The Hindu News Analysis – 02nd February 2020 – Shankar IAS Academy						
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Civilspedia Team - Powered by Shankar IAS Academy

*C – Chennai; B – Bengaluru; D – Delhi ; T – Thiruvananthapuram; H - Hyderabad

Part A—Preliminary Examination

Paper I - (200 marks)

- Current events of national and international importance.
- Indian Polity and Governance-Constitution, Political System, Panchayati Raj, Public Policy, Rights Issues, etc.
- Economic and Social Development-Sustainable Development, Poverty, Inclusion, Demographics, Social Sector Initiatives, etc.

Part B—Main Examination

General Studies- II: Governance, Constitution, Polity, Social Justice and International relations.

- Indian Constitution—historical underpinnings, evolution, features, amendments, significant provisions and basic structure.
- Functions and responsibilities of the Union and the States, issues and challenges pertaining to the federal structure, devolution of powers and finances up to local levels and challenges therein.
- Appointment to various Constitutional posts, powers, functions and responsibilities of various Constitutional Bodies.

PAPER-III

General Studies- II: Governance, Constitution, Polity, Social Justice and International relations.

- Government policies and interventions for development in various sectors and issues arising out of their design and implementation.
- Issues relating to development and management of Social Sector/Services relating to Health, Education, Human Resources.
- Issues relating to poverty and hunger.

PAPER-IV

General Studies-III: Technology, Economic Development, Bio diversity, Environment, Security and Disaster Management

- Indian Economy and issues relating to planning, mobilization, of resources, growth, development and employment.
- Inclusive growth and issues arising from it.
- Government Budgeting.

General Budget

* Annual financial statement of the Govt.

* Article 112

* Contains 3 sets of data

  Previous FY – Actual figure

  Current FY – Budget estimates & revised estimates

  Upcoming FY – Budget estimates

* Deals with revenue & expenditure of the govt.

  ↳ made into / flows out of 3 types of funds

  → Consolidated Fund of India

  → Public Accounts of India

  → Contingency Fund of India

General Budget

- A1. Receipts
  - B1. Revenue receipts
    - C1. Tax Revenues
      - GST
      - Income Tax
      - Excise duties
      - Custom duties
      - Other taxes/duties
    - C2. Non-tax Revenues
      - Interests
      - Dividends & profits
    - C3. Other non-tax receipts
      - Fiscal services
      - Social services
      - Grants-in-Aid
      - Other Services (General)
  - B2. Capital receipts
    - D1. Debt Capital Receipts
      - E1. Borrowings
        - F1. Internal
          - Market loans
          - Treasury bills
          - Others
        - F2. External
          - Multilateral loans
          - Bilateral loans
      - E2. Other Liabilities
        - Small savings Scheme
        - Provident Funds
        - Other Accounts
        - Reserve Funds
    - D2. Non-debt capital Receipts
- A2. Expenditure

General Budget

- A1. Receipts
- A2. Expenditure
  - B3. Revenue Expenditure
    - Interests paid on borrowings & liabilities
    - Law & Order maintenance
    - Subsidies
    - Grants given to States & UTs
    - Pensions
    - Salaries
    - Grants given to Foreign Govts.
  - B4. Capital Expenditure
    - Investments in
      - Machinery
      - Infrastructure

Fiscal Deficit = Total Expenditure − Total Receipts except Borrowings and other liabilities

BUDGET 2020-2021

1. The list of Budget documents presented to the Parliament, besides the Finance Minister's Budget Speech, is given below:

A. Annual Financial Statement (AFS) → Article 112 → Estimate of receipts & expenditure

B. Demands for Grants (DG) → Article 113 → Estimates of expenditure from the Consolidated Fund of India

C. Finance Bill → Article 110 (1) (a) → Money Bill

D. Statements mandated under FRBM Act:

i. Macro-Economic Framework Statement

ii. Medium-Term Fiscal Policy cum Fiscal Policy Strategy Statement

Section 3 of FRBM Act, 2003

E. Expenditure Budget

F. Receipt Budget

G. Expenditure Profile

H. Budget at a Glance

I. Memorandum Explaining the Provisions in the Finance Bill

J. Output Outcome Monitoring Framework

K. Key Features of Budget 2020-21

Other explanatory documents

LIC IPO to lead disinvestment ust, generate revenue

Challenges to fiscal consolidation from slower growth remain

Unimpressed Sensex closes nearly 988 points, or 2.43%, down

BOOSTER SHORT

The government has given up on reviving the economy or accelerating the growth rate or promoting privat investment or increasin efficiency or creating jol
P. CHIDAMBARAM

