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2 BUDGET: THEME

Sometimes, FM will announce theme of budget to create media-hype:

Budget Year	Did FM Speech mention a specific theme (विषयवस्तु)?
2018	No specific theme mentioned in speech
2019	⇒ 2019-Feb: FM Piyush G. presented Interim budget in 16th LS ⇒ 2019-May: Modi won General Election ⇒ 2019-July: FM Nirmala S. presented General Budget in 17th Lok Sabha. Note: In this handout I've used the word 'full budget-2019' for easier understanding. Neither of these two budgets mentioned specific theme
2020	Three themes: 1. Aspirational India: महत्वाकांशी भारत 2. Economic Development for all: सबके लिए आर्थिक विकास 3. Caring India: दयभावना / देखरेख-करने वाला समाज

2.1 ECONOMIC SURVEY (आर्थिक सर्वेक्षण)

- A (two volume) document prepared by the Chief Economic Adviser (CEA) in the finance ministry. Vol2 shows annual data of past year. Vol1 shows prospects & suggestions for the future years.
- There is no constitutional obligation to prepare or present it but usually it's tabled in the parliament **a day before the Union Budget**.
- **2019-Feb:** No economic survey was presented before the interim budget.
- **2019-July:** Economic Survey presented before the (Full) General Budget.
- While Budget is labelled after next financial year (e.g. 2019-20), the Economic survey is labelled **after previous Financial Year**. e.g. The survey tabled on Feb-2018 is labelled as "Economic Survey 2017-18", the Survey tabled in July-2019 is labelled "Economic Survey 2018-19".

Table 1: Theme / Format of Economic Survey?

till '13-14	⇒ Single Volume survey.
2014-15	⇒ Adopted Two Volume Systems like "IMF's World Economic Outlook". ⇒ Vol1= future suggestions Vol2= Past data. ⇒ Explicitly mentioned Theme in preface (प्राक्कथन): "Creating opportunity and reducing vulnerability" (through JanDhan-Aadhar-Mobile = JAM trinity)
2017-18	⇒ No theme in preface. PINK Cover for -Ending Gender Violence. (गुलाबी/लैंगिक हिंसा को समाप्त करना)
2018-19	No theme. But Sky Blue Cover for -Blueprint for making India a \$5 trillion economy" (नीले गगन का रंग/भारतीय अर्थव्यवस्था को \$5 ट्रिलियन तक ले जाना)
2019-20	No theme but Lavender/purple color cover to show the synthesis of old and new ideas for wealth creation & economic freedom (to do business). जामुनी/धन सृजन और आर्थिक स्वतंत्रता के लिए नये तथा पुराने विचारों का सम्मिलन



	(Just like ₹100 currency note which comes in both “old” series as well as “new” Mahatma Gandhi series with lavender/purple color)
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2.2 TAXATION → DIRECT TAXES UPDATES AFTER PRELIMS-2019

2.2.1 Corporation Tax Cut in 2019-Sep

Since Indian corporate sector was facing a slowdown, Nirmala.S announced tax-cuts:

Corporation Tax	Before	After
Existing Indian companies	25-30% depending on turnover + 0-12% surcharge depending on profit + 4% health edu cess	22% tax +10% surcharge on (tax) +4% cess (on tax + surcharge) = 25.17%
New INDIAN MFG company registered from 1/10/2019. (but they must start manufacturing by 31/3/2023) ⇒ Budget-2020: new INDIAN electricity cos also eligible in this	--	15 % +surcharge & cess as given above = 17.01%
Foreign Company's profit from India	40%+surcharge+cess	no change
Zero profit companies	18.5% MAT	15% MAT

⇒ Full Budget-2019:

- Additional tax benefits to companies producing solar power, electric batteries, computer server, laptop etc. in any part of India.
- Companies operating from GIFT-city-IFSC given 100% exemption from Corporation Tax for 10 years. (previously this ‘tax holiday’ was for 5 years;)

⇒ Budget-2020:

- Tax holiday for developers of affordable housing extended till 31/3/2021. (meaning 0% corporation tax / capital gains tax on their profit)
- If a Sovereign Wealth Fund (Ref-pillar#1C) invests in Indian infrastructure projects → Tax holiday for them. E.g. Abu Dhabi Investment Authority

2.2.2 Corporation Tax on Startups

Startup is a company not older than 10 years and not having turnover more than 100 cr.

Govt helps them through Startup India Scheme (Ref: Pillar4B). Budget-2020 →

- ✓ Startup can claim 100% deduction on its profits, for 3 years out of the first 10 years of incorporation. (as such they get tax benefits under Startup India scheme, but new budget fine tuned those technical definitions further.)
- ✓ Start-ups generally use Employee Stock Option Plan (ESOP) to attract talented employees. But ESOP was subjected to various direct taxes → New budget gave some technical reliefs to them.

2.2.3 Dividend Distribution Tax (DDT: लाभान्श वितरण कर)

- 1997: FM Chidambaram started to levy DDT on a shareholder's dividend income. In reality, company (=source) will cut that much ₹ ₹ portion from shareholders' dividend, & directly deposit that ₹ ₹ to the govt, as DDT.
- Shareholder did not have to pay Income tax on it.



- DDT Rate: 15% + cess + surcharge = 20.56% on dividend paid.
- **Full-Budget-2019:** Companies in GIFT-city-IFSC given some exemptions from DDT.
- **Budget-2020:** abolished DDT. But, dividend will be taxable in the hands of shareholder (i.e. he'll pay income tax on it). Benefits?
 - Previously even lower middle-class shareholder's ~ 20% dividend was cut in the name of DDT. But now he may have to pay barely 0-5% income tax on income from dividend. Thus, Shareholders get to keep more ₹ for spending → shopping spree → demand, production, economic growth.
 - Foreign investors will be attracted to invest in Indian companies' shares.

2.2.4 Buyback Tax (शेयर की वापसी-खरीद पर कर)

Profit making companies sometimes repurchase their own shares back from shareholders

- ⇒ **Impact?** These many shares are extinguished from company's liability side.
- ⇒ **Benefit to company?** No need to pay dividend on these shares in future.
- ⇒ **Budget-2013:** Government ordered UNLISTED companies to pay "20% Buyback tax" they buy back their own shares from the market.
- ⇒ **(Full) Budget-2019:** made this applicable on LISTED companies as well. (Ref: 1C)

2.2.5 Capital Gains Tax (CGT: पूंजीगत लाभ कर)

- When an owner makes profit by selling his capital assets such as non-agro-land, property, jewellery, paintings, vehicles, machinery, patents, trademarks, shares, bonds & other securities- then he has to pay CGT.
- **Full-Budget-2019**
 - If Startup entrepreneurs unable to secure capital from investors → they sometimes have to sell their house arrange money for starting business. So, Government had exempted their *house-selling-profit* from CGT. This scheme **extended it till 31/3/2021**.
 - Companies operating from GIFT-city-IFSC given some exemptions from CGT.
- **Budget-2020:** some minor technical updates. not IMP.

2.2.6 Income Tax on Individuals (व्यक्तिक आयकर)

James Wilson (financial member of the Council of India, founder of the Economist magazine and Standard Chartered Bank) introduced income tax in India on 24 July 1860 to compensate the British losses during 1857's Sepoy mutiny. So, **24th July** is celebrated as **Income Tax Day** (Aaykar Diwas).

2.2.7 (Optional) New slabs for Income Tax in Budget-2020

IF you give up exemptions and deductions (छूट और कटौती) such as

- Salaried employees' standard deduction, HRA, Leave Travel Concession (LTA)
- Section 80C-walle deduction (e.g. investments made in LIC/NPS etc upto ₹1.5 lakh per year) Etc.
- Then you can opt to pay with new (reduced) income tax slabs viz.

