Mumbai

Unrealistic estimates

No Budget can meet all its projections, nor can it satisfy all sections given that it is only an estimate of interdependent revenues and expenses, based on which the economy is slated to achieve certain parameters during the next year. In the Budget presented by Nirmala Sitharaman, a fiscal deficit of 3.8 per cent of the GDP, is inevitable, considering the need to step up consumption and investment to stimulate growth in a slowing economy. Other estimates, such as 20 per cent increase in capital expenditure and a 15 per cent rise in revenue spending are optimistic, though the tax collection targets and those set for revenues from disinvestment and non-tax revenues seem to be unrealistic. Also, the marginal increase in defence outlay is disappointing considering the need to maintain a lean and mean army in a state of perpetual readiness. The IT relief provided to the salaried class and raising the insurance cover of bank deposits to ₹5 lakh per bank customer is a big relief to depositors, especially senior citizens. As always, despite the laudable intentions, the extent to which the Budget projections are achieved will be known only as the fiscal year unfolds.

V Jayaraman Chennai

More complicated

If the intention was to simplify individual tax rules, the finance minister has achieved the opposite. It is ridiculous to have two tax regimes, when even one was confusing enough. That has actually provided more fodder for chartered accountants and tax consultants. There should be a straight migration to a non-exemption regime, with no ifs or buts. And we could have a tax free slab of ₹10 lakh and reasonable rates for just four slabs. All your income could be included. No exemptions, including housing loan benefits, LTC, medical (except hospitalisation), contribution to any scheme like PF, PPF, insurance etc should be allowed to be deducted. Only interest from schemes with a long lock in such as PPF can be exempt.

With such a simplified tax, compliance and administration will become much easier. The income tax staff freed can be diverted to track GST leakages and avoidance. The FM has also not made it clear whether any of the exemptions in the old regime will be removed or reduced. Further can we migrate from regime to regime as and when desired? If not then this is a sword of Damocles hanging over our heads and would adds to the vagueness of our tax structure.

T R Ramaswami Mumbai

Letters can be mailed, faxed or e-mailed to:
The Editor, Business Standard
Nehru House, 4 Bahadur Shah Zafar Marg
New Delhi 110 002
Fax: (011) 23720201 •
E-mail: letters@bsmail.in
All letters must have a postal address and telephone number

HAMBONE

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Glide path for direct tax

Exemption-free option a good move, but clarity needed

One of the headline initiatives in the Union Budget for 2020-21 was a proposed change to personal income tax applicable in particular to income below a threshold of ₹15 lakh. Finance Minister Nirmala Sitharaman spelled out the changes in her Budget speech on Saturday. Essentially, tax rates would be reduced for income between ₹5 lakh and ₹15 lakh, as long as no exemptions were claimed. Ms Sitharaman pointed out that the number of exemptions and deductions in the personal income tax had grown inordinately, and was over 100. She said that 70 of those would be withdrawn, but in order to aid those taxpayers who sought simplicity, an additional option of paying tax at lower rates with no exemptions would be introduced. Rates would be halved from 20 per cent to 10 per cent for income between ₹5 lakh and ₹7.5 lakh; income between ₹7.5 lakh and ₹10 lakh would be subject to tax at 15 per cent instead of 20 per cent; and so on till ₹15 lakh. This provides a new set of options for those who do not wish to benefit from exemptions. From the point of view of simplifying tax payment, especially for younger people, this new layout has much appeal, and the finance minister deserves credit for moving forward in this direction. Importantly, there is a certain conceptual similarity to how lower corporate taxes have been introduced by this government.

The question that should now be asked, given this forward-looking move, is what the next steps will be. Clearly, the intent is eventually to move to an exemption-free or low-exemption direct tax environment, which will aid in compliance and in expanding the tax net. This is a positive intent. The transition should be made predictable and transparent, since it will affect how individuals save and how certain sectors, such as insurance, plan for their future. There is no conceptual reason, for example, why insurance should be seen by policymakers as a tax-saving form of saving rather than as its primary purpose, to provide a low-cost and clear way for individuals and corporations to pool risk and insure against low-probability events. Individuals, however, should have ample time to decide on how they will save for their future. In this context, for example, the limits on tax saving through provident funds and the like should be announced well in time.

There is clearly a demand as well for personal income taxes to eventually be brought in line with the new corporate income tax framework. At the moment, the government is perhaps pleased with the increasing corporatisation of partnerships being incentivised by the tax arbitrage in how they are treated. But eventually this difference too must be minimised in order to introduce efficiency. Nor will the aim of decreasing complexity for the individual taxpayer be met if she has to work out her tax under two different taxation schematics in order to understand which she should pay. In her Budget speech, Ms Sitharaman rightly said that it was almost impossible for a taxpayer to comply with the income-tax law without taking help from professionals and the new system would make things much simpler. But the fact is most taxpayers might still need professional help to determine if moving to the lower tax rates would benefit them. In any case, two tax regimes with optionality only make the structure more complicated. Given that the finance minister clearly has a vision as to where direct taxes should go, it is time to give India a glide path to that destination.

Disinvestment dynamics

Listing LIC will be a big challenge for the govt

The Budget estimates for the next fiscal year, to a large extent, depend on achieving an ambitious disinvestment target. It intends to raise a massive ₹2.1 trillion next year, compared with the revised estimate of ₹65,000 crore in the current year. The government had budgeted ₹1.05 trillion on this account in the July 2019 Budget. However, so far, it has managed to raise only a little over ₹18,000 crore. Since the proposed strategic sale of companies such as Bharat Petroleum Corporation and Container Corporation of India is unlikely to happen in the current year, it is not clear how the government will attain even the revised disinvestment target. While the delay in the strategic sale of selected companies will push up disinvestment receipts in the next year, achieving the massive target will still be exceptionally challenging. The government is planning to raise ₹90,000 crore by selling its stake in financial institutions like Life Insurance Corporation (LIC). Attaining both the disinvestment target and listing of LIC in the next 12 months will be a huge achievement.

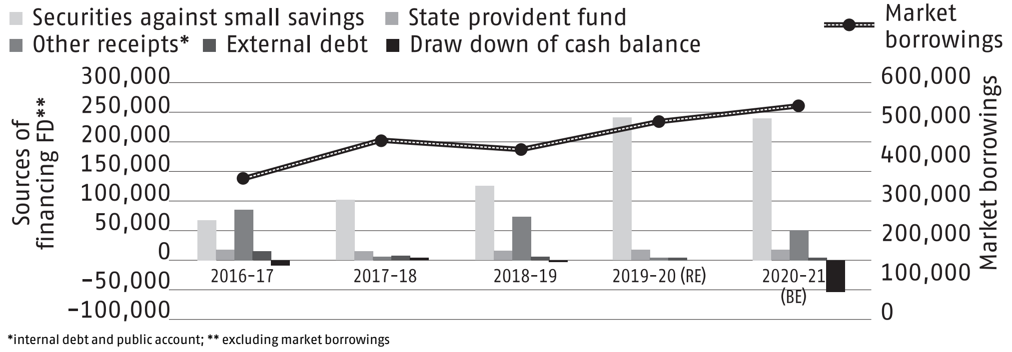
There are many reasons why the proposal to list LIC is a good one. If public sector banks can be listed on stock exchanges, there is no reason why LIC should not be widely owned. In fact, LIC listing will serve multiple purposes. Apart from unlocking value, it will not only allow investors, both retail and institutional, to own the largest insurance venture but will also improve transparency and governance in the company, which will make it more efficient.

But addressing pending issues and listing in a single year is a challenging task. For instance, the merger and listing of general insurance companies have not happened yet. LIC will have added complications, including amending the law governing the insurance behemoth. It is a large company, and will possibly become the most valuable firm by market capitalisation in India. Therefore, the process of valuation and adjustments in books, if necessary, will take time. LIC also has huge investments in real estate, art, and the equity market, which may prove to be time-consuming for valuation purposes. Market conditions will also need to be properly assessed, as even a 5 per cent stake sale would make it by far the biggest public offer in the country. The government can then progressively trim its stake in the coming years. It will also have to deal with employee unions and political opposition, but that should not be a problem.

It is thus important to move forward on LIC with careful planning. One of the biggest reasons why the government mostly fails to attain the disinvestment target is poor planning. The target normally depends on the need of the Budget, companies are often randomly selected, and the government waits until towards the end of the year to sell its stake. This is exactly why it failed to achieve the budgeted target in the current year also. The need is to start work on LIC's listing early. Since the tax revenue projection has factored in a significant jump in buoyancy, which may not materialise, and it is difficult to cut revenue expenditure, a failure on the disinvestment front will affect the capital expenditure of the government, which, in turn, will have a direct bearing on potential growth.

SOURCES OF DEFICIT FINANCING

(₹ in crore)



*internal debt and public account; ** excluding market borrowings

Crowding out and opening up

Tied spending, revenue crunch mean the finance minister did the best she could on financing the deficit

POLICY RULES

MIHIR S SHARMA

Finance Minister Nirmala Sitharaman prepared the Union Budget for 2020-21 while labouring under multiple constraints. The economy has slowed sharply. Tax revenue is lower than expected by perhaps 0.7 per cent of gross domestic product or GDP — though what proportion of this is due to the economic slowdown and what to problems with goods and services tax (GST) cannot easily be determined. Political constraints continue to operate on the Budget process, given that this government is in perpetual election fighting mode, and the prime minister's office is known to be exceptionally active. While Ms Sitharaman has demonstrated that she has little time for interest groups demanding special or sectoral benefits, it is also true that even experts are divided on what is the best response at this time — to ignore fiscal constraints in order to stimulate demand for the short run, or to continue to exercise restraint while pushing forward structural reform using this moment of crisis.

In the end, the FM appears to have chosen, as most in her position before her have, to attempt to find a via media between these two approaches. The fiscal glide path was altered — on paper — only as much as the Fiscal Responsibility and Budget Management Act allows, while spending was controlled, but not to the degree that might be warranted, given the crunch in revenue. In some sense, any such Budget will be seen by both sides of the debate as a "disappointment".

Certainly, the equity markets, which were open and trading on Budget Day although it was a Saturday, seem to have reflected such a disappointment. Some must have hoped that a big fiscal stimulus was in the works that would have "revived" consumer demand and perhaps spilled over into corporate earnings. I am uncertain, however, about the thought processes that underlay this expectation. After all, many people also believe that tax evasion has been widespread under the new GST system. If GST is underperforming by as much as a percentage point of GDP thanks to evasion, what does that mean? Certainly, if the tax to GDP ratio has declined since 2017-18, partly due to indirect taxes remaining in the hands of the population, does that not count as a stimulus of equivalent size?

There are legitimate questions that might be asked whether the fiscal deficit has indeed been contained and will be contained to the headline levels. The FM has been far more transparent than has been the practice in recent years, by making some extra-Budgetary borrowing explicit, and showing how much that pushes up the actual fiscal deficit. However, the fact remains that some other borrowing by quasi-government agencies is not reflected here.

That said, however, it seems much clearer than before what the government's fiscal situation is. Which is one reason why, possibly, the bond markets might take a very different view of the Budget from the equity markets. Market borrowing for the government in the coming year is, according to the Budget Estimates, lower than expected. The question is if the bond markets will be able to respond. Expectations that foreign investors, for example, would lap up Indian bonds have not exactly been the case in practice. As of right now, according to the Clearing Corporation of India, of the limit of ₹2.46 trillion for the "general" category of foreign portfolio investors in Indian government securities, only ₹1.74 trillion — just over 70 per cent — is utilised. The Reserve Bank of India has attempted to address this last month by raising the ratio of their total investment that FPIs can put into short-term securities. However, HSBC analysts have noted that "the demand dynamics for INR bonds are unlikely to change in the near term" as a consequence of the Budget, "especially with India government securities recording net selling by foreign investors in recent months".

The big bonanza, however, will be if Indian bonds are included in global bond indices. In effect, this would enable funds from larger passive investors to finance Indian government deficits. The idea is that this would both ease the strain on Indian domestic resources and also avoid the dangers of dependence on short-term flows for financing government deficits. Certainly, it would be a better way of financing the deficit than depending upon the National Small Savings Fund (NSSF), which appears to be the current approach. The NSSF is being treated as a piggy bank for spending, which is clearly unsustainable.

The Budget includes some announcements that seem to be related to this effort. Ms Sitharaman's speech included the promise that "certain specified categories of Government securities would be opened fully for non-resident investors", though it is not yet clear what this means in practice. A related question is whether corporate bonds will also benefit; Principal Economic Advisor Sanjeev Sanyal talked about how new legislation promised for bilateral netting might help develop credit-default swaps and thus deepen the corporate bond market.

On some level, the effects on the bond and equity markets should be seen together. What is happening is that the Indian government is now stuck living beyond its means. It is not paying its bills to such entities as oil-marketing companies, fertiliser companies and the like; it is delaying payments to states; it is not following through on Budgeted discretionary and capital expenditure. As a rule of thumb, about two-thirds of the expenditure of the Union government is "tied" — it is difficult to reduce. Thus the burden of reduced revenue falls upon the remaining third of expenditure, which has been squeezed — but also upon the financial markets generally. Given that there is significant resistance to issuing dollar-denominated debt, as was made clear last year, we are left with a dependence upon domestic financial markets. The capability of the latter to finance the deficit depends upon their size, which depends in turn upon the size of financial savings of households and of foreign inflows. Higher disinvestment receipts mean that there is less financial household savings — which constitute perhaps 10 per cent of GDP — for other equity market participants to mop up. More government paper in the bond markets has traditionally had a similar crowding-out effect. Foreign participation in the equity markets is, by many people's thinking, incentivised as much as it can be. The only path therefore left to expand the pool of finance that can prop up deficits is by increasing foreign participation in the debt market. Essentially, the government has few other options remaining. The immediate impact of the crisis is thus being felt in the government's increased openness to foreigners financing its deficit.

There are two crucial questions left. First, if such inflows materialise, what will be the effect on the rupee's value — and therefore on exports growth, the only sustainable path to recovery? And second, will attempts to increase this flow of funds into India effectively focus on a channel to government spending over what should be the focus — a channel from global finance to domestic private-sector, long-term investment?

m.s.sharma@gmail.com
Twitter: @mihirssharma

Blaming the Budget? Blame your beliefs

IRRATIONAL CHOICE

DEBASHIS BASU

Until Saturday, there seemed to be a consensus among businessmen and financial sector experts that this Union Budget will do something truly innovative and big to put India on the growth path. Riding on this sentiment, the Sensex soared from around 38,000 in October to an all-time high of over 42,000 in the third week of January. The consensus of hope was best captured in a note I received from a business consultant two days before the Budget: "2020 will be remembered for many years for the way things changed quite abruptly in India. That tipping point could be the annual Budget on February 1." Fund manager Akash Prakash wrote in this newspaper that the "expectations (were) for something more radical, something truly reformist ..."