Budget speech reveals that the government is clueless about how to address the crisis gripping the economy. Despite manipulating data, the economic crisis showed up in Budget numbers
SITARAM YECHURY

In this Budget, the Modi government has taken effective steps to rationalise the tax system and boost the basic infrastructure, which will further its resolve to make India a $5 trillion economy
AMIT SHAH

The Budget will bring inclusive growth and equitable development with boost to wealth creation and reforms in governance
RAVI SHANKAR PRASAD

Infrastructure
Railways to set up 'Kisan Rail' through PPP. More Tejas-type trains to connect major tourist destinations. Delhi-Mumbai Expressway to be completed by 2023

Social sector
Steps to be taken to enable sourcing external commercial borrowings and FDI in higher education. Centre to provide viability gap funding to set up hospitals in PPP mode under Ayushman Bharat

Industry
The government will consider corporatising at least one major port. Policy to enable the private sector to build data centre parks throughout the country soon

ILLUSTRATION: DEEPAK HARICHANDAN

Taxation
It proposes a new income tax structure for individuals willing to forego exemptions and deductions. Under the new structure, income of ₹5 lakh-₹7.5 lakh will attract 10% tax, ₹7.5 lakh-₹10 lakh 15%, ₹10 lakh-₹12.5 lakh 20%, ₹12.5 lakh-₹15 lakh 25% and above ₹15 lakh 30%. Income up to ₹5 lakh will remain exempt from tax

VIKAS DHOOT
NEW DELHI

Union Finance Minister Nirmala Sitharaman's second Budget speech on Saturday sought to make up in length and breadth for what it couldn't deliver in the form of an effective stimulus for India's fast-slowing economy.

Interspersed with some feel-good decisions, such as lower personal income tax rates and a hike in the deposit insurance cover for bank depositors (from ₹1 lakh to ₹5 lakh), were some bold decisions like listing the Life Insurance Corporation of India and abolishing the Dividend Distribution Tax.

A caring society

Ms. Sitharaman expounded on three themes – aspirational India (a better life for all), economic development for all (yielding more space for the private sector) and creating a caring society – in her record-breaking speech of more than two-and-a-half hours, aimed at boosting incomes and purchasing power. Inflation, she said, was well-contained and the economy's fundamentals remained strong.

To boost farm incomes and the rural sectors, the Finance Minister allocated ₹2.83 lakh crore and fixed ₹15 lakh crore target for agriculture credit, along with 16 new and renewed measures. Another ₹1.7 lakh crore was allocated for transport infrastructure and ₹40,740 crore for the energy sector.

Taking a cue from the Economic Survey, which dwelt at length on India's ancient economic prowess, Ms. Sitharaman cited the guilds of Saraswati-Sindhu civilisation and the Harappan seals (of 3300 BCE) and commerce and trade-related words deciphered from Indus hieroglyphs that show India has been rich in skills and trade for millennia.

The Minister also accepted the Survey's call for loosening fiscal strings, taking a 0.5% deviation from fiscal deficit targets under the Fiscal Responsibility and Budget Management law to end 2019-20 with a 3.8% deficit and a promise to attain a 3.5% deficit in the coming year.

The Survey's suggestion for a more aggressive approach to disinvestment was heard too, with a massive target of ₹2.1 lakh crore – 223% higher than the revised estimates for the current year. Any slip-ups on this front would make the deficit target untenable.