TAXABLE Income (per annum)	(new slab, if you give up deduction & exemptions)	(old slabs, if u don't give up)
Upto ₹2.5 lakh	Nil / 0%	Nil / 0%



TAXABLE Income (per annum)	(new slab, if you give up deduction & exemptions)	(old slabs, if u don't give up)
>₹2.5 lakh-₹5 lakh (meaning from 2,50,001 to 5,00,000)	5% (But 12500 rebate so in reality ₹0)	5% (But 12500 rebate so in reality ₹0)
>₹5 lakh to ₹7.5 lakh	10%	20%
>₹7.5 lakh to ₹10 lakh	15%	
>₹10 lakh to ₹12.5 lakh	20%	30%
>₹12.5 lakh to ₹15 lakh	25%	
>₹15 lakh	30%	
Surcharge & cess applicable?	Yes	Yes
E.g. An employee with annual salary ₹15laks will pay total INCOME TAX	₹1.95 lakh**	₹2.73 lakh

**It is left to individual's discretion whether he wants to stay in old / new system. But if all people opted for the new slabs then Govt will hypothetically get ₹40,000 crore less (compared to old system). Technically, it's called "Revenue forgone" (परित्यक्त राजस्व).

- ⇒ But, \downarrow Income tax paid = \uparrow disposable income with people (खर्च करने के लिए उपलब्ध आय) → shopping spree → \uparrow demand → production, economic growth etc.
- ⇒ And shopping spree = \uparrow Indirect tax collection e.g Mobiles = 18% GST.
- ⇒ Currently the Income Tax Act is riddled with various exemptions and deductions. Ordinary people can't understand and have to consult Chartered Accountants (CA) & investment advisors before filing taxes. Now process is easier. (सी.ए. की सहायता नहीं लेनी होगी. कराधान का सरलीकरण होगा)
- ⇒ In the old slabs, IT Act provided 100+ types of exemption /deduction. Budget-2020 removed 70 of them, & promised to \downarrow the no of exemptions /deductions in future.

2.2.8 Direct Tax Code (DTC) Task Force (2017-2019)

2017: Finance Ministry setup this taskforce under CBDT member Arbind Modi. Later, he retired so another CBDT member Akhilesh Ranjan was made Chairman.

- ⇒ Taskforce had noted IRS officer, Chartered Accountant, Tax Lawyer, Corporate Consultant etc. Chief Economic Advisor Krishnamurthy Subramanian was also a member of this taskforce → 2019-Aug report submitted to the Finance Ministry.

Major suggestions:

1. Replace the Income Tax Act 1961 with a simpler Direct Tax Code (प्रत्यक्ष कर संहिता).
2. \downarrow the corporation tax further.
3. Tax rates for domestic and foreign companies should be same. This will encourage ease of doing business in India.
4. Give additional tax relief for the startup companies. (More in Pillar4B)
5. \uparrow the number of tax slabs from present three (5%,20%,30%) to four (10%, 20%, 30% and lastly 35% for super-rich earning ₹ 2 crore />).
6. Abolish Dividend Distribution Tax (DDT). [which is actually done in Budget-2020]
7. Setup Litigation Management Unit (मुकदमों की प्रबंधन इकाई) to look after the tax related court cases in an efficient manner.
8. ~~++ many other reforms, but poor cost:benefit chasing them.~~



2.2.9 🏠👤🔧 Tax Deducted at Source (TDS): (स्रोत पर कर कटौती)

- 📁 Full-Budget-2019: TDS: Other measures (list not exhaustive)
 - (while companies are required to cut TDS on almost every payment made to anyone, but from now onwards) Even if an individual person is paying larger than ₹ 50 lakhs to contractors or professional, he'll have to cut 5% TDS. (So tax evasion by real estate brokers, high-profile wedding-organizers etc. can be checked.)
- 📁 Budget-2020: Following changes made:

Table 2: (What/HOW/NOTIMP). This is just for illustration

TDS% ⬇️ to 1) attract foreign investment 2) reduce hardship	TDS applied / % ⬆️ to stop tax evasion opportunities
1. When Indian company repays loan interest to foreign lenders.	4. TDS when an e-commerce company pays to sellers.
2. Bond market @Gift-City-IFSC	5. Loan interest paid by cooperative societies.
3. Payment for Technical services	

2.2.10 🏠👤🔧 Tax Collected at Source (TCS): (स्रोत पर संगृहीत कर)

- Govt found many Indians not paying single ₹ of income tax and YET:
 - converting crores of rupees into dollar\$, sending it abroad in pretext of child education / family remittance.
 - Going for luxury foreign vacations
 - so it could be some black money/tax evasion game behind curtains.
- Therefore, 📁 Budget-2020: Authorized Forex dealers will have to cut 5% TCS while converting Indian ₹ into foreign currency. Similar norms on foreign tour operators.

2.2.11 🏠👤🔧 Taxation Ordinance 2020 (कराधान अध्यादेश)

Issued on 31/MAR/2020 to give relief during Corona outbreak.

⇒ Income Tax Act: 100% exemption if donations made to Prime Minister's Citizen Assistance and Relief in Emergency Situations Fund (PM CARES Fund)

⇒ Upto 2020-June-30

- Taxpayers can make investments or payments in LIC, Public Provident Fund and National Savings Certificates etc. & for claim its deductions for FY 2019-20
- Vivad se Vishwas Scheme extended
- Sabka Vishwas Legal Dispute Resolution extended

⇒ Certain technical reliefs in depositing the TDS, TCS, GST etc to Government

+ many other things but we are NOT HERE for CA Exam.



2.3 🛒 TAXATION → INDIRECT TAXES UPDATES AFTER PRELIMS-2019

2.3.1 🛒: 🗳️: 🗳️ GST Council: Composition? जीएसटी परिषद

🗳️ Union representatives (2 प्रतिनिधि)	🗳️: 🗳️ States' representatives (31)
1. Finance Minister as the Chairman 2. Union Minister of State for finance or revenue. (वित्त या राजस्व के केंद्रीय राज्य मंत्री)	- Each state government (including UT with legislature: J&K, Delhi & Puducherry) can nominate 1 minister to GST council- it may be their minister of finance or Dy.CM or any other minister as per their wish. - One of them will be selected as the Vice-Chairman of GST council.
🗳️ Voting power: 1/3 rd	🗳️ Voting power: 2/3 rd

- ✓ Council Meetings to proceed only with **quorum of 50%** of total membership.
- ✓ If all members don't no unanimously agree over a proposal (यदि किसी प्रस्ताव पर सर्वसम्मति नहीं, तो वोटिंग होगा) → it'll be put for voting → then minimum 3/4th votes required to pass the proposal.
- ✓ ** Originally, state Government run lottery = 12% GST & other (private) lotteries = 28% GST. But from 2020 all types of lotteries = 28%. While Kerala Govt opposed to this move fearing less sales of State lottery so GST council had to go for voting → majority voted in favour of 28%. This is the first matter since inception of GST council, wherein voting had to be done. All previous decisions were taken unanimously without voting.
- ✓ To boost electric vehicle, Modi Government requested GST council to reduce GST on e-vehicles from 12% to 5% but decision yet awaited. So, keep an eye on newspapers, and update as and where required.
- ✓ For more, you may refer to: <https://cbec-gst.gov.in/gst-goods-services-rates.html>

2.3.2 🛒: 🗳️ GST on J&K

- ✓ 🗳️: 🗳️ **Jammu & Kashmir** passed SGST Act on 8th July, 2017 → then GST system became effective there as well. **JAMMU AND KASHMIR REORGANISATION ACT, 2019** has not abolished this SGST act. Present status is:
 - SGST applicable on J&K (UT with Legislature: विधायिका युक्त केंद्रशासित प्रदेश)
 - UTGST on Ladakh (UT without Legi: विधायिका-हीन केंद्रशासित प्रदेश)

2.3.3 🛒: 🗳️: 🗳️ Goods and Services Tax Appellate Tribunal (GSTAT)

- ⇒ 2019: This quasi-judicial body was setup in Delhi, as per the provisions of CGST Act.
- ⇒ Consists of 1) A chief labelled as 'president' 2) One Technical Member (Centre) 3) one Technical Member (State).
- ⇒ वस्तु एवं सेवाकर अपीलीय न्यायाधिकरण **has two functions:**
 - dispute resolution between the Centre and States.
 - Hearing appeals against the orders passed by Union and State level GST bodies.