After more than two and a half hours of a tortuous exercise in a minor rearranging of the pieces of a complex economic chessboard, which passed for the Budget, the Sensex tanked by almost 1,000 points. While I don't take the market's instant verdict on everything as the final truth, it certainly proved the point I am making: The massive disappointment over the failure to deliver something momentous to stimulate growth through the Budget.

Consensual false belief

This leads me to ask, what was such a strong consensus based on? Why did so many thoughtful, accomplished, and successful people get it so wrong? After six previous flop shows, why the fervid belief that the seventh time would be any different? The simple answer is: False belief or wilful blindness. You can have all the facts and make the right diagnosis about the current situation, and then spoil it all by taking a leap of faith, using false beliefs as your stepping stones.

Here's what about the last six years that the smart crowd wilfully ignored: Punitive laws, a series of disastrous economic policies, stronger state interventions, more friction for businesses and citizens, reliance on *babus* for ideas, disdain for domain experts, imposition of more complex laws and rules (many of them passed through Parliament by sleight of hand), continuous manipulation of economic data, and finally, mistaking governance for slogans, memes, catchphrases and alliterative abbreviations. All this led to a severe economic slowdown. Intelligent and successful people, who are supposed to make real-life decisions involving billions of rupees, seem to have ignored all this and decided that this Budget will be different. Why?

As Margaret Heffernan wrote in her book *Wilful Blindness*, "we can't notice and know everything ... we have to filter out or edit what we take in. So what we choose to let through and to leave out is crucial. We mostly admit the information that makes us feel great about ourselves, while conveniently filtering out whatever unsettles our fragile egos and most vital beliefs. Ideology and orthodoxies powerfully mask what, to the uncaptivated mind, is obvious, dangerous or absurd and there's much about how and even where we live that leaves us in the dark ... and crowds provide friendly alibis for our inertia."

The consultant I referred to earlier had a hypothesis, which went as follows. We have "reached a point when there is no other choice (NOC). The time for NOC has come". More false belief followed this sweeping assumption. "Narendra Modi desperately needs to taste success to leave behind a proud legacy. 2020 is the tipping point in his tumultuous second term. Since he matches the profile of a Theory X man (as described by Douglas McGregor in his seminal work), Modi can be expected to personally drive and control the reform agenda through his central team at the PMO, unlike Narasimha Rao who drove it from behind the scenes and orchestrated it through Manmohan Singh, who got the credit."

This was the bedrock of the false belief that was assumed but never articulated: A determined prime minister, hard at work, keen on leaving a stellar legacy, has the drive and ability to pull the economy out of the ditch that six years of dull and centralised "command and control" had pushed it into! Why did many intelligent people believe this? Harvard psychologist Daniel Gilbert wrote: "People are credulous creatures who find it very easy to believe and very difficult to doubt. In fact, believing is so easy, and perhaps so inevitable, that it may be more like involuntary comprehension than it is like rational assessment." Gilbert and colleagues showed through experiments that our first choice is to believe what we hear and read.

If you combine this notion of our inherent credulity with Ms Heffernan's notion of convenient filtering, it becomes crystal clear how the false consensus was formed. Fund managers, businessmen, consultants, all wanted the Budget to deliver high growth (which is a stupid ask from a Budget) because they have a vested interest in it and because of their belief that the visionary leader will turn things around at last. Hence, irrespective of this regime's bumbling ways, they developed self-serving hypotheses in the minds.

That leaves me with one last point to make. Two of the top US investors of the 1980s and 1990s were George Soros and Michael Steinhardt. Soros was a trader and Mr Steinhardt an investor; both believed that you make big money when you notice the entire market believing in something that is false, and bet against it. Steinhardt called it developing a "variant perception". Warren Buffet put the same thing differently: You pay a very high price for a cheery consensus. Saturday drove home this point really hard for many bright minds who were hopeful, absolutely without any basis.

The writer is the editor of www.moneylife.in
Twitter: @Moneylifers

Affirmative action in US politics

BOOK REVIEW

ORLANDO PATTERSON

For two and a half centuries America enslaved its black population, whose labour was a critical source of the country's capitalist modernisation and prosperity. Upon the abolition of legal, interpersonal slavery, the exploitation and degradation of blacks continued in the neo-slavery system of Jim Crow, a domestic terrorist regime fully sanctioned by the state and courts of the nation, and including Nazi-like instruments of ritualised human slaughter. Black harms and losses accrued to all whites, both to those directly exploiting them, and indirectly to all enjoying the enhanced prosperity their social exclusion and depressed earnings made possible. When *white* affirmative action was first developed on a large scale in the New Deal welfare and social programmes, and later in the huge state subsidisation of suburban housing — a major source of present white wealth — blacks were systematically excluded, to the benefit of the millions of whites whose entitlements would have been less, or whose housing slots would have been given to blacks in any fairly administered system.

It is this inherited pattern of racial injustice, and its persisting inequities, that the American state and corporate system began to tackle, in a sustained manner, in the middle of the last century. The ambitious aim of Melvin I Urofsky's book is a comprehensive account of the non-white version of affirmative action. This is a complex and challenging historical task, given that "no other issue divides Americans more." Mr Urofsky explores nearly all aspects of the program — its legal, educational, economic, electoral and gender dimensions, from its untitled beginnings during Reconstruction to the present. The one major missing part of the puzzle in his otherwise thorough account is the military, which is unfortunate since, as the military sociologist Charles Moskos pointed out, "nowhere else in American society has racial integration gone as far or has black achievement been so pronounced."

THE AFFIRMATIVE ACTION PUZZLE: A Living History From Reconstruction to Today
Author: Melvin I Urofsky
Publisher: Pantheon Books
Price: $35
Pages: 570

Mr Urofsky claims not to make the case for or against affirmative action but admits to being "conflicted" on the matter. He distinguishes between what he calls soft and hard affirmative action, the first aimed at removing barriers only, the second attempting positive action that results in the observable betterment of the excluded group. He repeatedly says that he favours soft affirmative action. But, to his credit, the "facts on the ground" that he assiduously marshals indicate that merely providing equal opportunity does not work, for reasons eloquently spelled out by President Lyndon Johnson in his celebrated 1965 commencement address at Howard University: "It is not enough just to open the gates of opportunity. All our citizens must have the ability to walk through those gates."

Mr Urofsky reveals that many presidents, administrators and activists, while proclaiming soft affirmative action, have struggled to make it work. Some, like John F Kennedy, and especially Johnson, as well as Jimmy Carter and Bill Clinton, have publicly voiced their support for colourblind, anti-quota, equal opportunity only, and individualistic rather than group-based approaches, while quietly allowing their administrators to craft pragmatic programmes that did just the opposite, to the benefit of the disadvantaged. Some, like Ronald Reagan and the elder George Bush, have openly attempted to abolish the programme but failed. Richard Nixon (who else?) made it the centrepiece of arguably the most Machiavellian strategy in modern American political history: His Philadelphia Plan, with its blatant minority business set-asides and insistence on craft unions' acceptance of blacks, was the most extreme hard version of the programme ever undertaken, resulting in major improvements for blacks at all levels of the economy, to the applause of nearly every black leader. But it was a key element in his notorious Southern strategy, successfully shattering the traditional bond between white working-class union members and the Democratic Party, and paving the way for the Reagan Democrats and the modern Republican ascendancy.

It is in academia that affirmative action battles have been most ferociously fought, and Mr Urofsky devotes two chapters to this. The first focuses on the turmoil of the seventies, especially the City University of New York's botched open enrolment programme and the problem of minority faculty recruitment; the second deals with the current situation, and the shift from compensation to diversity as affirmative action's main justification.

The book deserves a better closing chapter. Mr Urofsky claims that no coherent picture emerges from his painstaking study. To the question of whether disadvantaged minorities have benefited from the program, he answers, "Yes ... and No." It is questionable, however, whether affirmative action could have solved all or even most of the problems of blacks, women and other disadvantaged groups. The remarkable thing is that affirmative action is now an integral part of the moral, cultural, military, political and economic fabric of the nation. Its businesses, educational system and political directorate have largely embraced it and the court undoes it at the cost of its own legitimacy. The great merit of this meticulously researched, honestly crafted work is that it allows readers to draw their own conclusions. American experiment, quite independent of the author's own conflicted views about it.

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BUDGET 2020-21

MAJOR IMPACT

Budget proposals change the narrative for private life insurers

As nearly 30–40 % of premium inflow draws support from tax incentives, private insurers stare at weak earnings growth in FY21

HAMSINI KARTHIK

The life insurance sector felt an unprecedented jolt when the Union Budget introduced the new optional regime for personal income tax, which while lowering rates takes away most deductions and exemptions which individuals could avail for subscribing to insurance products.

A move, which could be particularly detrimental to private life insurance, saw stocks of HDFC Life, SBI Life, ICICI Prudential Life (I-Pru Life) and Max Financial Services (holding company of Max Life Insurance) plunge 6–13 per cent on Saturday. "While the business for FY20 may be secure, there is now doubt on how much growth is ahead in FY21," says Suresh Ganapathy of Macquarie Capital. His scepticism is shared by those in the industry as well.

According to estimates, 30–40 per cent of new business is generated owing to tax benefits that investors avail from buying insurance products. "In certain cases, tax incentives drive nearly 50– 60 per cent of products sold and it (tax advantage) is an important tool to bring the young population to the savings fold and our businesses," explains a senior executive of a private insurance company not wanting to be identified.

While for the next financial year, investors have an option to remain in the old tax slab and avail the existing deductions/exemptions, the larger risk is that of the old regime being discontinued in the near future. "It is directionally negative and is going to be tough to predict the growth trajectory," says Nidhesh Jain of Investec Securities. Stocks in the sector could continue, hence, to remain under pressure in the near term.

What's also bad is the timing of the blow. Seen as a proxy to capture the financialisation theme, despite valuations expanding by 40 – 60 per cent in a year, these stocks enjoy high investor interest. Before Saturday's stock market carnage, SBI Life, HDFC Life, I-Pru Life and Max Financial traded at 2–4.8x FY21 embedded value.

Given the tax changes, experts say, the fundamental premise may itself be tested in the coming months. In other words, the Street would get an estimate of how many investors pile on to insurance products purely from a savings/protection perspective and whether the sector has a leg of its own to stand, if a key pillar of support be withdrawn. Analysts at Credit Suisse believe that the valuations may shrink by 4–5 per cent for life insurance companies as a result of the new tax regime.

ILLUSTRATION: AJAY MOHANTY

SAFE SO FAR

(₹)

	Price as on Feb 1, 2020	Change (%)*	Listing price	Gains since listing (%)
HDFC Life	563	-6.1	290	94.1
I-Pru Life	455	-10.9	334	36.3
Max Financial	442	-12.8	Na	Na
SBI Life	894	-10.0	700	27.7

* Over January 31 closing price

Source: Capitaline, Compiled by *BS* Research Bureau

Analysts at Jefferies have for long had a contrarian call on the sector for this reason. They note that tax arbitrage on insurance products versus most other forms of financial savings is one of the primary drivers.

The other risk that the analysts point is cyclical competitiveness to fixed deposits. As per Jefferies, net returns offered to policyholder is 4 - 5.5 per cent under the "return-guarantee" plan and even less (post-tax) in annuities. "Their attractiveness exists only for the period until bank deposit rates are low. With the reversal of the rate cycle, (life insurance) products may not be able to compete with term deposits," they add. Deposit rates have bottomed out, though banks believe they may not have further room to reduce rates.

What's next

"With revenue growth getting challenged, it casts doubts over near- to even long-term earnings momentum of life insurers and hence their appeal among investors is likely to reduce, going forward," says Vineeta Sharma, head of research, Narnolia Financial Advisors. She says listing of Life Insurance Corporation (LIC) in FY21 would also put pressure on stocks of private life insurers as investor interest could shrink a bit.

Analysts say that with the impact of the new tax regime on life insurers businesses currently an unknown, early investors into the sector could consider booking gains. "When the regulatory changes happened for unit-linked insurance products in 2010, it shook the mutual funds industry. This (new tax regime) isn't as much a shock, but good enough to disrupt the show," say an analyst from a foreign brokerage.

Large brokerages say that while they may not turn completely pessimistic just yet, they would not advice clients to take fresh exposure in these stocks.

"Investors should not be trapped by valuations even if the sector soon turns attractive," says a research head of a foreign brokerage.

SECTOR WATCH

IT resilience continues

Stocks in the information technology (IT) sector were the only ones which stood out in the wave of red on Budget day. The BSE IT index ended the day gaining over one per cent even as benchmark indices were down the most in a single day in over three years. Brokerages believe that the measure to scrap the dividend distribution tax is expected to help high dividend paying companies. Latest move will improve dividend yield if companies pay out dividends from the extra cash they generate. The other factor which aided gains in IT stocks was the "defensive" nature of the sector.

BS REPORTER

ALL FALL DOWN

Sectoral indices	1-day chg (%)
BSE IT	1.4
BSE Realty	-7.8
BSE Finance	-3.8
BSE Bankex	-3.2
BSE Oil & Gas	-2.6
BSE FMCG	-2.3
BSE Healthcare	-1.6
BSE Cons. Durables	-1.2

Source: exchange

EVENTS THIS WEEK

Date	Particulars
3-Feb	India – Markit PMI manufacturing
	US – Markit PMI manufacturing
	Results: Tata Chemicals & Shriram Transport Finance
4-Feb	Results: REC, Adani Ports & SEZ, Bharti Airtel, TVS Motor, Exide Industries, Tata Global Beverages, Titan, Piramal Enterprises, Punjab National Bank
5-Feb	India – Markit PMI services & composite
	US – ADP employment change
	US – trade balance
	US – Markit PMI services & composite
	Results: Divi's Labs, Hindustan Petroleum, Cipla, Indiabulls Housing & Bosch
6-Feb	India – RBI monetary policy
	US – jobless claims
	Results: Hero MotoCorp, Eicher Motors, Sun Pharma, Lupin, NMDC
7-Feb	US – unemployment and underemployment rate
	Results: ACC, Voltas, NTPC, Container Corp
8-Feb	Results: Mahindra & Mahindra

Source: exchange/websites/Bloomberg
Compiled by BS Research Bureau

EXPERT VIEWS

NILESH SHAH
MD & CEO,
Kotak Mahindra Mutual Fund

"The Union Budget 2020–21 was always going to be a tightrope walk for the finance minister given the weak economic growth, slower tax collection, and subdued business sentiments. The task was cut out to revive growth and maintain macroeconomic stability within the limited space for spending for financial year 2020–21. The finance minister's honest attempt to deliver this has a few positives but one is left with a feeling of '*dil maange more*'. Capital markets, in particular, would have loved to see more stimulus measures for specific sectors"

S NAREN
ED & CIO,
ICICI Prudential Mutual Fund

"The Union Budget 2020–21 is a continuation to the corporation tax cuts announced in September 2019. Through this Budget, the government has focussed on rationalising the tax burden of the middle class taxpayers.
As a result, discretionary demand is likely to see some uptick. Infrastructure as a theme has become attractive for the patient long-term investor as quality money from sovereign wealth funds is likely to make way into infrastructure projects"

NIRMAL JAIN
Chairman,
IIFL

"Expectations were too many. A few of them have been addressed, while a few are not. The market has reacted sharply as some foreign investors would not have been there to trade. There are a lot of incentives to overseas investors. The dividend distribution tax has been abolished and, therefore, foreign investors will benefit, but then it becomes fully taxable in the hands of (other) shareholders. So, this might change the dividend culture of many companies. I am not so pessimistic. Given the circumstances, this is a balanced Budget"

JYOTIVARDHAN JAIPURIA
Founder & MD
Valentis Advisors

"The good news is that the finance minister has not imposed any new taxes while keeping the fiscal deficit at a reasonable 3.5 per cent for 2020–21. Second, by increasing capital expenditure by 17 per cent, the government is hoping to stimulate the economy by its own spending. The disappointment is on the lack of bold, out-of-the-box measures to tackle the current economic slowdown. In that sense, it is a reasonable but not a path-breaking Budget"

STOCK ANALYSIS

Investor support may not sustain for IDBI Bank

SHREEPAD S AUTE

Though the Union Budget failed to impress the Street, it did revive investor sentiment in some beaten-down stocks, such as IDBI Bank. Following the finance minister's proposal of selling government stake in IDBI Bank, the stock of private-sector lender rallied 17.6 per cent on Saturday before ending the day with 10 per cent gains at ₹37.3 apiece.