Taxpayers' Charter

Stating that any tax system requires trust between taxpayers and the administration, which will be possible only when taxpayer's rights are clearly laid out, Ms. Sitharaman said: "With the objective of enhancing the efficiency of the delivery system of the Income Tax Department, I propose to amend the provisions of the Income Tax Act to mandate the Central Board of Direct Taxes to adopt a Taxpayers' Charter."

The Budget deferred taxes for ESOPs in the hands of employees, which will be an important decision for the employees to own shares in the employer without getting worried about organising cash to pay taxes.

One proposal that could become contentious was tax being imposed on Indian citizens abroad if they are not taxable in their home country.

Proposed market borrowings for the coming year have been raised to ₹5.36 lakh crore, following a ₹26,000 crore hike in this year's borrowing plan from ₹4.73 lakh crore to ₹4.99 lakh crore.

The impact of lower tax rates on demand creation may not be too high, and removing tax exemptions that spur financial savings could dent an already falling savings rate. Ms. Sitharaman expects 10% nominal GDP growth in 2020-21, which suggests she doesn't share the Survey's optimism about returning to 6%-6.5% real GDP growth.

The markets reacted negatively to the Budget, with the Sensex closing nearly 2.43% or 988 points down to end below 40,000 points.

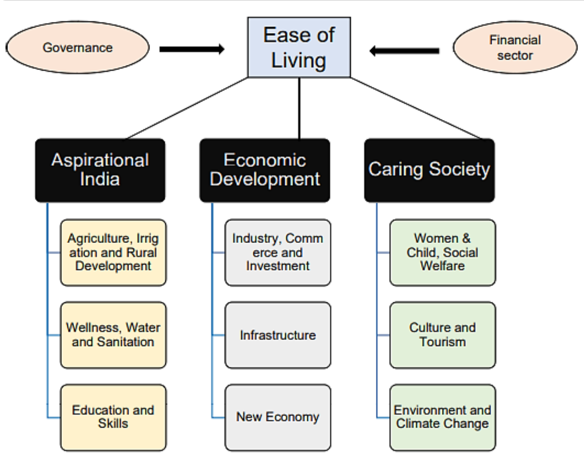
"Today being a Saturday, I'm not sure if every aspect of the stock market is open today," said Ms. Sitharaman in response to the stock market collapse. I think that many of the things we've said in the Budget would definitely have a positive impact on the stock market. I will reserve my comments till Monday."

(With inputs from PTI)

NO FIREWORKS ▸ EDITORIAL

Pg 1 → All Editions

Prominent Themes of the Budget



⇒ Two hands of bouquet of flowers

* Flowers : Aspirational India, Economic Development, Caring Society
* Clean and Sound financial sector

} 2 hands

⇒ Governance

* minimum government but maximum governance
* Characterised by twin focus
  1. Fundamental structural reform → IBC, GST, shift to DBT that is promoting digital governance
  2. Inclusive growth → guided by 'Sabka Saath, Sabka Vikas, Sabka Vishwas'