2.3.4 ☑️ GST Revenue Collection Figures: जीएसटी राजस्व प्राप्ति के आंकड़े

GST registered suppliers have to deposit the GST at the GSTN portal on monthly basis (except those who opted for the GST composition scheme).



In monthly collection of GST, there are ups and downs based on seasonality.

Year/Month	2017 monthly avg.	2017 monthly avg.	2019 monthly avg (Financial year yet to finish)
GST collection	89700 cr	98114 cr	In some months crossed 1 lakh crore but zigzag

Table 3: Data from बजेट-2020 (Approx. Amount)

Year →	2018-19 (actual)	2019-20 (revised)	2020-21 (Est)
- Excise Duty (petrol, diesel etc.) & their road infra cess	2,30 Lcr	2.48 Lcr	2.67 Lcr
- National Calamity Contingent Duty on Tobacco products			
Customs Duty, Social Welfare Surcharge, Health Cess	1.17 Lcr	1.25 Lcr	1.38 Lcr
A) CGST	4.5 Lcr	5.14 Lcr	5.80 Lcr
B) IGST	29k cr	Not mentioned	
C) GST compensation Cess	95k cr	98k cr	1.10 Lcr
GST collected by Union=A+B+C	5.80 Lcr	6.12 Lcr	6.90 Lcr

Table 4: combined ranking of direct and indirect taxes?

Upto Budget Estimate-2019	Corporation > GST > IT > Excise > Customs > STT
Revised Est 2019	GST > Corporation > IT > Excise > Customs > STT
Budget-2020	Same as above cell

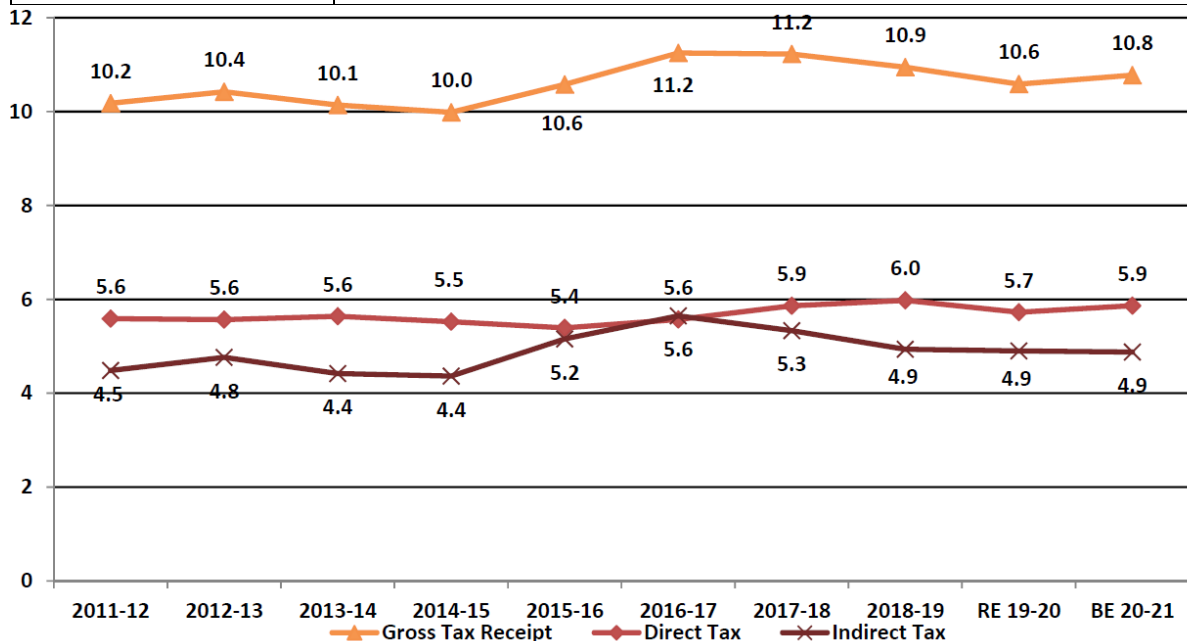


Figure 1: Tax collection as a % of GDP, source Budget-2020

2.3.5 E-Invoice System

- GST council announced the **E-invoice** (=bill generation) from January-2020 on pilot basis, then **E-way bill** will **not** have to be generated **separately**.
- This will provide relief to businessman, will improve the tax-surveillance and fight against false ITC-credit claims through fake invoices.



- **E-invoice** shall be **compulsory** from **1/April/2020**. (Although deferred because computer system not yet fully ready)

2.3.6 🚚 → 🏠 (👤 👤) Compensation to States → Controversy

Year →	2018-19(actual)	2019-20 (revised)	2020-21 (Est)
GST Compensation Cess	95k cr	98k cr	1.10 LCr

- ⇒ Union is supposed to release compensation cess (प्रतिपूर्ति उपकर) to states on monthly basis, but since 2019-August onwards payment pending.
- ⇒ 2019-Dec: only partial compensation released.
- ⇒ FM Nirmala. S says, “Sales ↓, so we have not collected enough cess ₹.”
- ⇒ Non-BJP states first complained to GST council, but it did not help much. So now those State Govts even thinking of moving to Supreme Court, which hints that cooperative federalism is in danger.



2.4 [👤][👥][👤][👤][👤] 15TH FINANCE COMMISSION'S FIRST REPORT

15th Finance Commission recommended the vertical devolution (ऊर्ध्वाधर कर अंतरण) from the 'divisible pool' of union taxes in following manner. (IGST, Cess, Surcharge not counted.)

FC →	12th (2005-10)	13th (2010-15)	14th (2015-20)	15th (2020-21)
Chairman?	C.Rangarajan	Vijay Kelkar	VY Reddy	NK Singh
States Share	30.5%	32%	42%	41%*

*15th FC's justification: Compared to 14th FC, 1% extra Union should keep for UTs of J&K & Ladakh's security & other needs.

15th FC horizontal distribution formula components (घटक) → (भारंक%)	Weight%
Income Distance (आय में अंतर): ⇒ State GSDP divided by its Population = per capita GSDP. ⇒ For most states, Haryana's per capita GSDP is taken as benchmark. How poorer is your state compared to Haryana= more ₹ you'll get.**	45%
📏 Area (क्षेत्रफल) More area = more ₹	15%
👤 Population (as per Census-2011: आबादी): More population = more ₹	15%
Demographic Performance (जनसांख्यिकीय निष्पादन): States that have ↓ Total Fertility Rate (TFR: कुल प्रजनन दर), will get ↑ ₹. More in Pill#6	12.5%
🌳 Forest and Ecology (वन एवं पारिस्थिकी): More forest= more ₹	10%
🍋 Tax Effort (कर प्रयास): States who've improved their per capita (State) tax collection in the last 3 years = get more ₹	2.5%
Total (कुल)	100%

** Note: computing income distance: the Highest per capita GSDP: 1) Goa 2) Sikkim 3) Haryana 4) Himachal. But since Goa, Sikkim are very small states with a unique economic situation, so it'll distort statistical formula. So, there are some internal fine tunings done in formula. Long story cut short: Haryana taken as benchmark for most states. If you've more intellectual curiosity about how above indicators are calculated in real life, you may spend waste time reading the original report@ <https://fincomindia.nic.in/>

2.4.1 [👤][👥][👤][👤][👤] 15th FC: Horizontal devolution: States' share in ↓ order

Table 5: Try to remember 3-5 names in top & bottom each, & your home state.

1) Uttar Pradesh (17.931%)	11) Chhattisgarh (3.418%)	21) Himachal (0.799%)
2) Bihar (10.061%)	12) Gujarat (3.398%)	22) Meghalaya (0.765%)
3) MP (7.886%)	13) Jharkhand (3.313%)	23) Manipur (0.718%)
4) W. Bengal (7.519%)	14) Assam (3.131%)	24) Tripura (0.709%)
5) Maharashtra (6.135%)	15) Telangana (2.133%)	25) Nagaland (0.573%)
6) Rajasthan (5.979%)	16) Kerala (1.943%)	26) Mizoram (0.506%)
7) Odisha (4.629%)	17) Punjab (1.788%)	27) Sikkim (0.388%)
8) Tamil Nadu (4.189%)	18) Arunachal (1.76%)	28) Goa (0.386%)
9) Andhra (4.111%)	19) Uttarakhand (1.104%)	ANY type of UT = 0% here
10) Karnataka (3.646%)	20) Haryana (1.082%)	

2.4.2 [👤] Finance Commissions & the fate of UTs of J&K & Ladakh

Until 10th Finance Commission, the FC would also prescribe the revenue sharing formula between the Union Government and Union Territories.