What cheered investors toward the IDBI Bank stock is the expectations of improvement in overall health and valuation in view of likely privatisation of the lender. However, the rally may not sustain, suggest analysts and experts.

According to Sunil Jain head of research at Nirmal Bang, "It's a short-term impact, which is unlikely to continue given the bank's balance sheet position." And the government-owned Life Insurance Corporation of India (LIC) also has a controlling stake, he added.

It means, even after the stake sale by the government, which holds 47.11 per cent as of December 2019, the government's influence could still continue, albeit indirectly. This is because, Life Insurance Corporation, which was asked by the government to take stake in the bank in 2018, has 51 per cent stake as of December 2019.

This apart, the bank's current balance sheet position is far from comforting. According to IDBI Bank's September 2019 quarter updates, it still has the highest gross non-performing asset (NPA) ratio in the banking industry of 29.4 per cent and had reported a net loss of ₹3,459 crore for the quarter. Its net NPA though stood at 5.97 per cent at the end of September quarter.

An analyst from a domestic broking house though still believes that even if the bank has become private, significant improvement in its financial health looks unlikely in the foreseeable future.

The bank is expected to come out of the Reserve Bank of India's prompt corrective action (PCA) framework by March 2020, with its net NPA slipping below six per cent. A bank/lender is placed under PCA when it shows a weak profile on capital adequacy, asset quality and profitability fronts.

In the above backdrop, investors are recommended to stay away from the stock unless the balance sheet position improves.

KEY FINANCIAL MATRIX

In ₹ crore	For Sep'19 quarter
Gross advances	1,76,868
Gross bad loans (%)	29.4
Credit cost (%)	1.9
Net loss	3,459

PROMOTER'S HOLDING

(in %)	As of Dec 19
Government	47.1
Life Insurance Corporation	51.0
Total holding	**98.1**

POLICY CHANGE

A few hits and misses for overseas investors

ASHLEY COUTINHO

There were no big-bang measures for foreign portfolio investors (FPIs) in the Budget. Here are a few hits and misses:

HITS

Dividend distribution tax (DDT): The tax rate for dividend in the hands of FPIs will be 20 per cent, plus surcharge and cess. India's treaties with certain countries provide for a lower rate of tax on dividends, and FPIs may be able to lower their India tax bill if they are eligible to claim the treaty benefits and meet requirements under the domestic GAAR (General Anti-Avoidance Rules) and MLI (Multilateral Instruments), a framework that aims to prevent base erosion and profit shifting.

"Foreign shareholders will be entitled to take the benefit of lower withholding tax under the tax treaty, subject to the principal purpose test being satisfied," said Saumil Shah, partner, Dhruva Advisors. "With the DDT (dividend distribution tax) being replaced by shareholder taxation, the treaty rate would be available to foreign investors. For example, the Mauritius and Singapore treaties provide for a 5 per cent tax rate on dividends if holding in Indian companies is at least 10-25 per cent of the paid-up share capital. Else it is 15 per cent," said Sunil Gidwani, partner, Nangia Andersen.

FPIs, however, may choose to claim credit for the taxes paid in India against their home country taxes and not claim lower rates under the treaty to the extent their home country tax on dividend is equal to or higher than 20 per cent.

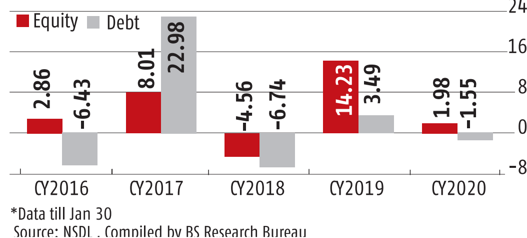
According to Hiten Kotak, leader of M&A tax at PwC India, the DDT was as an additional cost for repatriation of dividends from Indian companies and this made acquisition of holding companies or investment in Indian operating entities by foreign companies expensive.

Sunset clause extension: The Budget has extended the concession rate of tax to be paid by FPIs on the interest they earn on rupee-denominated bonds issued by Indian firms and government securities. The concessional tax rate is 5 per cent on the interest paid provided for under Section 194LD of the I-T Act. This has been extended until June 30, 2023.

The government had introduced the lower tax rate in 2013 after a crash in the rupee led to a flight of foreign money. These were applicable on interest payable until May 31, 2015. Record FPI inflows in the debt segment in 2014 prompted the Centre to extend these concessions twice in subsequent years.

Experts believe the lower tax rate is a significant contributor towards making India's debt market attractive to overseas investors. The concessional rate has also helped reduce borrowing costs for the government and firms.

Bond limits: Certain specified categories of government securities will be opened fully for non-resident investors. The limit for FPI in corporate bonds, currently at 9 per cent of outstanding stock, will be increased to 15 per cent of the outstanding stock of corporate bonds.



*Data till Jan 30
Source: NSDL , Compiled by BS Research Bureau

MISSES

Indirect transfer provisions: The Budget has clarified that Category-II FPIs will be subject to indirect transfer provisions. Earlier these provisions were applicable to unregulated funds falling under Category-III and it was expected that they would now apply to Category-II after the regulator merged three categories into two last year. FPIs from Mauritius, Cayman Islands, Cyprus, and British Virgin Islands may be at a disadvantage as most of these funds are classified as Category-II.

In 2012, the government had amended the domestic law to provide that gains from transfer of shares or interest in an entity outside India would be taxable in India if such shares or interest derived their value (directly or indirectly) substantially from assets in India. These provisions were referred to as indirect transfer provisions.

Safe harbour norms: The Budget has relaxed a few safe harbour rules that aim to make it easier for fund managers overseeing offshore India-focused funds to relocate to the country. One of the onerous requirements for such funds was that the aggregate investment, directly or indirectly, by persons resident in India should not exceed 5 per cent of the corpus of the fund.

The Budget has now proposed that an Indian fund manager's investment for the first three years not exceeding ₹25 crore will not be counted towards above 5 per cent cap. "While this is relaxation, it does not resolve the problem of identifying Indian residents in case of investments made through omnibus investments via distributors or prime brokers at offshore level," said Gidwani. The offshore fund can now achieve the corpus of ₹100 crore within a year of getting incorporated, instead of six months earlier.

BUDGET 2020-21

Will taxpayer's charter help bridge trust deficit?

The efficacy of the charter will depend on the way it is drafted and executed, say experts

ILLUSTRATION: AJAY MOHANTY

ASHLEY COUTINHO & SUDIPTO DEY

The Budget has proposed the insertion of a new Section 119A in the Income Tax Act to empower the Central Board of Direct Taxes (CBDT) to adopt and declare a taxpayer's charter and issue orders, and directions or guidelines to the I-T authorities. If the proposal is accepted, this amendment will take effect from April 1.

India is often viewed as an aggressive tax jurisdiction by domestic and overseas taxpayers, and making the charter as part of the Act may help restore confidence among taxpayers. Market players, however, believe that its efficacy will depend on the way it is drafted and executed.

According to Mukesh Butani, managing partner at BMR Legal, a taxpayer charter legislated in the law has to go far beyond what is currently put up on the income tax website as citizen's charter — which lays down general principles for transparency and service standards but lacks teeth. The new charter should enjoin on lawmakers a sense of accountability with regard to taxpayers, says Butani, incorporating privacy of tax filing information, the confidentiality of business data, and a grievance mechanism, outside of the formal dispute process.

"India has a rich jurisprudence laid down by the courts as to how officials are expected to act judiciously. If such rights are breached, a sense of accountability needs to be instilled in officials. This can be achieved through the charter," says Butani.

Suresh Surana, founder, RSM India, points out that the charter should provide uniformity in the application without leaving it to administrative discretion and legal remedy in case of non-adherence.

Arijit Chakravarty, senior principal-direct tax litigation, Advaita Legal, says while a charter may give rights to the taxpayer, what is needed is a change in mindset. "Our experience, so far, is the opposite where taxpayers are looked upon with suspicion, issues never reach finality, an effective redressal system is lacking, and most importantly, sense of accountability for one's actions is lacking," he adds.

More than 40 countries have similar charters in place, experts reckon. In countries like Brazil and Italy, for instance, the charter is part of the statute, while in countries, such as Australia and Canada, the charter does not have the protection of the law.

Girish Vanvari, founder of Transaction Square, believes that the charter's efficacy will depend on how it can influence the administrative portions of the Act and how it balances aggressive tax planning by taxpayers with the tax aggression by revenue authorities. "It will also be interesting to see how this charter works within the dispute machinery already prevailing in the Act, such as CITs, appeals, courts, and AARs," says Vanvari.

Experts believe several issues need to be explicitly addressed in the charter. For instance, there is a need for a prior notice listing specific issues in case of summons or tax proceedings, except in the case of search or duly authorised investigations. Surana feels taxpayers should have the right to have legal or tax advisor's presence during summons, search or survey proceedings, and during the recording of statements beyond office hours. They should also have the right to privacy and the right to take breaks for medicine, prayers, sleep, and contingencies during proceedings extending beyond a certain duration.

"Time limits should be set to dispose of appeals. For example, if I file an appeal before CIT today, if the hearing does not take place for two, three or five years down the line, it is an issue," says Ameet Patel, partner, Manohar Chowdhry & Associates.

Abhay Sharma, partner at Shardul Amarchand Mangaldas, wants the charter to lay down a definite timeframe for disbursal of tax certificates and the imposition of penalty as a routine should be stopped, except when there is tax evasion by taxpayers. "The refusal to apply the principles laid out in a superior court judgment to a particular taxpayer's case based on minor factual differences should be discouraged or stopped. Where two views are possible, the principle of adopting a view that is more beneficial to the taxpayer has to be adopted by the authorities in letter and spirit," he says.

According to Sudhir Kapadia, national tax leader at EY India, a charter is necessary to be applied in the context of facts and circumstances but it will be difficult to bring an omnibus provision in the law addressing all possible practical situations. "The main purpose of such a charter is to enable taxpayers to point out the guidelines in specific cases of harassment to senior leadership in tax administration and also to appellate authorities and courts when matters reach that level," he says.

Vanvari feels that the timing of the charter's implementation will be crucial considering the current flux in the taxation environment both domestically and internationally.

"India is going through a transitionary phase with digitisation and e-assessments. Further, there are continuously checks and balances now being introduced in the Act in the form of GAAR (General Anti-Avoidance Rule), demonetisation and digital enablement to curb blatant tax evasion," he said, adding that there is need for adequate public debate before the enactment of a charter.

WHAT RIGHTS TAXPAYERS ENJOY IN OTHER COUNTRIES

- The right to be informed, assisted and heard
- The right of appeal
- The right to pay no more than the correct amount of tax
- The right to certainty
- The right to privacy, confidentiality, and secrecy
- The right to quality service
- The right to dispose of complaints quickly and fairly

Cinderella treatment once again for judiciary

M J ANTONY

It was natural for everyone to anxiously look for pleasant surprises in the Union Budget. Unsurprisingly, the one segment that does not get excited from the yearly exercise is the judiciary, which has been ignored for decades. Former chief justices of India have lamented this neglect, one even wiping tears in public, pointing out that the allocation for this sector is normally around 0.2 per cent of GDP. The present Chief Justice S A Bobde and his brother judges did not speak about this curious disregard in their speeches last week in Delhi. The head of judiciary's main plea to the finance minister was to avoid excessive taxation, which if she did not know, resulted in social injustice.

While others have lobbyists, this is one arm of the state which is left to fend for itself. Even the scores of bar associations or the Bar Councils did not think of issuing a statement pointing out the need for more funds for court infrastructure; perhaps the dystopian state of affairs is good for business. Courts do not get the attention reserved for even the Railways, which until recently had a separate budget. Laws are being passed continually, without reference to the burden they cast on courts.

The present Union Budget grudgingly increased the allocation for the judiciary to ₹308.61 crore. Last year, it was ₹296.55 crore and the year before it was ₹258.53 crore. This appropriation provides for administrative and other expenditure and includes the provision for salaries and travel expenses of judges and staff and assorted things like security and equipment. Meanwhile, the expenses on courts went up manifold during this period with more judges appointed and more courtrooms constructed. It is still far behind the requirements. For instance, while India has six judges for one million population, Australia has 41, Canada 75, Britain 50 and the US 107.

Many judicial fora are caught in squabbles between the Centre and states, each passing the buck of the fiscal burden onto the other

One of the main problems faced by courts and tribunals is lack of infrastructure. However, the allocation for these facilities has gone down from last year. In 2019-2020, it was ₹999 crore; it is ₹762 this year. In 2018-2019, the figure was ₹656 crore. Gram Nyalayas, which was meant to take justice to the doorsteps in remote areas, also got Cinderella treatment. The grant remained at the same level at ₹8 crore as in 2018-2019. The fast-track special courts, which try cases like atrocities against women and corrupt politicians, also received a small increment – from ₹140 crore in 2019-20 to ₹150 crore for 2020-21.