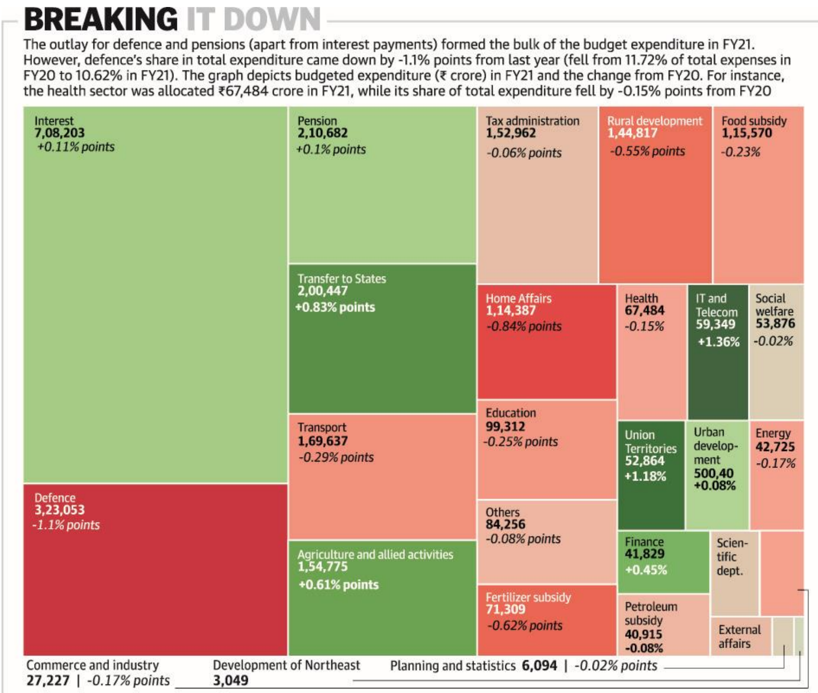
⇒ Financial Sector

* Financial Markets, Infrastructure Financing, Disinvestment, fiscal management etc.
* A clean, reliable and robust financial sector is critical to the economy, to achieve the USD 5 trillion economy by 2024-25

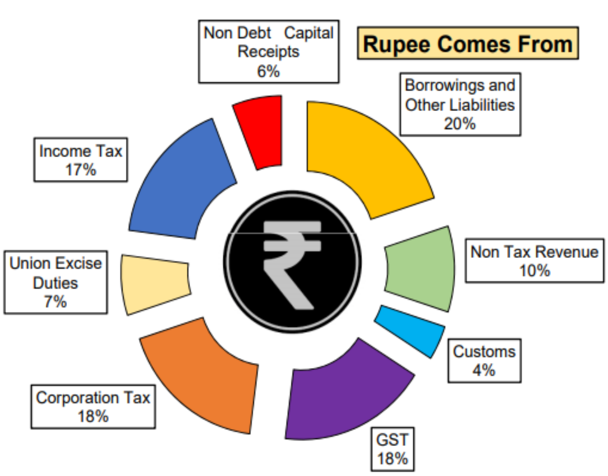
Budget Outlay for Major Sectors

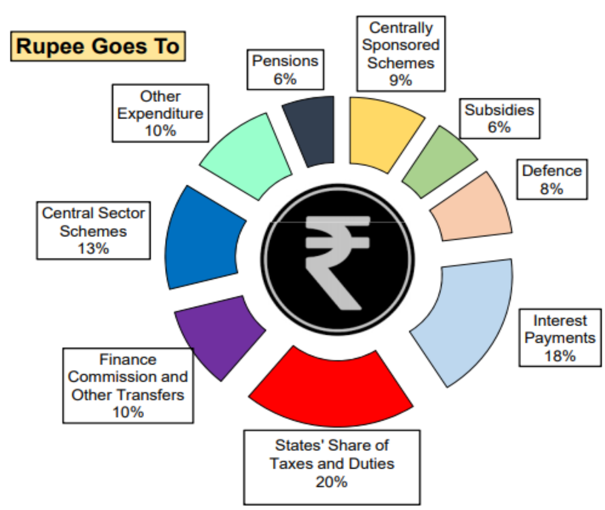
(₹ *crore*)

Sl. No.	Sector Name	BE 19-20	RE 19-20	BE 20-21
I	**Aspirational India**	**4,67,517**	**4,36,913**	**4,82,401**
a	Agriculture & Allied, Irrigation & Rural Development	2,76,380	2,49,910	2,83,202
b	Wellness, Water, Sanitation	93,294	89,618	96,885
c	Education & Skill Development	97,843	97,385	1,02,314
II	**Economic Development**	**2,23,695**	**2,24,941**	**2,37,604**
a	Industry & Commerce	27,043	28,608	27,227
b	Transport Infrastructure	1,57,437	1,58,207	1,69,637
c	Energy	39,215	38,127	40,740
III	**New Economy**	**40,534**	**34,724**	**42,852**
a	Information Technology & Space Technology	19,127	18,979	20,379
b	Communication (Bharat Net)	8,350	3,000	8,000
c	Science & Technology	13,056	12,745	14,473
IV	**Caring Society**	**59,036**	**54,831**	**62,626**
a	Women & Child Development and Social welfare	50,850	48,210	53,876
b	Culture & Tourism	5,232	3,963	5,650
c	Environment & Climate Change	2,955	2,658	3,100
V	**Financial Sector**	**19,002**	**23,686**	**40,433**
a	Banking, Insurance, Financial Market and Infra Finance	19,002	23,686	40,433