- But this practice stopped since 11th finance commission i.e. Finance ministry itself decides how much revenue will be shared with Union Territories based on its own



discretion (अपने विवेक से तय करता है). Finance Commission no longer prescribed formula in this regard. But,

- **31st October 2019:** The state of Jammu Kashmir was officially split into the union territories of Jammu Kashmir and union territory of Ladakh.
- Jammu and Kashmir Reorganization Act, 2019 mandates that:
 - Whatever amount the former state of J&K was supposed to receive between 31/10/2019 to 31/3/2020 (as per 14th FC formula) ...It will be distributed between these two new union territories on the basis of population ratio and other parameters.
 - President of India shall require 15th FC to make award for UT of J&K. However, looking the 15th FC report, no separate share is given in vertical / horizontal tax devolutions. Simply 1% extra kept with Union to look after J&K & Ladakh.

2.4.3 🗳️ → 🏠👤 (👤👤) Grants from Union to States (संघ से राज्यों को अनुदान)

Apart from the tax devolution, FC would also suggest Union to give grant to the states (grant= NOT loan, so need not return with interest).

14th FC suggested following types of grants→

1. **For All States:** Grants for Panchayati Raj Institutions (PRI) and Urban Local Bodies (ULB). These grants will be subdivided into two parts: basic grant and (10-20%) performance based grants.
2. **For All States:** Disaster Management Grants.
3. **For 11 (कंगाल) States:** Post-Devolution Revenue Deficit Grants (अंतरण-पश्च राजस्व घाटा अनुदान) for ~11 States.

15th FC suggested following types of grants (in ↓ decreasing order, 2020-21)→

- 1) 🏠👤🏠 Local Bodies Grants (स्थानीय निकाय अनुदान, 90k cr)
- 2) 🏠👤👤 Post-Devolution Revenue Deficit Grants (74kcr)
- 3) 🏠👤👤👤 Disaster Management Grants (आपदा प्रबंधन अनुदान: 41kcr)
- 4) 🏠👤👤👤 Sector Specific Grants: Nutrition (क्षेत्र-विशिष्ट अनुदान, ~7700cr)
- 5) 🏠👤👤👤 Special Grants: (विशेष अनुदान , ~6700kcr)
- 6) 🏠👤👤👤 Performance-based incentives (निष्पादन-आधारित प्रोत्साहन)

2.4.4 🏠👤🏠 15th FC: Local Bodies Grants (स्थानीय निकाय अनुदान, 90k cr)

2020-21	Approx. Amount in ₹cr.
Rural Local Bodies - given to all three tiers in the panchayats, i.e. village, block and district. And also, for 5 th and 6 th Sch. areas	~60k. Out of this, ⇒ 50% is Tied Grants (निर्दिष्ट) = meant only for specific objectives 1) sanitation 2) water ⇒ 50% is Untied/basic (प्राथमिक) = can be used for any objective depending on location. Except salary & establishment (building renovation, electricity bill etc) From 1/4/2021 they'll be required to submit audited accounts online through Panchayati Raj Institutions Accounting Software (PRIAsoft) to Comptroller and Auditor General (CAG)



Urban Local Bodies (ULB) & Cantonment boards	~30k. Out of this, ⇒ ~9k cr for million plus population-walli cities. (Excluding Delhi & Srinagar for being in UT). These grants are mainly to be used for air quality improvement, water & solid waste management. ⇒ ~21k for cities with <1million pop: 50% untied (basic) grants + 50% tied for specific objectives 1) drinking water 2) solid waste management. From 1/4/2021, ULBs required to 1) reform property tax rates 2) submit audited accounts to CAG online.
Total grants	~60k Rural + ~30k Urban = 90k.

2.4.5 🏠👤👤 Post-Devolution Revenue Deficit Grants (74kcr)

Suppose (amt in ₹cr)	2020-21
Andhra's own State Budget: Revenue Expenditure - Income = Revenue Deficit (राजस्व घाटा)	41 kcr
Andhra's share from Union's taxes based on horizontal devolution	35 kcr
Andhra's Post-Devolution Revenue Deficit =	41-35=6 kcr.

So 15th FC will give Andhra extra 6 kcr as Post-Devolution Revenue Deficit Grant (अंतरण-पश्च राजस्व घाटा अनुदान). Only 14 states eligible: Assam, Himachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Uttarakhand, Andhra, Kerala, Punjab, Tamil Nadu, West Bengal.

2.4.6 🏠👤👤👤 15th FC: Disaster Management Grants (आपदा प्रबंधन अनुदान: 41kcr)

Disaster Management Act, 2005 → Ministry of Home Affairs (गृह मंत्रालय) looks after the subject.

15th FC: 2020-21 recommendations सिफारिशे	🏠 National Disaster Risk Management Fund (NDRMF: एनडीआरएमएफ/राष्ट्रीय आपदा जोखिम प्रबंधन कोष)	🏠 State Disaster Risk Management Fund (SDRMF)
allotted ₹ cr	~12k	~29k**
Internal distribution आंतरिक वितरण	⇒ 80% amt for National Disaster Response Fund (NDRF: एनडीआरएमएफ/राष्ट्रीय आपदा सहायता कोष) ⇒ 20% amt for National Disaster Mitigation Funds (NDMF: एनडीएमएफ/राष्ट्रीय आपदा प्रशमन कोष)	Same pattern, change word from National to 'State'

**Notes on SDRMF:

- 1) How much will an individual state get? Ans depends on its past disasters, risk exposure (area & population wise) etc.
- 2) Respective State Govt is also required to contribute some money in SDRMF

2.4.7 🏠👤👤👤 15th FC: Sector Specific Grants (क्षेत्र-विशिष्ट अनुदान, ~7700cr)

- ⇒ Seven sectors: health, pre primary education, judiciary, rural connectivity, railways, statistics, housing. (स्वास्थ्य, पूर्व प्राथमिक शिक्षा, न्यायपालिका, ग्रामीण संपर्क, रेलवे, सांख्यिकी, आवास)
- ⇒ 15th FC asked the Union & State Government to build a preparatory framework (प्रारंभिक रूपरेखा), then later it'll recommend the actual ₹ figure.
- ⇒ At present, 15th FC only recommended health → Nutrition grant (₹7700+ cr पोषण अनुदान) to combat malnutrition (कुपोषण). Ministry of Women and Child Development (MoWCD: महिला बाल विकास मंत्रालय) will oversee its utilization.



2.4.8 15th FC: Special Grants: (विशेष अनुदान , ~6700kcr)

- ⇒ If a state receives less ₹ in (15th FC's devolution + post revenue deficit grants) in 2020 compared to 2019 (when 14th FC Rangarajan's formula was in effect),
- ⇒ Then such State will get Special Grants just to prevent any 'feeling of injustice / bias' (अन्याय / पक्षपात कि हमको पहले से कम पैसा मिल रहा है)
- ⇒ Only 3 states eligible: Karnataka, Telangana and Mizoram. Total ₹6,764 cr for 2020-21

2.4.9 15th FC: Performance-based incentives (निष्पादन-आधारित प्रोत्साहन)

15th FC didnot decide the amount yet but asked Union's Ministries/Departments to prepare State-wise baseline indices/score/data (आधारभूत सूचकांक) by 2020-May/June for following performance indicators:

- 1) Implementation of Agriculture. Reforms कृषि सुधारों का कार्यान्वयन
- 2) Development of Aspirational Districts (=backward districts identified by NITI Aayog) आकांक्षी जिलो का विकास
- 3) Power (Electricity) Sector Reforms. बिजली क्षेत्रमे सुधार
- 4) Enhancing Trade including Exports. व्यापार व निर्यात को बढ़ावा देना
- 5) Promotion of Domestic and International Tourism. घरेलू और अंतर्राष्ट्रीय पर्यटन को बढ़ावा
- 6) Education, esp. of girls. शिक्षा, खासकर कन्या शिक्षा

If States perform well in above areas, they'll get more ₹ grants than other States in subsequent years.