The law ministry has several other heads of expenditure like holding elections, providing ID cards to voters and voting machines to the Election Commission. The commission also gets separate chapter on its own. The total budget of the ministry, which is ₹2,200 crore, has to be distributed on ambitious schemes, which have made little progress over the years. E-courts are still a dream with the funds for them hovering around ₹250 crore over the years. Along with it are expenditure on the National Judicial Academy (₹11 crore), the National Legal Services Authority (₹100 crore) and the nascent New Delhi International Arbitration Centre (₹3 crore). The number of tribunals in different sectors and their clout has increased over the years, like the National Company Law Tribunals. But the allocation is not proportionate to it. Tax tribunals, for instance, got ₹172.90 crore, up from last year's ₹143.93 crore.

Many judicial fora are caught in squabbles between the Centre and state governments, each passing the buck of the fiscal burden onto the other. There is a woolly 60:40 formula, which is another point of discord. Funds for the courts come from different sources which are an arena for further spats. Even the money generated by the judiciary, like court fees, fines and deposits in financial litigation, is taken away by the government to the general Budget. State Budgets reflect the mindset of the Union's, and the consequence is evident everywhere.

It is well known that the system is collapsing with the weight of 30 million cases pending in general and around 60,000 in the Supreme Court alone. The subordinate courts are often deprived of basic facilities like water and fans. Of 665 district courts, for instance, only 266 had functional washrooms and 100 had none for women. All these have been well documented by various judicial reports and even in judgments. The overcrowded jails accommodate more prisoners waiting for trial than actual convicts. The litany of woes never ends.

RESOURCE CRUNCH

Budgetary allocations (₹ cr)

Year	Allocation
2018–19	258.53
2019–20	296.55
2020–21	308.61

Allocation for building court and tribunal infrastructure has come down

Year	Allocation
2018–2019	656
2019–2020	999
2020–2021	762

0.2% Of the GDP spend allocated to judiciary

REDUCING LITIGATION

Taxpayer vs tax dept: Both sides should back off

S R PATNAIK

Partner & head-taxation, Cyril Amarchand Mangaldas

The pending number of tax litigation across various fora has reached an alarming stage. According to the finance minister, the total number of direct tax litigation pending across various authorities like commissioner of income tax (appeals), income tax appellate tribunals, high courts, and the Supreme Court have reached an astonishing number of 483,000 and more importantly, the number of new cases getting added to this is showing no signs of declining. This not only leads to discontent among taxpayers but also significantly increases the burden and associated costs for the government. Moreover, the government's abysmal record of success in such cases, which is less than 30 per cent, does not paint an encouraging picture.

The government is fully aware of the situation and has been striving to reduce the extent of tax litigation considerably. Over the last few years, the threshold for filing a tax appeal has increased manifold which has resulted in a reduction in the number of tax litigation. However, the issue is still far from resolved. Hence, the finance minister came up with a new tax litigation resolution scheme: *Vivaad Se Vishwas* (from dispute to trust).

According to this scheme, the taxpayer will be required to pay only the amount of the disputed taxes and there will be a complete waiver of interest and penalty if payments are made by March 31, 2020. For disputed penalty, interest and fee not connected with the disputed tax, the taxpayer will be required to pay only 25 per cent of the same for settling the dispute. In cases where the taxpayer avails of the scheme after March 31, but before June 30, the taxpayer will have to pay 110 per cent of the disputed tax and 30 per cent of penalty, interest and fee.

However, based on the review of the past tax amnesty schemes, it is extremely doubtful as to whether the government will be able to achieve its stated objective of reducing pending tax cases significantly. It will require a comprehensive overview of the reasons for so many pending tax cases and how best can they be settled without any significant loss to the exchequer. The following aspects may have to be examined:

- There is a tendency of the taxpayer, as well as the tax administrators, to continue with litigation because neither side wants to give up. The tax administrators are also afraid that they will be hauled up by the Comptroller and Auditor General (CAG), in case they decide not to file an appeal based on the merits of their case.
- The cases tend to become repetitive because if an adjustment is made for one year unless that addition has been ruled as illegal, the same addition is made year after year.
- There is a huge shortage of infrastructure with the judiciary to deal with the ever-increasing pending tax cases.
- There is lack of trust on taxpayers by the tax administrators and genuine bonafide statements provided by taxpayers are ignored.
- There is lack of coordination among the tax administrators in relation to pending tax cases because most of the times, the arguing counsel are not briefed appropriately.
- No ABC analysis of pending cases are done by the tax authorities, and hence, even important and strong cases are not dealt with the adequate importance they deserve.
- Selection of arguing counsel also does not always happen on merits, etc.

On account of some of the aforementioned shortcomings, litigation does not always yield appropriate results for the tax administrators. They should be well advised to litigate cases only on merits and it should be incumbent on the government to support well-intentioned decisions taken by the tax authorities. However, it is inappropriate to blame the tax administrators fully for pending litigation because taxpayers may not always act in a bonafide manner and try to take advantage of any disputed position. Efforts should be made by both sides to identify the most feasible option before initiating any litigation.

Co-authored with Nikhil Agrawal, an associate with the firm

FIGURE THIS

483,000 direct tax cases pending in various appellate fora

₹9.41 trillion is stuck in pending tax litigation

REFORMING TAX ADMINISTRATION

Need for mediation council

RAJEEV DIMRI

Partner and co-head of tax at KPMG in India

Thematically, the Budget speech was speckled with ideas around aspirational India, economic development, and building a caring society. A special focus was cast on strengthening agricultural and rural India, improving wellness and improving access to education. While several economic measures have been taken to implement this objective, an important unfinished agenda is the improvement of tax administration. Reform of tax administration is the final step towards ease of doing business in India and improved investor confidence. Finally, this should also support economic growth.

A positive step in this direction in the Budget announcements has been around the proposed inclusion of a 'Taxpayers Charter' in the income-tax statute, with a specific mandate to the Central Board of Direct Taxes (CBDT) to adopt the same for the benefit of taxpayers. While details of the same are awaited, it does create hope. Like all good ideas, its efficiency will only be determined by its implementation details. It will be beneficial to introduce a Taxpayers Charter across other taxes as well.

It is important to introduce an efficient dispute resolution mechanism to ease the pain of an overburdened dispute resolution machinery. There is a need for the constitution of a centralised independent body/council that will mediate with the taxpayer and resolve disputes in a timely manner. A consultative process between the authorities and the taxpayer will be welcomed by the taxpayer and will lead to quicker negotiated settlements. This will mitigate protracted litigation, free up the time of courts to attend to more critical matters, and provide speedy disposals.

With the conclusion of the Sabka Vishwas scheme under indirect taxes, which helped taxpayers close some of the legacy indirect tax disputes, attention is now placed on the 'Vivad se Vishwas' scheme which aims to reduce the direct tax litigation. This is one of the welcome measures of this year's Budget proposal from a direct tax perspective.

There is a need to curtail the vast powers of investigation of tax authorities. Their obligations and rights during an investigation need to be elaborated and defined. Many a time powers are abused by field formations and taxpayers face harassment during investigations. There also should be more rigour in the nature and volume of information sought by the authorities in the course of an assessment.

With the increased digitisation and enhanced use of information and communication technology, a large amount of information is being exchanged digitally. While this is convenient for taxpayers, it does put pressure if the volume of the information sought is endless. Thus, efforts need to be made for defining and laying down the exact information needed during an investigation.

Separately, there should be consistency in the positions taken by the tax authorities across jurisdictions. Today, varied practices are being followed, with different viewpoints and precedents emerging across the country. This affects the business practices of taxpayers, as taxpayers are split on the position to be adopted in case of complex tax matters.

The new addition of introducing 'faceless appeals' reform under income tax laws will also encourage maximum governance with a limited human interface of regulators. While measures related to faceless assessments by way of online filing and processing of returns, issuance of refunds, and assessments are already in place, the Budget speech indicates implementation of 'faceless appeals', which will be on the similar lines and implies reduced human interface. This is a welcome reform towards improving tax administration and creating efficiency in completion of appellate level proceedings. Of course, care should be taken that the right of the taxpayer to appropriately present his case is not abridged in the process.

It is noteworthy that the idea for ease of doing business norms is well integrated into the indirect tax sphere, as well. GST proposals of implementing the e-invoicing regime and simplified returns with effect from April 2020 are good indicators of the same. The cumbersome refund process, which has been a bane for exporters, has been completely automated under the GST regime, providing much relief and efficiency. To further ease exports, digital refunds have been granted to exporters, with central, state and local duties like electricity duty and VAT on fuel also being available as a refund. A scheme laying down the specifics will be issued later this year. Not missing out small exporters, the Budget proposals seek to launch the Nirvik scheme which lays down a simplified procedure for claiming settlements.

There is a need to curtail the powers of tax officials. Their obligations during a probe need to be elaborated and defined

CORONAVIRUS OUTBREAK

Centre may isolate those back from China recently

AGENCIES
2 February

The government on Sunday issued a new travel advisory asking people to refrain from travelling to China in view of the coronavirus outbreak in its Hubei province. In its advisory, the health ministry also said anyone with travel history to China since January 15 could be quarantined.

India on Sunday reported a second case of coronavirus. The individual, had returned from China recently. "The patient has tested positive for the virus and has been kept in isolation in a hospital. The person is stable and is being closely monitored," a government statement said.

Meanwhile, one patient has been tested negative in Haryana, and reports of four others are awaited in Chandigarh.

China ramped up measures to contain the coronavirus epidemic as the first death from the illness was reported outside the country in the Philippines .

Some 304 people have died in China, the country's National Health Commission said on Sunday. Beijing is facing mounting isolation as countries introduce travel restrictions and airlines suspend flights, risking worsening a slowdown.

India on Sunday temporarily suspended the e-visa facility for Chinese travellers and foreigners residing in China.

China's central bank said it would inject a hefty 1.2 trillion yuan ($173.8 billion) worth of liquidity into the markets via reverse repo operations on Monday, as the country prepares to reopen its stock markets.

China has also taken steps to limit short-selling activities, three sources with direct knowledge of the matter told *Reuters*.

In the US, the White House National Economic Council and the Council of Economic Advisers are analysing the impact of the coronavirus outbreak on the US economy, the *Washington Post* reported.

President Donald Trump on Friday signed an order temporarily barring entry to foreigners who had visited China. According to reports, the US has offered to help China contain the epidemic.

However, Beijing has still not responded to US offers of help from the federal Centers for Disease Control and Prevention and other health professionals, according to the White House national security adviser Robert O'Brien.

"We've got tremendous expertise. This is a worldwide concern. We want to help our Chinese colleagues if we can and we've made the offer and we'll see if they accept the offer."

While they have not been invited into China, CDC officials are in neighboring Kazakhstan to help guard against spread of the virus, US Secretary of State Mike Pompeo said on Sunday during a visit there.

"You've got a long border with China which is where this disease has emanated from," Pompeo said in an interview with a Kazakh journalist.

Medics screen Indian nationals after they were brought by an Air India aircraft from China's coronavirus-hit city of Wuhan, at the New Delhi airport PHOTO: PTI

CHINA MAY'VE SILENCED DOCTORS OVER VIRUS: REPORT

According to a report by *The New York Times*, the Chinese government's initial handling of the epidemic allowed the virus to gain a tenacious hold. The report says that at critical moments, officials chose to put secrecy and order ahead of openly confronting the growing crisis to avoid public alarm and political embarrassment.

"In those weeks, the authorities silenced doctors and others for raising red flags. They played down the dangers to the public, leaving the city's 11 million residents unaware they should protect themselves. They closed a food market where the virus was believed to have started, but didn't broadly curb the wildlife trade," the report claims.

"The first case, the details of which are limited and the specific date unknown, was in early December. By the time the authorities galvanised into action on January 20, the disease had grown into a formidable threat," the report adds. It also claims that Wuhan went ahead with a massive annual potluck banquet for 40,000 families from a city precinct, which critics later cited as evidence that local leaders took the virus far too lightly.

WeWork names veteran real estate executive as CEO

PETER EAVIS
New York, 2 February

WeWork, the troubled operator of shared office space, has named Sandeep Mathrani, a senior executive at the commercial real estate company Brookfield Properties, as its new chief executive.

Mr. Mathrani, whose appointment was announced on Saturday, replaces Artie Minson and Sebastian Gunningham, the co-chief executives. Mr. Minson and Mr. Gunningham took over in September from Adam Neumann, the WeWork co-founder whose growth-at-all-costs strategy brought the company to the brink of financial collapse last year.

In a statement, Mr. Mathrani said WeWork had "redefined how people and companies approach work with an innovative platform, exceptionally talented team and significant potential if we stick to our shared values and maintain our members-first focus."

The appointment of Mr. Mathrani, who is set to start on Feb. 18, would be an important part of WeWork's attempts to build a business that could sustain itself in the fast growing but highly competitive market for flexible office space. Mr. Mathrani has been chief executive of Brookfield's retail division since August 2018, according to his LinkedIn page. The naming of an experienced real estate executive is a clear indication that WeWork is moving on from Mr. Neumann's strategy of building a sprawling company with lofty aims that included transforming how people work and live together. He had promoted WeWork as if it were a groundbreaking technology company set on upending its industry. The firm had also branched out well beyond office space, establishing sleek dormitories for working professionals and even a private school in Manhattan.

WeWork withdrew its much anticipated initial public offering in September. SoftBank, WeWork's largest outside shareholder, agreed in October to bail out the company. Marcelo Claure, a senior SoftBank executive, became WeWork's executive chairman and has been overseeing the company's overhaul, which involves pulling back from certain markets, selling off noncore businesses and finding new ways to finance its operations. Mr. Claure will continue as executive chairman. Mr. Mathrani, who did not respond to a request for comment, faces some daunting challenges, not least the struggle to fill all the new locations that WeWork expects to open in 2020. The company has said that it could open 600 spaces this year, almost doubling the size of its network.

Commercial real estate executives said Mr. Mr. Mathrani probably had strong relationships with large landlords, which might prove useful as WeWork goes through its restructuring. In an interview in December with The New York Times, Mr. Claure said WeWork might seek to renegotiate leases with building owners at some locations.

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2020-21 BUDGET IMPACT

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Outlook bearish for markets

DEVANGSHU DATTA

The market response to the Budget was extremely bearish. The sell-off can be partly attributed to the fear of coronavirus impacting world growth since that has induced FPIs (foreign portfolio investors) to sell in most markets. But a large proportion of the sell-off came from disappointed domestic investors.

The domestic institutions are likely to come in on Monday and they might try to shore up indices, but the trend is likely to stay down. In purely technical terms, the Nifty has slid till around its own 200 Day Moving Average and a further fall would indicate a long-term bear market. A fall below 11,500 would be a trigger for a deeper correction till the 11,000-11,100 level. A bounce from here is likely to hit resistance at 11,800-11,850. The trend is South-oriented because the highest weight component of the Nifty - the Nifty Bank – is already below its own 200 DMA.