Pg 6 → All Editions





FinMin offers opt-in income tax scheme to boost demand

Rates will be reduced for those giving up exemptions

SPECIAL CORRESPONDENT
NEW DELHI

Aimed at spurring consumption demand and offering relief to taxpayers, especially those from the middle class, Finance Minister Nirmala Sitharaman proposed a personal income tax regime with reduced rates for those earning up to ₹15 lakh.

The tax rate for those earning between ₹5 lakh and ₹7. 5 lakh has been lowered from 20% to 10%, and for incomes between ₹7.5 lakh and ₹10 lakh to 15% from 20%. Similarly, tax rates have been lowered from 30% to 20% for those earning between ₹10 lakh and ₹12.5 lakh, and to 25% for those with incomes from ₹12.5 lakh to ₹15 lakh.

Tax payers can, however, opt for the new rates if they give up almost all tax exemptions and deductions they enjoy under the current regime, akin to the conditional tax rate cuts announced for corporates last September.

Revenue Secretary Ajay Bhushan Pandey said even those opting for the lower rates will retain tax benefits on payouts at the time of retirement such as gratuity, employees' PF and NPS accumulations, employers' contributions to EPFO, the National Pension System or superannuation payments (up to ₹7.5 lakh), and amounts received on VRS (up to ₹5 lakh).

But most exemptions used by salaried employees on account of leave travel allowance, house rent allowance, housing loan repayments, savings instruments such as PPF and LIC, as well as the standard deduction will cease to be available.

The Finance Minister said this could result in savings of ₹78,000 for someone earning ₹15 lakh and not availing any incentives in the existing regime.

Tax practitioners noted that the new regime would only be attractive for non-salaried taxpayers or those who don't avail any exemptions as of now. For many taxpayers who avail benefits, the difference in tax outgo may not be substantial.

"It is almost impossible for a taxpayer to comply with the income tax law without taking help from professionals," the Minister said. However, most individuals may still need accountants' help to determine if moving to the lower tax rates would benefit them.

The Finance Bill also proposed three major changes to prevent tax abuse by citizens who don't pay taxes anywhere in the world.

CONTINUED ON ▸ PAGE 19

Pgs 1, 19 → All Editions

Union Budget 2020-21

⇒ On Income tax

* opt-in income tax scheme for taxpayers
  - Higher tax with exemptions (existing)
  - Lower tax without exemptions (proposed)

* Target : especially middle-class salaried employees – to boost consumption demand

Income tax slabs	New tax rate	Earlier tax rate
Up to Rs 5 lakh	NIL	NIL
Rs 5 lakh-Rs 7.5 lakh	10%	20%
Rs 7.5 lakh-Rs 10 lakh	15%	20%
Rs 10 lakh-12.5 lakh	20%	30%
Rs 12.5 lakh-Rs 15 lakh	25%	30%
Rs 15 lakh and above	30% (No change)	30%

UNION BUDGET 2020

* Conditional tax-rate cut

* no change in tax rates for those who earn
  - < 5 lakhs
  - > 15 lakhs

* Criticism on new income tax slabs

  ↳ taxpayers → not in a position to determine – whether low tax rate would benefit them or not

No fireworks

Whether the Budget flies or falls flat will depend on its ability to fuel growth

Nirmala Sitharaman's second Budget is not a spend-and-stimulate exercise despite the fact that it has overrun the 3.3% target on fiscal deficit by as much as 0.5 percentage point. Nor is it a feel-good budget even accounting for the new tax regime for personal income tax with lower rates. It reflects the difficult circumstances under which it has been drawn up: falling tax revenues, rising borrowings and the need to rein in spending. It will certainly disappoint those who were expecting a big bang stimulus in terms of increased public spending or additional boost for investment. There were calls in the run-up to the Budget for the Finance Minister to relax the fiscal deficit target so that she could spend to revitalise the economy. In the event, as things turned out, Ms. Sitharaman did oblige them on the deficit front but that was more to compensate for the less-than-expected growth in revenues and not for extra spending. She has taken cover under a clause in the Fiscal Responsibility and Budget Management Act that gives her leeway to breach the set target.