2.4.10 15th FC: Other recommendations to Govt

- ⇒ Some States have requested special category status(विशेष श्रेणी का दर्जा). But it's not part of our mandate/Terms of Reference. So we've nothing to say on this matter.
- ⇒ Reform the direct taxation system → increase tax collection.
- ⇒ Reform GST's operational challenges, slabs and rates.
- ⇒ Review the outcomes of all Government schemes. Merge/abolish non-essential schemes → reduce Expenditure.
- ⇒ We need a law on "Public Financial Management System (लोक वित्तीय प्रबंधन प्रणाली)" it'll prescribe the budgeting, accounting, internal control and audit standards to be followed at all levels of government.
- ⇒ Govt should follow FRBM Act in letter and spirit. Avoid off-budget borrowings through para-statal entities. (More in Pillar2: FRBM Section)

2.4.11 15th FC Report for 2020-21: conclusion

- ✓ Sustainable Development Goal#10 (SDG, सतत विकास लक्ष्य): reduce inequality within the country. असमानता को कम करो
 - ✓ SDG-Goal#16 requires nations to build effective, accountable and inclusive institutions at all levels. लोक प्रशासनके सभी स्तरों में संस्थानों को प्रभावी, जवाबदेह और समावेशी बनाओ
 - ✓ In this regard, 15th FC has tried to provide a framework for 1) equitable distribution of revenue 2) incentives tied with performance. ऐसा ढांचा जहां 1) करवितरण समानता के साथ और 2) प्रोत्साहन प्रदर्शन के हिसाब से मिलेगा
- It'll greatly help to improve India's human development and economic growth. मानव विकास और आर्थिक विकास में मदद मिलेगी



2.5 (🏠🏢👤) TAX EVASION → FULL-BUDGET-2019 ANNOUNCEMENTS

- ✓ **Stick:** Government provides (indirect tax) credits to exporters for the inputs used in the manufacturing of export products. However, some villains generate fake invoices to claim such credits. If the amount is ₹ 50 lakh/> it'll be made a non-bailable and cognizable offence (संज्ञेय अपराध i.e. police can arrest without warrant).
- ✓ Cash-based economy = more opportunities for tax evasion and avoidance. So, need to encourage less-cash economy:
 - **Carrot:** If a businessman has annual turnover more than ₹ 50 crore → No MDR on him or his customer. RBI and Banks will absorb these MDR costs. We'll amend Payments and Settlement Systems Act, 2007 to implement this.
 - **Stick:** 2% TDS on cash withdrawal exceeding ₹ 1 crore in a year from a bank account from a single user account in post office / bank.
- ✓ **Stick:** (Often, businessman deposits black money in his wife's account and when/IF raided, wife feigns ignorance about who deposited money in her account.) So, Nirmala S. promised to initiate technical reforms so that no one can deposit money in others' account without the account holder's permission.
- ✓ **Carrot:** Sabka Vishwas (Legacy Dispute Resolution) Scheme, 2019 ('LDS'). →

2.5.1 🏠🏢👤 Sabka Vishwas L.D.S Scheme 2019

- > ₹ 3.75 lakh crore tax revenue is locked in the service tax and excise duty related cases.
- (Full) Budget-2019: Launched Sabka Vishwas (Legacy Dispute Resolution) Scheme, 2019 (विवाद समाधान योजना).
- Businessman accepts his fault, Tax officials gives a 'discount/relief/waiver' in the penalty/late-fees, and the matter is settled instead of litigating in courts for years & years.

2.5.2 🏠🏢👤 Vivad se Vishwas Scheme for Direct Taxes (📅Budget-2020)

Presently, >₹9 lakh cr worth direct tax cases are pending before Appellate Forums (अपीलीय मंचों के समक्ष लंबित मामले) viz. IT Commissioner (Appeals) → Income Tax Appellate Tribunals (ITAT: आयकर अपीलीय न्यायाधिकरण) → HC → SC. So, in 📅Budget-2020 announced "Direct Tax Vivad se Vishwas Bill/Act, 2020".

- ⇒ Scope: Appeal related to Income tax or Corporation Tax, pending before a forum as of 31/Jan/2020. Then,
- ⇒ Taxpayers can settle with IT dept in following manner
 - A) If IT dept filled appeal → he has to pay 50% of disputed tax amt
 - B) If Taxpayer filled appeal → he has to pay 100% of the disputed tax amt
- ⇒ In both situations, he'll get a complete waiver/relief from interest and penalty (ब्याज और जुर्माना मे से माफी). ~~Scheme has certain variations if tax amount is settled but interest/penalty/arrear is disputed. But chasing that info: poor cost:benefit for MCQs.~~
- ⇒ Above scheme is valid upto 31/March/2020. Afterwards, there is modified formula upto 30/Jun/2020 wherein he may have to pay some small extra amount.
- ⇒ This scheme is not applicable if:
 - person is under prosecution for criminal activities
 - If black money is hidden in foreign countries.



Controversies? 1) Southern India's Members of Parliament angry that Hindi scheme name is used. 2) both honest and dishonest tax payers are treated equally. Even dishonest tax payer can now settle without paying interest/penalty. 3) Income Tax officials' job-transfer etc will be linked to how many cases they solve in this scheme. They're also asked to work on weekends to fulfill these targets. = resentment / demotivation among staff.

2.5.3 🏠👤👤 Tax Avoidance through Non-Resident Status

If a person is	👤 Has to pay his IT on income coming from India?	👤 Has to pay IT on global income e.g. income coming from the USA/China?
Ordinarily resident of India	Yes	Yes
Non-residents	Yes	No

If India has a double taxation avoidance agreement (DTAA) with other nation, then above things may differ (e.g. recall erstwhile Mauritius CGT-roundtripping-walla example)

Table 6: 📅 Budget-2020 changed these definitions

Definition in Indian Tax laws	Before Budget-2020 →	📅 Budget-2020
Ordinarily Indian Resident (साधारणतया भारतीय निवासी) = person who stays in India for →	182 days/> in a year	120 days/>
Non resident (गैर निवासी)= person who stays outside India for →	182 days/> in a year	246 days/>

Implications? Person will have to stay out of India for a longer period if he want to be treated as “Non-Resident” to avoid taxes on his global income.

📅 **Budget-2020:** A citizen of India (even if he is staying abroad), but if he is not liable to tax in any other country → he'll have to pay tax in India. E.g. United Arab Emirates and Bahrain where no income tax is payable.

2.5.4 📅 (Full) Budget-2019: Ease of paying taxes & reducing tax-terrorism Pre-filled online forms for Tax Payers

We'll extract your financial data from Banks, Stock exchanges, Mutual Funds, EPFO, Employers' TDS submissions etc. and provide you with a Pre-filled tax returns containing your salary income, capital gains from share/bond, bank interests, etc. This will help in two ways:

- 1) personal income tax payers' time and energy saved
- 2) accuracy of reporting income and paying taxes

Faceless interaction between Tax payers and Tax official

Personal interaction between the assessee and Income Tax official = more chances of harassment / bribery. So, we'll launch two reforms:

- 1) Cases will be allotted in random **computerized lottery** basis to IT officials without disclosing the name, designation or location of the Officer.
- 2) **Faceless assessment (फेसलेस निर्धारण)** in electronic mode. E.g. assessee received a notice about discrepancy in his reported income vs TDS submitted by his banker, then at initial stage assessee need not visit IT-office, simply give clarification in web-portal.



- 3) **Budget-2020: Faceless appeal (फेसलेस अपील)** process introduced. So, even in appeal stage, assessee need not physically visit IT commissioner / tribunal.

2.5.5 **Document Identification Number (DIN: दस्तावेज़ पहचान संख्याक)**

Whenever Tax official sends letters to taxpayers regarding search authorisation, summons, arrest memo, inspection notices etc. All such documents will have computer generated 'Document Identification Number' (DIN).