The movement has been extremely broad with every segment of the market, except IT, falling in the wake of the Budget. The small-caps and mid-caps have also fallen sharply so it's not a question of avoiding large-caps.

With the exception of IT, every sectorial index at the NSE is in a downturn. The IT index is up slightly. IT is seen as a safe haven since it gains from a weaker rupee and its revenues are disconnected from the domestic economy. Pharma is another export-oriented sector and it could gain, if the rupee does fall through next week.

Take the Nifty's decline of 2.5 per cent as a benchmark of "average" decline. The IT index is up 0.9 per cent while pharma and FMCG are down by 1.5 per cent and 1.9 per cent, respectively. These are the safe havens. The automobile index is down 2.6 per cent, which is in line with the Nifty.

On the flip side, the real estate index has taken the biggest hammering, falling nearly 8 per cent. This may be because it also saw the biggest build-up of pre-Budget positions. Media has also taken a big beating, falling over 4 per cent. The Nifty Bank is down 3.3 per cent while PSU banks are down 3.7 per cent and financial services is down 3.9 per cent. These sectors are more likely to be vulnerable in a continuing downturn.

The Vix has climbed indicating higher volatility expectations. Traders should probably go with the trend and be either short in futures or take deep long puts across the Nifty Bank and Nifty. Both indices look set to lose more ground. A fall of another 5 per cent by end-February looks possible. The USD is also likely to gain against the rupee. Apart from long positions in IT and Pharma, directly trading USDINR is a possibility.

INSIDE: 12 STOCKS TO WATCH OUT FOR : Pages 2-4

Also, an analysis by PwC on pages 6-11

GROWTH TRIGGERS STILL MISSING

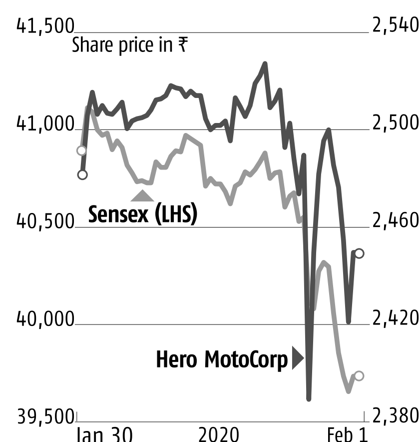
The Street was disappointed with the lack of major measures to boost consumption, and shed the most in a single trading session in over three years. While the Budget largely focused on boosting investments in the agricultural and infrastructure sectors, it did little to alleviate the stress in two key sectors of the economy – auto, which accounts for half of the manufacturing GDP, and real estate, the second largest employer after agriculture. In addition, the lack of announcements to reduce the stress in the non-banking financial sector is also seen to be a headwind for consumption growth. The gradual withdrawal of tax deductions could be a negative for insurance, mutual funds and real estate, as well as for savings in general. Companies which stand to gain the most are rural focused players, gas utilities, building material makers and logistics firms.

Contributions from Ram Prasad Sahu, Hamsini Karthik, Shreepad S Aute and Ujjval Jauhari

HERO MOTOCORP

PRICE IN ₹	1-YR CHANGE (%)
2,450	-12.7

Market cap (₹ crore)	48,931
Dividend yield (%)	3.6
P/E (x)	13.5
Net sales (₹ crore)	31,351
% change	-7.2
Net profit (₹ crore)	3,632
% change	-0.7

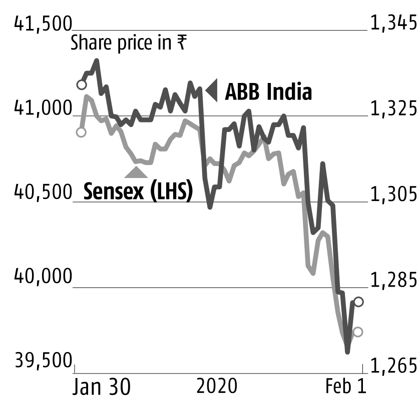


- Steps to boost rural economy with a healthy allocation of ₹1.6 lakh crore to irrigation and allied sectors, and increase in agricultural credit along with support for smaller enterprises to help two wheeler companies
- Expectations of a strong rabi crop, better farm realisations and reservoir levels also a positive
- With about half its revenues coming from rural India and downtrading by customers due to increase in vehicle prices, Hero stands to gain
- Changes in income tax slabs will result in higher disposable income and help revive two wheeler demand

ABB INDIA

PRICE IN ₹	1-YR CHANGE (%)
1,281	12.2

Market cap (₹ crore)	27,155
Dividend yield (%)	0.4
P/E (x)	46.8
Net sales (₹ crore)	7,200
% change	13.3
Net profit (₹ crore)	580
% change	19.7

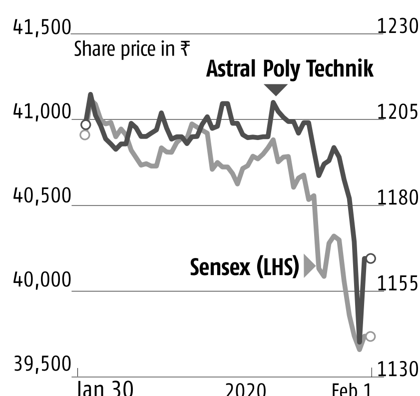


- With a near leadership in data centres, ABB is well-placed to benefit from the opening up of sector to private players
- ABB's execution track record, especially in last 2 – 3 years, also adds to the appeal
- In its leaner avatar, it caters to high growth markets like automation (for sectors like cement, metals, oil and gas), transportation (metro and railways), electric vehicles, energy efficiency and robotics, which help it strike a good balance between products and services
- Valuations at 50x CY20 earnings are rich

ASTRAL POLY TECHNIK

PRICE IN ₹	1-YR CHANGE (%)
1,164	30.9

Market cap (₹ crore)	17,544
Dividend yield (%)	0.1
P/E (x)	72.0
Net sales (₹ crore)	2,690
% change	19.4
Net profit (₹ crore)	244
% change	25.9

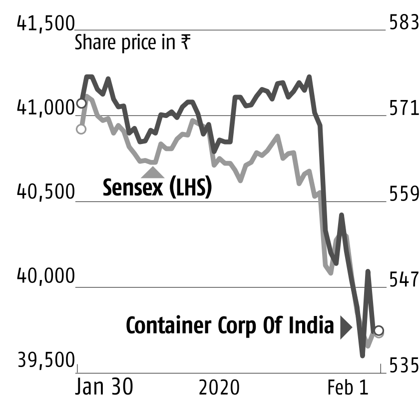


- Agriculture and irrigation allocated ₹2.83 trillion, another ₹3.6 trillion allocated for Jal Jeevan Mission with an aim to supply water to all households
- These initiatives coupled with setting up of new smart cities should boost demand for pipes, wherein analysts see Astral Poly Technik as a major beneficiary
- Anti-dumping duty imposed on CPVC pipes last August for six months is already accruing benefits for Astral
- Analysts expect Astral's earnings to grow at a fast pace in the coming years

CONTAINER CORP OF INDIA

PRICE IN ₹	1-YR CHANGE (%)
514	2.7

Market cap (₹ crore)	32,954
Dividend yield (%)	1.6
P/E (x)	61.9
Net sales (₹ crore)	6,869
% change	3.5
Net profit (₹ crore)	533
% change	-54.0

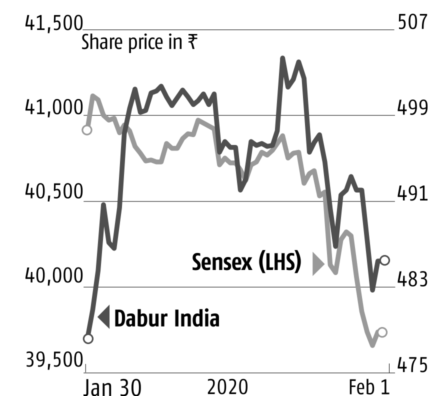


- Investments in railway infrastructure through public-private-partnership model is a major trigger
- Seamless national supply cold chain for perishables is also a positive
- Proposal to launch national logistics policy will create a single-window e-logistics market, benefitting Concor
- Completion of the dedicated freight corridor, both on western and eastern sectors, will help boost volumes
- A divestment candidate, sale of additional stake are other triggers

DABUR INDIA

PRICE IN ₹	1-YR CHANGE (%)
485	7.4

Market cap (₹ crore)	85,782
Dividend yield (%)	0.6
P/E (x)	55.9
Net sales (₹ crore)	8,966
% change	6.3
Net profit (₹ crore)	1,534
% change	4.5



- Dabur will be a beneficiary of a likely improvement in rural economy with government's aim to double farmers' income in the medium term; and good rabi season along with higher minimum support prices for crops in the near term
- Around half of its business comes from rural areas, which could go up as Dabur is deepening its rural footprint by adding new villages under coverage
- Strategy to focus on key power brands
- International business continues to add to Dabur's earnings

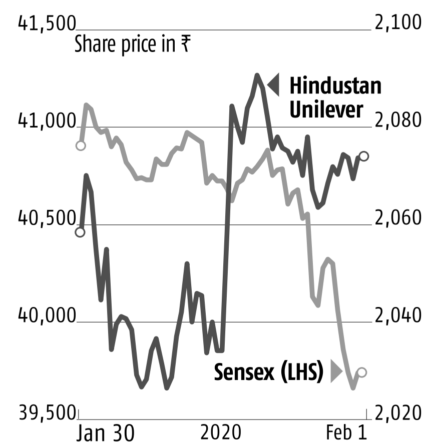
Net sales and net profit are for traling 12 months ; Price, market cap, P/E (price-earnings ratio), dividend yield as on feb 01, 2020

Source: Capitaline; Compiled by BS Research Bureau

HINDUSTAN UNILEVER

PRICE IN ₹	1-YR CHANGE (%)
2,074	15.4

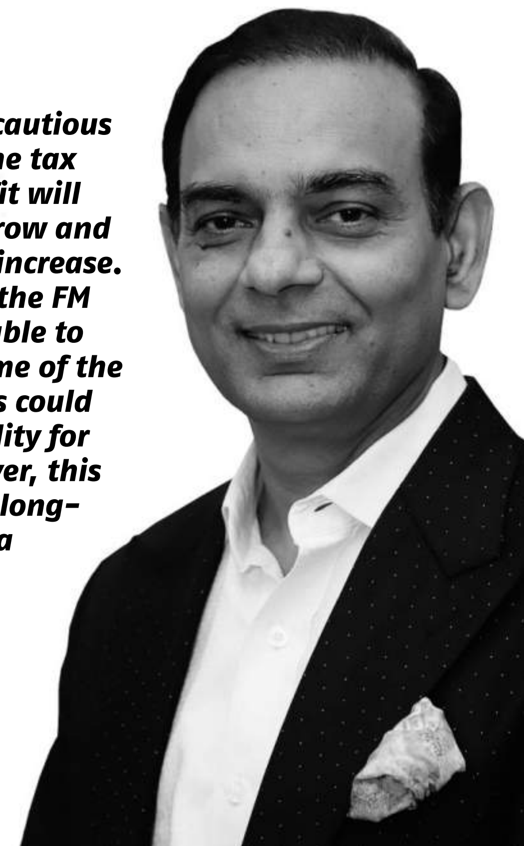
Market cap (₹ crore)	4,48,895
Dividend yield (%)	1.1
P/E (x)	66.4
Net sales (₹ crore)	39,197
% change	6.4
Net profit (₹ crore)	6,757
% change	15.5



- Along with focus on rural India, the government's aim to double farmers' income by FY22 improves outlook for players like Hindustan Unilever (HUL)
- HUL earns around 40 per cent of revenues from rural pockets and will gain due to its largest distribution network and a wide product range
- Good rabi season and increase in minimum support price of crops are likely to support rural economy
- Would also see higher cash flow from abolition of dividend distribution tax
- A sustained push to premium products and merger of GlaxoSmithKline Consumer further improves its earnings outlook

"Markets have taken a cautious view on the Budget. The tax rate cut and DDT benefit will help the economy to grow and corporate pay-outs to increase. Given the constraints, the FM seemed to have been able to only partially meet some of the high expectations. This could imply near term volatility for retail investors. However, this should not discourage long-term investors, as India continues to provide significant bottom up investment opportunities, despite tough macros"

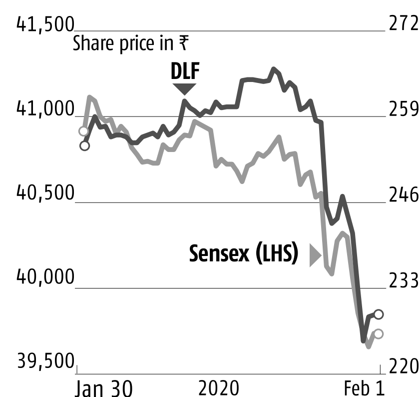
MOTILAL OSWAL
Managing director & CEO,
Motilal Oswal Financial Services



DLF

PRICE IN ₹	1-YR CHANGE (%)
229	38.2

Market cap (₹ crore)	56,685
Dividend yield (%)	0.8
P/E (x)	34.7
Net sales (₹ crore)	7,766
% change	15.6
Net profit (₹ crore)	1,632
% change	-66.6



- DLF was the biggest loser among realty stocks on the Budget day in absence of major measures to revive the sector
- Affordable housing got some benefits, but the company is not a major player in this segment
- No announcement on easing of liquidity pressure could worsen the situation for the sector amidst weak demand
- Intention to do away with tax exemptions for interest payment on housing loans gradually is a major negative

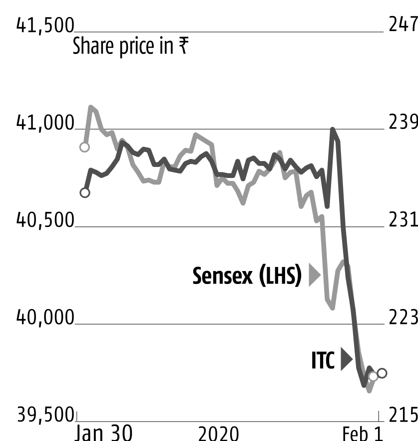
"Focus on fiscal consolidation is encouraging. Limited cut in government spending lowers one pro-cyclical headwind against growth. Non-tax sources provide a counter-cyclical buffer. With financial savings still elevated, crowding out is less of an issue. Lack of specific policies to target stress in real-estate and financial services may disappoint market. Growth may remain subdued for longer than expectations, and lower interest rates remain necessary for growth revival"

NEELKANTH MISHRA,
Co-head of Equity Strategy, Asia Pacific and India Equity Strategist, Credit Suisse

ITC

PRICE IN ₹	1-YR CHANGE (%)
219	-22.1

Market cap (₹ crore)	2,69,005
Dividend yield (%)	2.6
P/E (x)	18.2
Net sales (₹ crore)	47,088
% change	7.9
Net Profit (₹ crore)	14,821
% change	24.4