- ✓ 2019-Oct: Central Board of Direct Taxes (CBDT) implemented this.
- ✓ 2019-Nov: Central Board of Indirect Taxes and Custom (CBIC) implemented this.

DIN system benefits?

- ✓ It'll create a digital directory of communication between tax authorities and taxpayers. Transparency, accountability, efficient and faster clearance of cases, because all the information available at the click of a mouse.
- ✓ If a document doesn't have DIN number, it'll be **treated invalid**. Thus, DIN system will prevent the corrupt tax officials from sending **fake notices** to harass/blackmail taxpayers for bribes.

Sidenote: Director Identification Number (DIN): Director of every company is required to obtain this number from the **Ministry of Corporate Affairs** under the provisions of Companies Act. It helps monitoring the company act provisions related to "1 person can't be director in more than 'x' number of companies" etc.

2.5.6 **Taxpayers' Charter in Budget-2020 (करदाताओं का अधिकारपत्र)**

A citizens' charter (नागरिक अधिकारपत्र) is a document of commitments made by a government agency to the citizens in respect of the services being provided to them.

- ⇒ e.g Dept of Post's citizen charter reads, "we'll deliver speed post anywhere in India by 4-5 days → ELSE complain online to this website & we'll solve it → if not solved in 90 days then complain to Postmaster General → then to Chief Postmaster General."
- ⇒ 1991: citizen charter system first started in UK by PM John Major
- ⇒ 1997: introduced in Indian union ministries/departments.
- ⇒ **Budget-2020:** CBDT will declare a Taxpayers' Charter. So, Tax payer will easily know what services / complaint redressal mechanisms (शिकायत निवारणतंत्र) are available to him= taxpayer's harassment (करदाता का उत्पीड़न)

2.5.7 **ES19: "Use Behavioural Economics to improve Tax Compliance"**

- ❖ Plato said, "What is honored in a country, is cultivated there." Indians join military because 1) salary 2) because serving in the armed forces is considered 'honorable'.
- ❖ So, we should use the principles of Behavioral Economics (व्यावहारिक अर्थशास्त्र) enhance tax compliance (कर अनुपालन). We've to modify the social norm from "evading taxes is acceptable" to "paying taxes honestly is honorable."
- ❖ **Tax Morale** (कर संबंधी नैतिक मनोबल): it is the intrinsic motivation (आंतरिक प्रेरणा) of taxpayers to pay taxes. When tax morale is down → motivation for tax evasion increases.



Table 7: Tax Morale is affected by two types of fairness

Fairness निष्पक्षता	Vertical Fairness (उध्वाधार निष्पक्षता कैतिज)	Horizontal Fairness (कैतिज निष्पक्षता)
Tax Payer's thought process →	What I pay in taxes is commensurate to the benefits I receive as services from the Government.	There should not be a great difference in the taxes paid by the 'similar' sections of society.
His Tax morale is lowered when →	He sees taxpayers' money wasted in public expenditure (like Mayawati's elephant statues) instead of better quality of water, road, education or electricity.	If a salaried employee and a shopkeeper are earning ₹8 lakhs per annum, still the salaried employee is forced to pay more taxes than this shopkeeper, because <ul style="list-style-type: none"> - TDS on salary whereas shopkeeper underreports his sales in cash payment. - Shopkeeper shows less profit through fictitious business expenditures.
Solution(s)	<ul style="list-style-type: none"> ✓ under-constructions projects should show signboards "Your tax money at work" ✓ Reminding tax payers that public goods can only be provided in return for tax compliance. Most people in your local community pay their taxes on time. 	<ul style="list-style-type: none"> ✓ SMS, billboards highlighting self-employed individuals who pay good amount of tax. ✓ Public shaming of individuals who don't pay taxes. It'll scare other tax-evaders that the probability of their detection has increased. ✓ Avoid Tax Amnesties. Give stringent punishment to tax evaders.

Further, CEA Subramanian K. suggested:

- ✓ Top 10 highest taxpayers within a district → They should be given VIP-treatment such as faster boarding privileges at airports, special "diplomatic" type lanes at immigration counters, fast-lane on roads and toll booths, etc.
- ✓ Highest taxpayers over a decade → Important places should be named after them e.g. roads, trains, schools, universities, hospitals and airports.
- ✓ In Hinduism, Islam and Christianity - unpaid debt is considered a sin. So, advertisements should highlight how tax evasion is a violation of such "spiritual/religious norms".
- ✓ Ease in Paying Taxes: Pre-populated Income Tax forms with easy to understand terms. Even if a person's tax liability is ZERO, he should be required to fill Income Tax form.
- ✓ Automated TDS as and where possible and timely release of Tax refunds.

Hindi-Medium-Mains candidates should refer ES2018-19 Vol1 Ch.2 page52's bullet 2.33 upto page 55's box 5 to get the clean & formal vocabulary for Answer Writing



2.6 📈🕒📊(📁📄) BUDGET → REVENUE EXPENDITURE → SUBSIDIES

2.6.1 Subsidies in budget 2020

Subsidies: Within them descending order (Approx. Figures) ↓ means it's reduced than last budget 1. 🌱 Food subsidies: ₹ 1.2 lakh cr. ↓ 2. 🌱👤 Fertilizer (Urea > Others): ₹ 71,000 cr ↓ 3. 🚰 Fuel (LPG > Kerosene): ₹ 41,000 cr ↑ 4. Interest Subsidies on loans: Farmers (highest), MSME, Affordable Housing, LIC Vay Vandana Yojana etc.: 28,000 cr. ↑ 5. Other (Price stabilization fund, Cotton & Jute etc.): 6000 cr. ↓	2.6 lakh cr Last budget allotted ₹3.4 lakh cr so ↓
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2.6.2 📊📊 ES19: Use 'Behavioural economics (व्यवहार अर्थशास्त्र)' to ↓ subsidy bill

To reduce Government's subsidy burden, Above the Poverty Line (APL: गरीबी रेखा से ऊपर) households should be encouraged to voluntarily surrender their LPG subsidies. North eastern states have shown higher rate of subsidy surrender as compared to other states. Following reforms required:

- ✓ People have a strong tendency to go with the status quo. So, 'Default ticked option' in LPG registration forms should be 'I wish to give up the subsidy', so a person will be 'forced' to untick the option to avail the subsidy benefit.
- ✓ Similarly, income tax forms should contain extra-fields with pre-ticked options like 'I want to give up LPG subsidy'.
- ✓ The online /SMS-based 'subsidy giving up process' should be quick and hassle-free. It should not take more than a few minutes. Because every additional minute required to complete the formalities= increases the chances that person will drop out in the middle of the process.
- ✓ People act positively when they see others act positively, and particularly when they can relate to such individuals. So, online "scroll of honour" should show name/photos/social media-profiles of others in their area who gave up subsidies.
- ✓ Advertisements to highlight that "Rich people are helping in poverty removal by giving up subsidies."
- ✓ When people are watching a movie with social message (such as Padman, Toilet Ek Premkatha etc), it should contain ad asking people to give up full / partial subsidy.
- ✓ Once a person gives up subsidy, he should be shown the photos of poor people benefitting from his act / or a video with a beneficiary saying 'thank you'.

Hindi-Medium-Mains candidates should refer ES2018-19 Vol1 Ch.2 bullet 2.26 to 2.31 to get the clean & formal vocabulary for answer writing.

2.6.3 📊📊 National Recruitment Agency (NRA: राष्ट्रीय भर्ती एजेंसी)

- ⇒ **Present:** multiple recruitment exams conducted by multiple agencies at different points of time throughout the year..
- ⇒ **Future:** NRA will conduct Common Eligibility Test for recruitment to Non-Gazetted personnel in Government and PSBs. → SSC and IBPS will conduct Mains exams for respective posts → time and cost saved for both candidate and recruiting agencies.

📁 Budget-2020: we'll set up NRA & open a (computerized) test centre in every district.





2.7 BUDGET → CAPITAL RECIEPTS → BORROWING







2.7.1 Full Budget-2019: Foreign Borrowing in Foreign Currency

केंद्र सरकार के विदेशी ऋण को विदेशी मुद्रा में जुटाने का मसला

Introduction (Origin): In the (Full) Budget-2019, FM Nirmala S. announced, "India's sovereign external debt to GDP is among the lowest (~5%). The Government would start raising a part of its borrowing programme in external markets in external currencies."

 Arguments in favor	 Against
<ol style="list-style-type: none"> 1. In domestic market, the 'crowding out of private corporate borrowers' will decline. Corporates will be able to mobilize more funds from local market → factory expansion, jobs, GDP growth. 2. In the advanced economies such as USA, EU: the loan rates are very low, so our government may be able to get cheaper loans. 3. Total (cumulative) internal debt of Union is ₹ 96 lakh crores, whereas external debt is ₹ 2.68 lakh crores so if we borrow a little more from external sources it won't harm. 	<ol style="list-style-type: none"> 1. Exchange Rate Risk (विनिमय दर का जोखिम): If rupee weakens against the dollar during the bond's tenure (\$1: ₹ 60 → ₹ 70), the government would have to return more rupees to pay back the same amount of dollars. Then the loan may turn out to be 'more expensive' than originally anticipated. 2. It's true that presently Indian Government's external borrowing is very low, but once this 'door' is opened, subsequent governments may get tempted to borrow more and more from the foreign sources to finance their (populist) welfare schemes, ultimately it can result into crisis when exchange rates turn volatile. 3. Better to increase the foreigners' investment limit in G-Sec (in ₹ currency) and attract them to come to India, rather than we going 'abroad' to get their money in \$ currency.

Conclusion: whether we should borrow in foreign currency or not?

- ⇒  **(Against)** From the aforementioned analysis, it's evident that challenges outweigh the potential benefits. Noted economists such as Dr. Raghuram Rajan are apprehensive about sovereign borrowing from external markets in foreign currency. Therefore, this idea, though well-intended, requires more deliberation.
- ⇒    =   **(In favor)** Considering above points, sovereign borrowing from external markets in foreign currency may not be a bad idea, provided that it's done in a judicious and prudential manner.



2.8 BUDGET → CAPITAL RECEIPTS → DISINVESTMENT: विनिवेश

✓ Disinvestment targets last 4 budgets:

Budget	2017	2018	2019	2020
Target (Lakh cr)	1	0.80	1.05 lakh crore	2.10 lcr
Target Achieved?	✓	✓	✗*	Wait & watch

* Budget-2019: Govt planned to earn ₹1.05 lakh cr from disinvestment but hardly 65,000 cr earned, because investors' response lukewarm (उदासीन), due to slowdown in economy.

- **2019-July:** (Full) Budget-2019, Nirmala S. announced:
 - We will again try for strategic disinvestment of Air India & other selected CPSEs.
 - We'll monetize the unused land assets of CPSEs (e.g. selling / renting). → Government Land Information System (GLIS) portal launched to keep track of all such land assets.
 - We'll relax foreign investment limits in the CPSEs.
- **2019-Nov:** Government announced plans for strategic disinvestment of five public sector units (PSUs) namely,
 - 1) Bharat Petroleum Corp Ltd (BPCL). Big international oil companies including Saudi Aramco are keen to buy BPCL, given its strong presence in fuel retail outlets.
 - 2) Shipping Corporation of India.
 - 3) Container Corporation of India (Concor)
 - Separately, 4) Tehri Hydro Development Corp of India and 5) North Eastern Electric Power Corporation (Neepco) will be sold to National Thermal Power Corporation (NTPC, a public sector company).

2.8.1 ES20 Vol1 Ch9 Privatization and Wealth Creation

CEA Subramanian K. highlighted two things about strategic disinvestment viz.

2.8.1.1 Strategic Disinvestment (=privatisation) → profitability


- ⇒ In 1980s, UK PM Mrs. Margaret Thatcher started privatization of the Govt companies (सरकारी कंपनियों का निजीकरण) such as British Telecom, British Airways, water and electricity companies etc. → It resulted in ↑ profitability for those companies.
- ⇒ ES20 analysed 11 Indian Govt companies that were privatized during BJP/NDA PM Atal Bihari Vajpayee tenure (1998-2004) such as
 - Hindustan Zinc, Bharat Aluminum Company Ltd. (BALCO), Maruti Suzuki, Indian Petrochemicals Corporation Ltd. (IPCL), Modern Food India Ltd. (MFIL) etc.
- ⇒ After strategic disinvestment (=privatization) these Indian companies' sales, profitability etc. greatly ↑ because of: (ब्रिकी व मुनाफे में अप्रतिम बढ़ोतरी)
 - Technology Up-gradation (प्रौद्योगिकी उन्नयन)
 - Efficient management practices by Private professionals. (कुशल प्रबंधन)
- ✓ Thus, privatized PSUs help in economic growth & employment generation.



2.8.1.2 Strategic Disinvestment (=Privatisation) → Adopt Singapore Model

1974: Singapore Govt set up a holding company “Temasek Holdings Company” (THC). Then the Government transferred its shares of PSUs to THC → THC sold them in market → privatization complete.

⇒ Government of India has 264 CPSEs under 38 different Ministries/Departments.

⇒  ES20 suggested, we should also create a Holding Company (नियंत्रक कंपनी) just like Singapore, for our / strategic disinvestment (=privatization) drive.

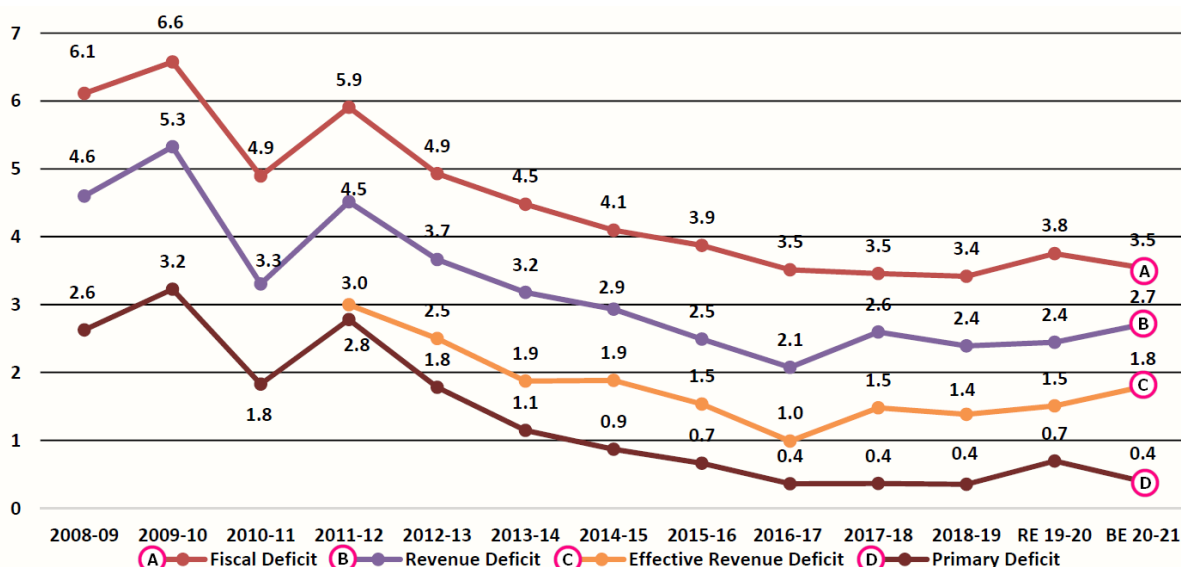
Benefits? Professionalism and autonomy (पेशेवर कुशलता और स्वायत्ता) to the disinvestment programme. If an individual ministry tried individual company's privatization then

- 1) Ministry's officers may not have experience for it. (अनुभव न होना)
- 2) Internal resistance by employee unions to sell it off. (आंतरिक प्रतिरोध)

So, better let a separate holding company look after this process.