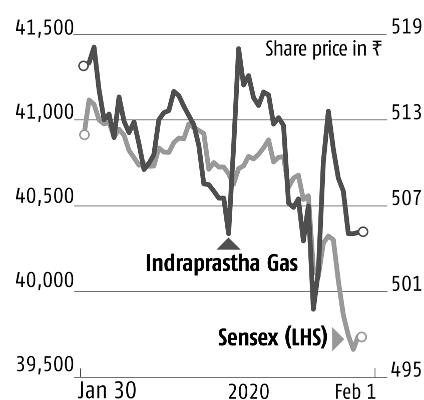


- ITC would need price hikes of 6-7 per cent to offset the 11-12 per cent increase in excise duty on cigarettes
- A sharper impact is likely on deluxe-sized filter tipped segment, which is 40 per cent of ITC's cigarette volumes
- Analysts estimate that profit of cigarette business may fall by 13-15 per cent if price hikes are not taken given its 85 per cent contribution to ITC's operating profit
- While competitive intensity from smaller players is rising in the mass segment, illegal cigarettes in premium segment is also a concern
- Rural and tourism push to help ITC's FMCG and other business

INDRAPRASTHA GAS

PRICE IN ₹	1-YR CHANGE (%)
505	76.5

Market cap (₹ crore)	35,357
Dividend yield (%)	0.5
P/E (x)	34.6
Net sales (₹ crore)	6,322
% change	24.1
Net profit (₹ crore)	1,023
% change	45.3

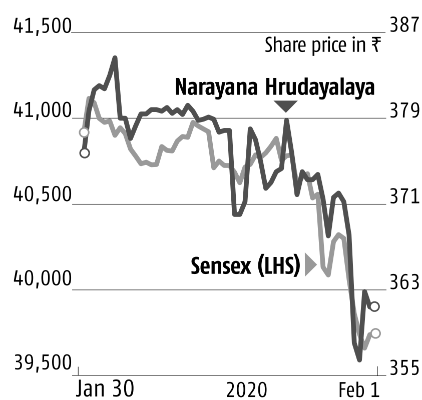


- Expansion of National Gas Grid from 16,200 km to 27,000 km will be a big positive for GAIL, the country's largest pipeline infrastructure company
- Awarding of new city gas distribution rights and improved gas consumption will help GAIL's transmission volumes to continue growing at a healthy pace
- GAIL is already expected to benefit from rising consumption due to start of new fertiliser plants with take-or-pay clause
- The stock trades at 5.5x FY21 estimated EBITDA, a discount to its five-year average of 7.4x

NARAYANA HRUDAYALAYA

PRICE IN ₹	1-YR CHANGE (%)
361	88.7

Market cap (₹ crore)	7,385
Dividend yield (%)	0.3
P/E (x)	51.2
Net sales (₹ crore)	3,150
% change	14.9
Net profit (₹ crore)	144
% change	353.5

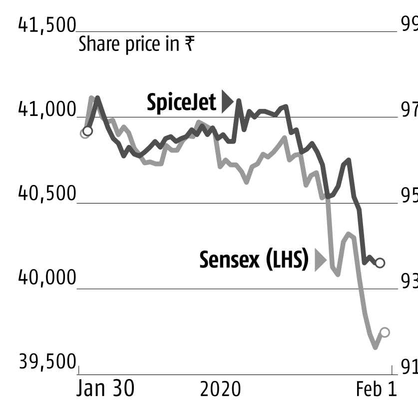


- Proposal to set up hospitals in 112 districts under public-private partnership will benefit players such as Narayana
- Empanelment of hospitals as part of Ayushman Bharat Scheme is another positive for the healthcare player
- Narayana Hrudayalaya remains better placed among peers with specialised services
- Moreover, expanded capacities will also add to the company's volumes
- Improving maturity profile of its hospitals will further help the company improve its profitability

SPICEJET

PRICE IN ₹	1-YR CHANGE (%)
94	16.6

Market cap (₹ crore)	5,613
Dividend yield (%)	0.0
P/E (x)	-
Net sales (₹ crore)	10,549
% change	30.2
Net profit (₹ crore)	-82
% change	Loss

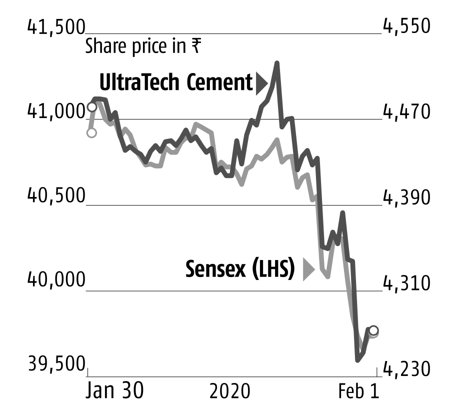


- Development of 100 more airports proposed by 2024 to support the UDAN scheme for regional connectivity
- SpiceJet is the one of the key players in the tier II and tier III cities and should benefit from the boost in passenger volumes
- Krishi Udan, focus on tourism development and steps to develop tourist destinations are also a positive
- Near-term concerns from falling passenger growth, engine issues and yield pressures will continue to be headwinds for the sector

ULTRATECH CEMENT

PRICE IN ₹	1-YR CHANGE (%)
4,274	22.4

Market cap (₹ crore)	1,23,356
Dividend yield (%)	0.3
P/E (x)	34.2
Net sales (₹ crore)	42,284
% change	11.6
Net profit (₹ crore)	3,605
% change	99.9



- The 6 per cent increase in Pradhan Manti Awaas Yojana outlay to ₹27,500 crore is positive for cement companies
- Extension of additional deduction of ₹1.5 lakh interest on affordable housing loans to March 2021 indirectly bodes well for cement makers
- Continued focus on metro railway projects and plan to develop 100 new airports will improve cement demand
- Cement prices are already rising and gains from incremental demand will be benefit UltraTech, which has expanded capacities

"Budget a lost opportunity to revive growth"

In the context of slowing growth and little drivers to revive the economy, **VETRI SUBRAMANIAM**, group president and head–equity at UTI AMC says the recently presented Union Budget may not be the right tool to revive sentiments. In an interview with ***Hamsini Karthik***, he says Indian equities may remain polarised and that growth may just chase some select pockets such as the market leaders. Edited excerpts:

VETRI SUBRAMANIAM
Group president and head–equity, UTI AMC

Has the Union Budget adequately addressed the issue of economic slowdown?

The finance ministry could have done more in terms in fiscal stimulus but it instead choose to remain committed to fiscal consolidation. We could have gone beyond the 0.5 per cent increase in fiscal deficit, so in that sense I think the Budget is a lost opportunity as an exercise to revive economic growth. It's hard to think how the economy will bounce back without some of the infrastructure-related push. The more concern is the way Direct Tax Code (DTC) was communicated. It seems to be extremely confusing to the extent that a tax payer will have to choose whether the new code should be adopted or retain the old slabs and what it is that (s)he would be gaining or losing on this front. More importantly, DTC wasn't meant to take away the benefits, it was only planned to rationalise the tax structure. The government has delivered a rate cut, but has taken away tax exemptions. It could leave people confused.

There's also a growing disconnect between the broader markets and fundamentals. How do you marry that?

Markets and the economy are never utter perfect equilibrium. In the previous five years, when mid- and small- caps massively outperformed the large caps and in a way, now is their payback time. Markets are polarised in favour of a select set of large caps where people did not participate earlier. Growth of some larger companies has been pretty good. They are taking/gaining market share from the unorganised players. It may be to do with the tax crackdown, RERA and GST that the market benefits have gone to a select few. And we see this across sectors. That makes a favourable case for market leaders in every sector and we see that just getting stronger.

> ***The finance ministry could have done more in terms in fiscal stimulus but it instead chose to remain committed to fiscal consolidation***

Where are the pockets of comfort at this juncture?

There is something in the market which is under-priced and something which is over-priced - valuation is not a timing device. So, certainly there is favourable risk-reward in some pockets. There are bottom-up opportunities in mid- and small-caps and even within the Nifty50 considering the polarisation within the index stocks. At an aggregate level, the data is suggesting that we have gone back to a normal environment as mid-caps are at a discount to large-caps. Allocation to mid- and small-cap is also favourable at this point in time and where we have the flexibility, we have raised our mid- and small-cap exposure.

That said, the market is somewhere between fair value to expensive. When you look at the five year, returns of large-cap and mid-cap indices look similar. This is also a function of the market being so rich, that it's difficult sweat it for returns. While returns are attractive from the lows of August 2013, they are only 9-10 per cent for benchmark indices.

Which sectors stack up favourably now?

I think in most conversations with mutual funds (MF) heads, because of our compliance rules, we end up talking sectors. But, that has been self-defeating. Sectoral approach isn't the source of alpha. Purely from the fund I run, (Value Opportunities), we prefer sectors which give us valuation comfort. Pharma is one area where we've been positive. Through last year, we have increased our positions in auto stocks; these are standout positions for us today.

What about your exposure to telecom?

Some businesses just experience cycles for the nature of the industry or regulatory-led or external factors. In those sectors, you look for companies which have demonstrated management capability to tide over difficult times - they've demonstrated how to exit a difficult time and when they come out of it, they sort of tend to do even better. So, what we thought was there would be one survivor and we have held this thought for two years. We didn't anticipate AGR (aggregate gross revenue) to become such a big issue and then eventually lead to being a pressure point on the supply. But it seems to be deciding the way the stocks are performed.

SIPs remain the source of flows for MFs, does that bother you at some level?

Outside of SIPs, equity inflows are negative. But its not a bad thing people are continuously allocating on little drops of money every month and that's adding up to a lot in aggregate. It's better than having an environment like 2008 where somebody launches a fund and gets a massive inflow and getting stuck later. This is healthy from a risk point of view too. Nobody is getting overexposed all at once. There are SIP cancellations and that has gone up but net-net SIP inflows are still positive.

The focus is on simplifying GST

The direct tax proposals aim to accelerate economic momentum and ease of living for taxpayers, though the key will lie in smooth administration

INDIRECT TAXES

Budget 2020 was crucial in view of the juxtaposition of two contrasting situations in the current economic scenario, namely the government's endeavour to make India a $5 trillion economy by the year 2025, and the economic slowdown. The length of the finance minister's Budget speech (by far, the longest in India's history) clearly indicated government's economic concern.

The Budget was based on three prominent themes: Aspirational India (aimed at providing better standards of living to all sections of society), economic development (aimed at higher productivity by way of economic reforms) and a caring society (aimed at social welfare and environmental change).

With the Economic Survey highlighting that indirect taxes contributed 46 per cent of gross tax revenue (GTR) in 2019-20, all eyes were on the Budget, to see the measures taken to increase buoyancy of actual GST collections. The finance minister re-iterated that GST has been the most historic reform in India and is gradually maturing into a tax that has integrated the country economically.

GST remains the single largest source of tax revenue in this year's Budget, with revenue collections estimated at ₹6.91 trillion. However, the budgeted GST revenue is slightly less than estimates for the previous year (2018-19), where it stood at ₹7.44 trillion. The decrease in estimated collections seems to have been made in the backdrop of actual tax collections during 2019-20.

The estimated contribution of each revenue source to the Budget is shown in the figure below.

In terms of indirect taxes, the perspective of Budget 2020 can be categorised broadly into three spheres, namely:

a) Simplifying GST and preventing GST evasion
b) Impetus to Make in India; and
c) Export incentivisation.

With the aim of facilitating exports and achieving higher export credit disbursement, a new scheme named NIRVIK is being launched

1.Simplifying GST and preventing evasion

It has been stated that the new simplified GST return framework would be implemented from April 1, 2020. It will make return filing simple, with features like SMS-based filing for nil return, return pre-filing and improved input tax credit flow. This would be a step to further the ease of doing business. The refund process has also been simplified and made fully automated, with no human interface -- a big relief for exporters.

To deal with the menace of fake invoices, the government has reiterated introduction of electronic invoices. It will be implemented in a phased manner starting from this month, on an optional basis. This, in turn, implies that businesses should be ready to implement these reforms in a timely manner, specifically electronic invoicing, as it directly impacts raising of invoices by businesses and can lead to business disruption if not executed in a timely manner.

The way to go is technology -- this is the message emanating from the government initiative of the new return format and electronic invoicing. Automation is the key.

Owing to detection of massive tax evasion and fraud by the Tax Department, it was of paramount importance for the government to carry out measures to prevent fraudulent malpractices under GST. The amount involved in fraud cases detected so far is thousands of crores of rupees, and primarily relates to the malpractice of fraudulent input tax credit claims on the basis of fake invoices. A plethora of measures has been proposed, by way of stringent penalty and punishments, to curb the menace of availment of fraudulent input tax credit:

- Any person, being a beneficiary of passing or availing of fraudulent ITC, has been made liable for similar penalty leviable to the person who commits specified offences; and
- Provision amended to make the offence of fraudulent availment of ITC without an invoice or bill a cognisable and non-bailable offence, and to make any person who commits or causes the commission and retains the benefit or transactions arising out of specified offences liable for punishment.

Businesses need to adopt technology to ensure that their input tax credits are properly matched with vendor invoices and have a robust vendor screening process.

Along with these reforms, other crucial measures have also been proposed, such as Aadhar-based verification of taxpayers (in order to eliminate non-existent units), use of deep data analytics and artificial intelligence (AI) tools to detect cases of fraud in tax credit claims, and refund claims. Deliberations on the GST rate structure are also being considered in order to address peculiar issues, such as inverted duty structure. A system of cash rewards is envisaged to incentivise customers to seek invoices. These measures should go a long way in limiting tax frauds under GST.

2. Impetus to 'Make in India'

Make in India is one of the flagship programmes of the government that is aimed at facilitating investment and to build the best-in-class manufacturing infrastructure in India. As anticipated, with a view to provide further impetus to Make in India, basic customs duty rates have been increased on import of certain goods, such as electrical appliances and household items, in order to de-incentivise imports of such goods and encourage their domestic production.

Prominent change in duty rates can be witnessed in the electric vehicles (EVs) and medical devices sectors. Combining its objective to promote adoption of EVs with its agenda to provide boost to domestic manufacturing, government has increased customs duty rate on import of completely built units of EVs and semi knocked down form of passenger EVs. This seems in line with the changes under the previous budget, wherein certain parts used in manufacture of EVs had been exempted from customs duty and income tax deduction was also provided on interest paid on loans to purchase EVs.

Government has also witnessed an impressive growth in domestic manufacturing of medical equipment. To provide a further fillip to domestic manufacturers, a health cess at the rate of 5 per cent has been imposed on the import of certain medical equipment, which will be over and above the Customs duty levy. Proceeds from this levy will be used for creating infrastructure for health services in aspirational districts, thus serving the twin objectives of promoting domestic manufacture and providing health services.