2.9 BUDGET → FISCAL DEFICIT (राजकोषीय घाटा)



2.9.1 Extra-Budgetary Resources (बजटोत्तर संसाधन)

Extra Budgetary Resources (EBR) are loans taken by public sector undertakings and Government organizations. For example,

- Govt not releasing food subsidy to Food Corporation of India (FCI) & (thereby forcing) FCI to borrow money from National Small Savings Fund (NSSF) for its food schemes.
- Ministry of Housing and Urban Affairs → (Autonomous body) Building Materials and Technology Promotion Council → they borrowed ₹ 60,000 crores in next 4 years to finance the PM Awas Yojana (Urban, more in Pill#5 Infra).
- Here repayment of the entire principal and interest is done from the Central Government Budget eventually, behind the curtains.
- EBR measures are announced after passing of budget so, they may escape the same general level of media-reporting, parliament debate or audit = bad for financial transparency & accountability.
- 15th FC has termed “EBR” as ‘off-budget borrowings through para-statal entities’ and asked Government to avoid it.
- ES20 noted:
 - From Budget 2016 to 2019, govt raised >₹1.45 lakh cr through EBR
 - These EBRs are not taken into account while calculating the Fiscal Deficit but they’re counted while calculating Government debt or public debt:

Table 8: Definition & DATA as per ES20 Vol2Ch2

Amt in lakh Crore	2018-19
i) Internal Debt	71
ii) External Debt	5
✓ Borrowed from other nations and multilateral institutions such as IMF, World Bank, ADB etc.	
✓ At present Govt of India doesn't borrow directly from the International Capital Market.	
A) Public Debt (सार्वजनिक ऋण)= (i) + (ii)	71+5=76



Amt in lakh Crore	2018-19
B) (Public Accounts) Other Liabilities such as Post Office Savings, Postal Insurance, Provident Fund etc. small savings schemes (लघु बचत योजना) etc	9
Total Liability (कुल देयता) = A+B	76+9=85

2.9.2 Modi's Fiscal Stimulus (2019-)

2019-Aug: Car sales and GDP growth sharply \downarrow , Foreign investors exiting on large scale from India. So, Finance Minister Nirmala.S announced in 2019-September:

1) Reduced tax burden on companies.

- ⇒ Indian companies corporation tax slabs \downarrow from 25-30% to 15-22%. Ref: Corporation Tax section of Handout for more details.

2) Reduced tax harassment

- ⇒ No startups will be subjected to 'angel tax'.
- ⇒ All tax notices to be issued from centralised system to 'end harassment of taxpayers' by individual officials.
- ⇒ GST refunds would be given to entrepreneurs within 30 days.
- ⇒ Violation of Corporate Social Responsibility (CSR) will be treated as a civil offense and not a criminal offense.
- ⇒ (Full) Budget-2019 had hiked surcharge on the income tax paid by Super-rich. As a result, Foreign investors were exiting from India, fearing extra tax burden. So, we'll 'undo' that budget announcement.

3) We'll fix the PSBs

- ⇒ Government will infuse ₹ 70,000 crore to public sector banks, order them to link loan interest rates with repo rate or other external benchmarks so, loans may become cheaper especially for home, auto sector. This will boost sales, revive economy

4) We'll encourage car sales & other consumption

- ⇒ Vehicle depreciation increased from 15% to 30% (meaning Businessman will get more tax benefits in Income Tax and Corporation Tax). → businessman encouraged to buy new vehicles.
- ⇒ Government departments will buy new petrol/ diesel vehicles.
- ⇒ GST council \downarrow GST rates on 5 star hotels, outdoor catering, GST compensation cess on passenger vehicles etc.

Plus many other fragmented reforms to \downarrow taxes, or to \uparrow Government spending on highway projects etc. are done every now and then. ~~Ballbyball~~ NOTIMP.

2.9.3 FRBM: Trigger Mechanism (to) Escape (Deficit control) Clause

FRBM Act Section 4(2): provides for a trigger mechanism to escape the deficit control related clauses in the act i.e. Government can overcross the targets in following situations (चुनिन्दा 'ट्रिगर' परिस्थितियों में, घाटे-नियंत्रण संबंधी धाराओं से बच सकते हैं)

- National Security / Act of War (राष्ट्रीय सुरक्षा / युद्ध)
- National Calamity (राष्ट्रीय आपदा)
- If agriculture output and farm incomes collapse (कृषि उत्पादन, आय में पतन)



4. 📉 Fall in real output, GDP growth rate beyond x% (विकास दर में अत्याधिक गिरावट)
5. 🍷 Structural reforms in the economy with unanticipated fiscal implications (अर्थव्यवस्था में संरचनात्मक सुधारों की राजकोष पे अप्रत्याशित असर हो.)

🚦👤 During above 'trigger conditions' (उक्त 'ट्रिगर' परिस्थितियों में)

- ⇒ **FRBM Act Section 4(2):** Govt may overcross/deviate the fiscal deficit target by upto 0.5% of GDP, as recommended by NK Singh's FRBM review Committee. (घाटे की मर्यादा/लक्ष्यांक को लांघ देना).
- ⇒ Individual State Governments may also do similar (e.g. overcross by 0.5% of GSDP), but they've to amend their state FRBM Act accordingly with this provision.
- ⇒ 📁 **Budget-2020:** FM cited trigger#5 (structural reforms.....) to escape the FRBM targets for 2019-20 and 2020-21.

Table 9: यानि की घाटा में कटौती हमसे ना हो पाएगी

Fiscal deficit →	Original target (मूलतः)	Overcrossed After Trigger Mechanism
2019-20	3.3%	3.8%
2020-21	3%	3.5%

- Primary deficit target 0% (2020-21): shifted to 2022-23.
- Revenue Deficit and ERD also over crossed but anyways FRBM Act has abandoned targeting them since 2018's amendment.
- 📁 ES19 had suggested Government to **reduce deficit** through **fiscal prudence**. BUT
- 📁 ES20 (Vol2Ch2) identified following challenges in 2020-21 in **reducing deficit**:
 - India and global growth⬇️, trade protectionism⬆️, geopolitical situations in West Asia, Oil price = tax collection will be affected.
 - To revive growth in the Indian economy, the Government should **relax fiscal deficit targets** → in other words, give fiscal stimulus → economic growth. (घाटा नियंत्रण लक्ष्यांक में ढील देदो, राजस्व प्रोत्साहन पैकेज देदो)

2.9.4 📁📁📁 FRBM Act: 3 Documents (दस्तावेज़)

FRBM Act requires the Union Government to present 3 documents along with the budget:

1. **Macroeconomic Framework Statement** (व्यापक आर्थिक ढाँचा विवरण): to show economic data - GDP, growth rate, import-exports, and government's receipts, expenditure etc.
2. **Medium Term Fiscal Policy Cum Fiscal Policy Strategy Statement** (राजकोषीय नीति कार्यनीति विवरण): To explain how Govt. is controlling the deficits, and whether there is going to be any deviation from the target.
3. **Medium-term Expenditure Framework** (मध्यम अवधि व्यय ढाँचा विवरण): self-explanatory



	Revised Estimates 2019-2020	Budget Estimates 2020-2021	(Projections)	
			2021-2022	2022-2023
1. Fiscal Deficit	3.8	3.5	3.3	3.1
2. Revenue Deficit	2.4	2.7	2.3	1.9
3. Primary Deficit	0.7	0.4	0.2	0.0
4. Gross Tax Revenue	10.6	10.8	10.7	10.7
5. Non-tax Revenue	1.7	1.7	1.5	1.5
6. Central Government debt	50.3	50.1	48.0	45.5
7. Of which				
Liabilities on account of EBR ¹	0.7	0.8	0.9	0.9

2.9.5 Fiscal Consolidation (राजकोषीय एकत्रीकरण)

Set of Government actions to reduce deficit.

- ✓ 2019: PM's Cabinet Committee on Investment and Growth (CCIG: निवेश और विकास की कैबिनेट समिति) ordered all Union ministries to reduce wasteful expenditure on travel, food and conferences by 20% (यात्रा, भोजन और सम्मेलन की फिजूल खर्ची में कटौती करो).
- ✓ 2019-March: 15th Finance Commission has created a panel to prescribe fresh fiscal consolidation road map for centre & states for the next 5 years. Chairman? NK Singh

- ✓ Stay Tuned for the Remaining [Win20CSP] Pillar#2/3/4/5/6's update packs at [Mrunal.Org/Download](https://www.mrunal.org/Download)