A sector-wise impact of such change has been provided in the table below.

SECTOR-WISE IMPACT OF DUTY RATE CHANGES

Key imported products subject to duty rate change (Impact on BCD rates: UP)

IMPLICATION: Imported products made more expensive than goods produced in India. Incentives given to domestic manufacturers

AUTOMOBILE AND AUTOMOBILE PARTS
- Semi knocked down forms of electric vehicles (bus, trucks, two-wheelers)
- Completely built units of commercial electric vehicles
- Completely knocked down forms of electric vehicles — passenger vehicles, three-wheelers, two-wheelers, bus and trucks
- Catalytic converters and parts used for manufacture of catalytic converters
- Completely built units of commercial vehicles (including electric vehicles)

ELECTRONICS
- Parts of cellular mobile phones (vibrator/ringer, display panel)
- Static converters

HOUSEHOLD GOODS AND APPLIANCES
- Tableware, kitchenware, water filters
- Ceramic table-ware, kitchen-ware, clay articles
- Padlocks and locks
- Table fans, ceiling fans, portable blowers
- Food grinders
- Toasters
- Electric smoothing irons

LABOUR-INTENSIVE INDUSTRIES
- Footwear and parts of footwear
- Mattress supports
- Lamps and lighting fittings

MACHINERY
- Certain freezers not exceeding 800 l capacity
- Water coolers

Further, considering that undue claims under Free Trade Agreements have posed threat to domestic manufacturers of goods, certain measures such as review of Rules of Origin requirements would be taken, for certain sensitive items.

Government has also strengthened safeguard duty provisions in order to protect domestic industry against the serious injury from a surge in imports. Additionally, the provisions for checking dumping of goods and import of subsidised goods have also been strengthened for ensuring a level playing field for domestic manufacturers.

3. Export incentivisation

With the aim of facilitating exports and achieving higher export credit disbursement, a new scheme — NIRVIK — is being launched, which will cover key aspects such as higher insurance coverage, reduction in premium for small exporters, and simplified procedures for claim settlements. Further, it has been proposed to launch the scheme for providing digital refunds to exporters for the amount of duties and taxes levied at the central, state and local levels (such as electricity duties and VAT on fuel used for transportation), which are not exempted or refunded under any other existing mechanism. These measures should help in revitalising India's exports.

Other key measures

Apart from the focus on key spheres as mentioned above, certain revenue-augmenting measures have also been taken, such as increase in excise duty (by way of National Calamity Contingent Duty) on cigarettes and other tobacco products. It has also been decided to re-align the exemptions provided under customs law, in accordance with the needs of businesses. A comprehensive review of customs duty exemptions will be undertaken by the government by September 2020, for taking a view on their present relevance.

Changes desired

Budget 2020 has rightly focused on simplification of tax processes and providing impetus to the domestic manufacturing industry. Its predecessor (Budget 2019) had also struck the right chord in introducing a dispute resolution scheme for pre-GST era indirect tax litigation (except customs), which has proven to be a success. Based on its success, similar amnesty schemes could have been proposed for past litigation under the customs law.

With the intent to foster trust between taxpayers and the administration, a Taxpayers' Charter has been proposed to be adopted by the Central Board of Direct Taxes (CBDT). A similar Charter should have been proposed by the governing body for indirect taxes.

Other key aspects that were desired to bring more certainty and stability to GST includes the need to simplify tax structure by reducing the tax rate slabs to three (by way of merging two rate slabs into one, either 5 per cent and 12 per cent, or 12 per cent and 18 per cent). An attempt to further consolidate indirect taxes is desirable, by way of bringing petroleum and petroleum products under the ambit of GST.

ANITA RASTOGI
Partner - Indirect Tax and GST, PwC India

Assisted by: Prashant Gupta, Associate Director, and Rohit Gupta, Associate

Towards growth and compliance

The tax proposals are aimed at stimulating growth, simplifying tax structure, bringing ease of compliance and reduceing litigation

DIRECT TAXES

The Union Budget 2020-21 is woven around the themes of Aspirational India, Economic Development and Caring Society, together with better governance and growth of the financial sector for betterment of ease of living. The tax proposals are aimed to "stimulate growth, simplify tax structure, bring ease of compliance and reduce litigation".

Proposals to stimulate growth

■ *Dividend Distribution Tax (DDT)*
DDT will be abolished and dividend will henceforth be taxed in shareholders' hands under the classical system. Indian companies will not pay tax on dividends from domestic companies to the extent of onward distribution of such dividends within a specified period. Mutual funds' dividends will also be similarly taxed.

The biggest beneficiary of this will be the corporate sector (domestic and foreign) and lower-income non-corporates. Higher-income groups will pay more tax (Table 1). Foreign investors can avail of beneficial tax treaty rates and foreign tax credit (FTC) in their home countries. This measure, coupled with beneficial low corporate tax rates, should enhance capital inflows for industrial development. Reducing the dividend tax for upper tax slab individuals to the DDT level can be considered before enactment. A disparity still remains for domestic companies earning foreign dividends, which needs to be addressed.

■ *Startups*
The tax holiday for startups has been enlarged. Startups with turnover of up to ₹100 crore (earlier ₹25 crore) will be eligible and can avail the three-year benefit within the first 10 years (earlier seven years). Startup employees/promoters will not pay tax on stock plan benefits until the earlier of five years from exercise, exit or disposal of shares.

These make the tax benefits more realistic for startups and should encourage entrepreneurship, especially in the field of technology, contributing to ease of living. Considering the low success rate of startups, a limited concessional capital gains tax can be introduced for exits.

■ *Corporate tax rate*
Power sector: The beneficial tax rate (15 per cent++) introduced earlier in this fiscal year for new manufacturing companies wasn't explicitly applicable to power generating companies. The benefit is now extended. Going by the nature of the industry, transmission companies can also be granted the benefit.
Co-operative societies: The other beneficial tax rate (22 per cent++) applicable to corporates will apply to co-operative societies also.

These extensions should benefit the Government's thrust on infrastructure development and help rural development.
Affordable housing: The tax-holiday for developers will now be extended to projects approved upto March 31, 2021. Home-buyers will also get benefit of deduction (of up to ₹150,000) for loans sanctioned up to March 31, 2021.

Although beneficial, the extension could be for a longer term, to help long-term planning. Considering the state of the real estate sector, removal of notional tax on unsold stock would be further welcomed.
Financial sector: Merged banks will now be allowed to carry forward the unabsorbed tax loss of merging banks. This will help create substantial tax savings for merged banks, which can be pumped into the economy.

Foreign currency borrowing: The sunset clause has been extended up to July 1, 2023 for the 5 per cent TDS rate on interest on foreign currency borrowings, masala bonds, and certain bonds to FIIs, QFIs, and so on.

Simplify tax structure

■ *Personal income tax*
An elective provision is introduced with beneficial tax rates for lower-income individuals/HUFs who opt for simpler tax compliance. Such persons cannot avail of deductions/exemptions but will pay tax at lower slab rates (Table 3). The option is to be exercised before filing the tax return, and is yearly for non-business cases while permanent (except for opt-out once) for business persons. Taxpayers can also continue under the older regime of higher tax and more deductions.

Elective tax provisions are now becoming a trend in India. This proposal would not only make tax compliance simpler but also leave additional funds with the taxpayer, which will largely be expended in consumption. This may discourage small investments but should help the economy through growth in demand. Being elective, taxpayers have the option to choose between savings and consumption.

Transfer pricing: The 30 per cent ceiling on interest deduction on loans from related parties will not apply for loans from the Indian branch of a foreign bank.

Better governance and ease of compliance

Taxpayer's Charter: The Central Board of

EFFECT OF REMOVAL OF DDT ON VARIOUS STAKEHOLDERS

Particulars	Individuals earning income below basic exemption	Individuals earning taxable income between 15-50Lacs	HNI (Earning more than 5 Crs)	Domestic Cos (not declaring onward dividend)	Domestic Cos (declaring onward dividend)	Foreign Co/Non Resident (where treaty provides 10% tax)
Dividend declared	100.00	100.00	100.00	100.00	100.00	100.00
Dividend Distribution tax	20.56	20.56	20.56	20.56	20.56	20.56
Tax Paid by Shareholder (115BBDA)	-	-	11.65	-	-	-
Total tax	20.56	20.56	32.21	20.56	20.56	20.56
Net Dividend received (A)	79.44	79.44	67.79	79.44	79.44	79.44
New Structure						
Dividend	100.00	100.00	100.00	100.00	100.00	100.00
Dividend Distribution tax	-	-	-	-	-	-
Tax Paid by Shareholder	-	31.20	42.74	25.17	-	10.00
Total tax	-	31.20	42.74	25.17	-	10.00
Net Dividend received (B)	100.00	68.80	57.26	74.83	100.00	90.00
Increase/ (Decrease) in net dividend received (B-A)	20.56	(10.64)	(10.53)	(4.61)	20.56	10.56

Direct Taxes will be empowered to declare a Taxpayer's Charter which will govern the functioning of the tax administration. This is intended to deliver a better experience for taxpayers in their interactions with the tax department. Since this will be legally mandated, the tax administration can be held responsible for the Charter's application.

Stateless persons: As per the Finance Bill, Indian citizens who are not liable to tax in India on global income and also not liable to tax in any other country due to domicile, residence, etc., will be deemed to be Indian tax residents and subject to tax in India. As per media reports, the government has issued a press release that this will apply only to income earned outside India but derived from an Indian business or profession. Similarly, NRIs visiting India for more than 120 days (earlier 182 days) in a year will be treated as resident.

This will prevent tax avoidance by people managing their affairs in such a way as to avoid tax residence in any country. However, genuine NRIs living/working overseas will not be affected. Such persons should also get treaty protection. The reduction of threshold for visiting NRIs may impact trade in a mobile world.

Catching up with technology in business: Foreign businesses without a physical presence in India will be deemed to have a taxable business presence in India if they have income from (a) advertisements targeting Indian customers, (b) sale of data collected from India using an Indian IP address, and (c) sale of goods/services using such data. Similarly, income of foreign businesses from the sale, distribution or exhibition of cinematographic films will be taxable as royalty.

While the domestic law in this case is amended, this provision may not be implementable until the tax treaties are renegotiated, except where covered under multilateral instruments (MLI).

TDS on e-commerce transactions: E-commerce platform operators will now deduct 1 per cent TDS from payments to Indian residents selling goods/providing services through the platforms.

In respect of both the above type of transactions, it was expected that a digital tax as in the UK and France, among other countries would be introduced. These proposals are probably a precursor to a digital tax.

Faceless tax administration: To reduce taxpayer-administrator interface, electronic facilities will be introduced for penalty and appeal proceedings, and for registration of charitable/religious trusts.

Faceless assessments have just been introduced and the administration has not been tested yet. Expansion could be deferred for seamless introduction after rectifying the initial challenges in e-assessment.

PERSONAL INCOME TAX RATES

Income range (amount in INR)		Proposed rates	Proposed maximum effective tax rate	Existing maximum effective tax rate	Reduction in tax rates
–	2,50,000	0.00	0.00	0.00	0.00
2,50,001	5,00,000	5.00	5.20	5.20	0.00
5,00,001	7,50,000	10.00	10.40	20.80	-10.40
7,50,001	10,00,000	15.00	15.60	20.80	-5.20
10,00,001	12,50,000	20.00	20.80	31.20	-10.40
12,50,001	15,00,000	25.00	26.00	31.20	-5.20
15,00,001	50,00,000	30.00	31.20	31.20	0.00
50,00,001	1,00,00,000	30.00	34.32	34.32	0.00
1,00,00,001	2,00,00,000	30.00	35.88	35.88	0.00
2,00,00,001	5,00,00,000	30.00	39.00	39.00	0.00
	> 5,00,00,000	30.00	42.74	42.74	0.00

ILLUSTRATIVE LIST OF MAJOR CONCESSIONS/DEDUCTIONS REMOVED FOR INDIVIDUALS UNDER THE NEW REGIME

Particulars	Amount (INR)
Interest on Housing Loan	200,000
Deduction u/s 80C	150,000
Standard Deduction on Salary	50,000
Deduction u/s 80D	50,000
House Rent allowance	Upto 40%/50% of Basic salary
Deduction for donation u/s 80G	100%/50% of donation
Family Pension	15,000

Ease of compliance: Foreign companies having only dividend, royalty or FTS income will not file tax returns if tax is withheld at domestic law rates. Any treaty benefit would require filing. Considering India's vast treaty network, this may have limited application.

Tax audit: SMEs having turnover of up to ₹5 crore (earlier ₹1 crore) will not require a tax audit, provided not more than 5 per cent of receipts/payment is in cash. This is a bait towards a less cash-intensive economy, but can be difficult to prove in practice for the taxpayer.

Fake invoice: Fraudulent claims of GST credit through false invoices will attract penalty under the income tax laws, equivalent to false invoice amounts.

This provision should be a deterrent but needs careful administration to avoid double jeopardy through other penal provisions for unexplained credit.

Pre-filled returns: Audit/ accountant's reports will be filed one month ahead of the due date of return for enabling pre-filling of data in the tax return. Similarly, deduction of donations will be pre-filled in the tax returns based on an information return to be filed by donees. This would prevent false claim but donees need to key in data correctly.

Reduce litigation

Vivad se vishwas: A one-time scheme to resolve pending disputes has been announced. The framework will be open up to June 30, 2020. Applicants opting before March 31, 2020 will have to settle only tax demanded, and after March 31, 2020 will have to pay an additional amount. The scheme will be notified.

This scheme is a substantial improvement over that introduced in 2016 which waived only a part of the penalty and wasn't so successful. The 'Sabka vishwas' scheme introduced for indirect taxes in 2019, with similar terms, was very successful. This scheme will also garner revenue for the government by the year-end.

Dispute resolution panel (DRP): Non-corporate foreign assessees will also be eligible to approach the DRP, which will fast-track their litigation. Further, the DRP route will be open to any dispute irrespective of variation of income.

Pre-deposit before stay application to ITAT: The 20 per cent pre-deposit will henceforth be required. This may amount to curtailment of the powers of a quasi-judicial body and can face judicial scrutiny.

Transfer pricing: The scope of Safe Harbour and Advance Pricing Agreement (APA) will now cover attribution of profits to a Permanent Establishment (PE). This will provide certainty to business transactions for cross-border related parties. Given the expertise in APA administration, the results are expected to be much more scientific than arrived at through litigation. The scope of Advance Rulings can be similarly expanded to benefit other international transactions. Additionally, even unrelated parties can be allowed to approach APAs for similar profit attribution.

Conclusion

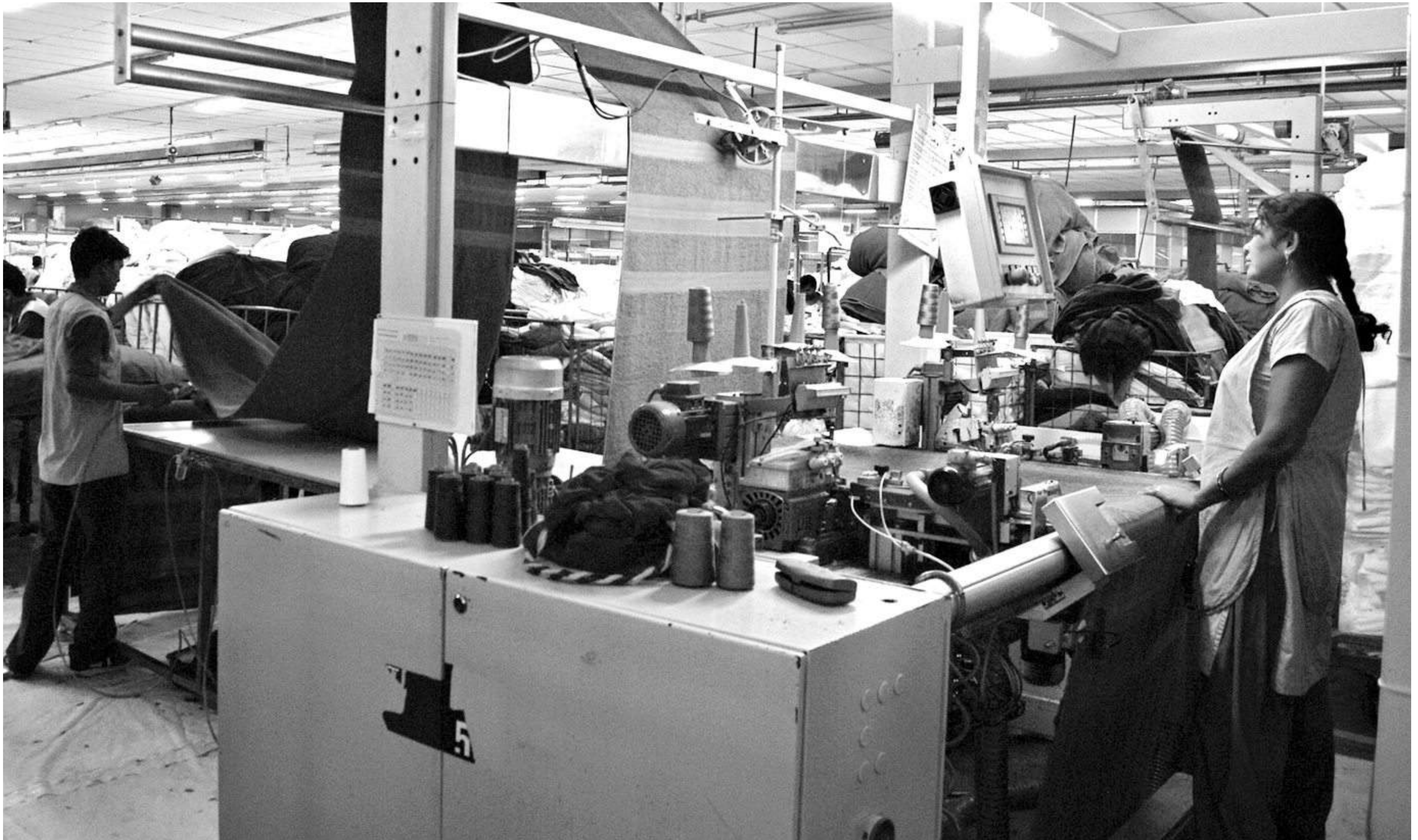
Overall, the proposals are intended to accelerate economic momentum and ease of living for taxpayers. The true experience of the simplest and smoothest direct taxes will lie in their administration.

KAUSHIK MUKERJEE
Partner–Tax & Regulatory,
PwC India

Assisted by: Prasun Kumar Maiti, Saurabh Kedia, Kapil Basu, Bikash Jain, Diparun Mukherjee, Jai Soni, Puskar Gupta, Ajay Ruia, Himani Sheth, Amit Lal, Shreya Daga, Puja Agarwal, Karan Sethia, Alok Goenka, Sourav Bagaria

Coping with conflicting demands

Expectations remain high but fiscal constraints could lead to the emergence of implementation challenges in many of the schemes during the year



SOCIAL SECTOR

The finance minister has attempted to maintain a delicate balance between remaining investment-friendly and yet driving consumption, within the overall constraints of maintaining the fiscal deficit target. This has led to unchanged or marginal increases in allocations to most schemes focusing on the social sector. The recurring mention of public private partnership (PPP) indicates a willingness on the part of the government to look at financial resources from the private sector to bridge the investment gap. Considering the fiscal constraints, we could expect implementation challenges in many of the schemes during the year, considering that the outputs and outcomes expected have not been reduced.

Health care

The budget is focused on both preventive and curative aspects of health care along with medical education, skill development and adopting emerging technologies. Despite the comprehensive interventions suggested, the overall allocation has increased by only 4 per cent.

Mission Indradhanush's ambit has been extended to cover 12 new diseases and five new vaccines, along with the Fit India movement to combat the non-communicable disease burden. The Ayushman Bharat-Health & Wellness Centres (HWCs) seem to have got a bad deal, with no fund increase despite the announcement of setting up 1.5 lakh HWCs by 2022 in the last Budget, with only 28,005 HWCs achieved as per the Economic Survey.

Addressing supply-side shortages of infrastructure and quality services through PPP by setting up Ayushman-empanelled hospitals with a 'Viability Gap funding window' seems to be a pragmatic strategy. The unchanged allocation to Ayushman Bharat at ₹6,400 crore may be inadequate considering the increasing demand.

While the Budget shows the intent to address shortage of medical doctors by setting up medical colleges attached to district hospitals, the unchanged allocation to human resources at ₹4,686 crore appears inadequate. Similarly, Pradhan Mantri Bharatiya Jan Aushadi Pariyojna Kendra aims to double the product basket to make 2000 generic drugs and 300 surgicals affordable by 2024; and has an unaltered allocation, making the target overly ambitious. The 14 per cent increase in allocation to the health research component is a positive development, considering the resurgence of new diseases.

The finance minister alluded to the imminent notification of a National Education Policy, attracting additional finances, building the "Study in India" brand and improving quality of education, especially for deprived sections of society in her speech. The overall financial allocation at ₹99,312 crore to MoHRD is a marginal 5 per cent increase over the current year and reflects across all major education schemes.

The core scheme of Samagra Shiksha Abhiyan (after convergence of Sarva Shiksha Abhiyan, Rashtriya Madhyamik Shiksha Abhiyan, and Teacher Education schemes in the last Budget) has received only a marginal increase and may face implementation challenges. The announcements and funding for Operation Digital Board and Pradhan Mantri Innovative Learning Programme (DHRUV) is a step in the right direction to promote innovation in secondary education.

The ₹500 crore allocation for world class higher education institutions (54 per cent increase) indicates the focus on quality. Access to Degree-level programmes is planned to be amplified through online education and Prime Minister's Fellowships for students of deprived communities. However, the previous Budget's emphasis on programmes for research and innovation does not find any mention and the allocation for this head has been reduced by 9 per cent in the current year.

The government commitment to invest in youth is visible in the increased allocation to the ministry of skill development and entrepreneurship by 19 per cent and measures to enhance uptake of apprenticeship through a 43 per cent increased allocation to

MAJOR FUND ALLOCATIONS FOR TRIBAL WELFARE ACROSS VARIOUS MINISTRIES AND DEPARTMENTS (₹ CR)

Ministry / Department	Fund Allocation
Department of Agriculture, Cooperation and Farmers' Welfare	11,508
Ministry of Tribal Affairs	7,356
Department of School Education and Literacy	5,844
Department of Rural Development	5,026
Department of Health and Family Welfare	4,300

the 'promotion for apprenticeship' component. This intent of addressing the "education to job" transition challenge is also reflected in the proposed one-year internship for fresh engineers with Urban Local Bodies.

While the impetus for skill development is welcome, the issue of low uptake leading to lower utilisation of funds in the current year and the 40 per cent gap in achieving the one-crore trainee target through the Pradhan Mantri Kaushal Vikas Yojna calls for introspection. The Budget also is silent on initiatives towards facilitating learning and progression pathways across vocational, technical and general education as envisaged in the skill policy.

The overall Budget's thrust towards infrastructure development and augmenting digitisation pan-India is expected to open avenues for up-skilling and digital skilling.

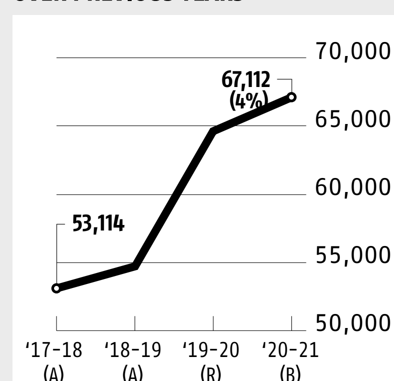
Textiles

The textile and apparel sector is one of the largest contributors to job creation and its importance is reflected in the 49 per cent increase in allocations for the Integrated Scheme for Skill Development with cumulative training of 12 lakh people.

The announcement launching the four-year National Technical Textile Mission with an outlay of ₹1,480 crore targeting reduced imports by supporting domestic industry is a welcome measure. This mission is likely to help the domestic industry substitute 20 per cent of the current $16 billion imports over the next 5 years, with an additional investment of nearly ₹6,000 crore generating employment for around 2,000 people.

The Budget allocation for the National Rural Livelihood Mission remains unchanged, with a marginal 2 per cent increase to ₹9,210 crore. However, the conception of additional livelihood opportunities across sectors is a positive development for the rural economy. Promoting opportunities for rural youth in fisheries extension work as 'Sagar-Mitras', extending support to create 500 Fish Farmer Producer Organisations and the 25 per cent increase for the Blue Revolution will positively impact rural livelihoods. Linking of women SHGs with MUDRA and NABARD assistance schemes as part of 'Dhaanya Laxmi' to provide seed storage is expected to enhance income for women and also address an unmet need of farmers. The near-150 per cent increase in allocation to the Scheme for Fund for Regeneration of

ALLOCATIONS (₹ CRORE) FOR HEALTH SECTOR AND PERCENTAGE INCREASE OVER PREVIOUS YEARS



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Traditional Industries (SFURTI) at ₹465 crore will be vital to propel traditional industries and rural non-farm income.

The Mahatma Gandhi National Rural Employment Guarantee Scheme has a 13 per cent lower allocation as compared to the revised estimates of 2019-20. This may constrain the ambitious target of achieving 270 crore person-days.

While there is no major increase in overall outlay for the ministry of tribal affairs, the inclusion of budget items in other ministries means an allocation of ₹53,653 crore from 39 ministries and government departments with major contributions from health, education and the livelihoods sector.

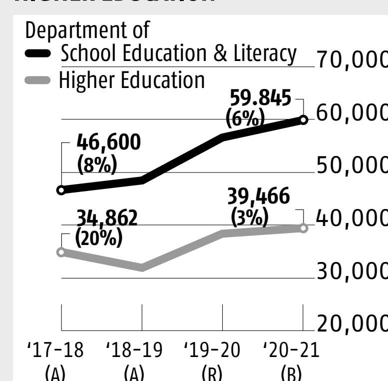
Education has received tremendous focus with a near-1000 per cent increase in allocation for setting up Eklavya Model Residential Schools in tribal-dominated blocks by 2022 at ₹1,313 crore.

The announcement setting up a Tribal Museum in Ranchi is also a welcome measure to preserve and celebrate the tribal way of life.

Gender

While the Budget speech strongly alludes to gender mainstreaming, the unchanged allocation at ₹28,600 crore for 100 per cent women-specific programmes seems to be a casualty of fiscal constraints. The Mission for Protection and Empowerment of Women has

ALLOCATION (₹CRORE) FOR SCHOOL EDUCATION AND LITERACY AND HIGHER EDUCATION



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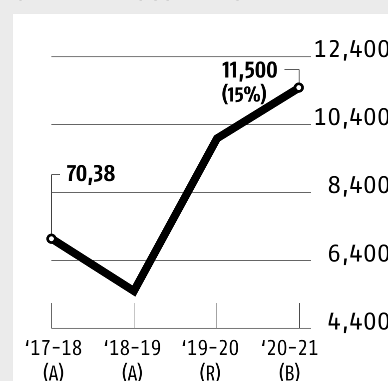
ALLOCATIONS (IN ₹ CRORE) FOR NRDWM AND PERCENTAGE INCREASE OVER PREVIOUS YEARS



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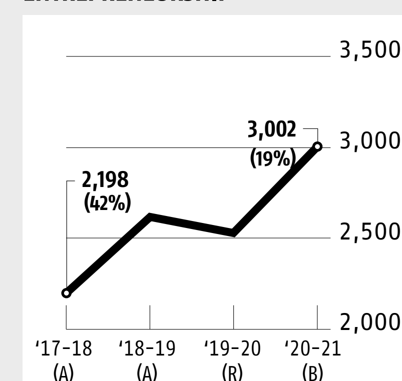
a 21 per cent increase in allocation from ₹961 crore utilised in the current year, which is 72 per cent of the originally allocated ₹1,330 crore. Most flagship schemes, such as Beti Bachao, Beti Padhao, Mahila Shakti Kendra and Working Women's Hostel, have lower utilisation in the current year.

In FY19-20, only 30 states have reported any utilisation of Nirbhaya funds and amongst those who did utilize these, 24 states

ALLOCATION (₹CRORE) FOR SKILL DEVELOPMENT AND ENTREPRENEURSHIP



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have less than 30 per cent utilisation. The government may have to work closely with the states for effective utilisation of funds in this sector.

The governments' commitment to address the issue of water security is reflected in the 15 per cent increase in the allocation for the Jal Jeevan Mission.

Through the Har Ghar Jal programme, the government aims to ensure 100 per cent piped water supply to all rural households by 2024, with such access currently being at 45 per cent.

The continuing commitment to the Swacch Bharat Mission-Gramin is visible in the 18 per cent increase in funding at ₹21,518 crore. The additional allocation will definitely help to sustain the ODF programme through investments in solid and water waste managements. The intent and resolve to bring in technologies to completely eradicate manual cleaning of sewers and septic tanks is really a welcome move.

ASHOK VARMA
Partner and Leader Social Sector, PwC India

Assisted by: Sumit Parmar, Shivam Mahajan, Soumi Kundu, Anindita Banerjee, Garima Singhal, Preeti Priyadarshini, Mrinalini Badrinarayan, Bano Fatima, Aditi Kumar