That said, the Budget has been built on the assumption of a nominal GDP growth rate of 10% in 2020-21, which does appear optimistic given the state of the economy now. The nominal growth rate for fiscal 2019-20 as per government estimates is 7.5%. The recovery from here has to be sharp to justify next year's projection. The gross tax revenue growth projection of 11.99% also appears very optimistic especially because it has been built on the premise of an 11.54% rise in corporate tax collections. Given the slowdown in profit growth and the lower corporate tax rate now, it is debatable if this projection can be met. And then, there is the huge ₹2,10,000 crore revenue assumed under disinvestment proceeds. This is based on the successful culmination of the disinvestment process in Air India and Bharat Petroleum, both of which have been set in motion, and on the planned disinvestment of equity in the Life Insurance Corporation of India (LIC) through an IPO. In addition to this, the government has also budgeted for receipts from the telecom players – of ₹1,33,027 crore – which, apart from the regular licence fees and spectrum charges, also includes the arrears that they would now have to pay consequent to the Supreme Court verdict that went against them. Just to put the importance of these two non-tax revenue items in perspective, they together account for over 11% of total receipts budgeted for the next fiscal. On the expenditure side, the Minister has extended a tight fist with allocations for major social sector schemes being maintained at about the same level as the budgeted estimates of 2019-20. In the case of MGNREGA, the allocation of ₹61,500 crore is lower than the revised estimate of ₹71,002 crore in 2019-20, though it is marginally better than the budgeted estimate of ₹60,000 crore last year. The spending on most heads of social sector schemes in 2019-20 has been much lower than the budgeted levels, including in the much spoken about PM KISAN scheme where the government spent only ₹54,370 crore compared to an outlay of ₹75,000 crore. The projected outlay of ₹75,000 crore under this head in the coming year shines only because of the lower spending in 2019-20. In fact, this can be said for most schemes such as the PM Gram Sadak Yojana, Ayushman Bharat and BharatNet where this year's outlay appears higher only because of the much lower spending in 2019-20 compared to what was budgeted for. The compression in spending is a reflection of the extent of revenue shortfall this fiscal.

A highlight of the Budget is the proposal for a new scheme of taxation on personal IT where assessees can pay lower tax rates if they agree to forgo all exemptions. Though this has attracted maximum attention, the fact is that to most taxpayers, it may not be as attractive as it appears. It may benefit those who do not claim deductions on housing loan repayments and who do not pay large insurance premium. Most of the popular exemptions and deductions like housing loan repayments, house rent allowance, leave travel concession and the concessions under Section 80C such as on life insurance premium, public provident fund contribution and under Section 80D on medical insurance premium will not be available to those who opt for the new scheme. The lower tax rates they will enjoy will be negated by the absence of these sizeable deductions for those who are already claiming them. If the taxpayers feel they are disappointed, it is understandable.

But savers and investors have reason to be happy as the insurance cover on bank deposits has been increased to ₹5 lakh from ₹1 lakh now. This will give them a measure of security in these uncertain times when bank frauds and defaults are becoming more frequent. But savers who are also investors have reason to complain as they will now be liable to pay tax on dividend income. The ill-conceived dividend distribution tax has been abolished and with this the reforms on the corporate tax front have taken another big step forward. The other noteworthy proposal is the disinvestment in LIC where the government proposes to sell a part of its stake, unspecified as yet, through an IPO. That this is not going to be easy to put through is evident as unions have already raised the banner of revolt. The government has also adjusted import duties on a laundry list of items ranging from walnuts and toys to catalytic converters and fans. Some amount of thought seems to have gone into this as this list is largely made up of products where India has the manufacturing capability but has been a victim of cheap imports, sometimes riding on advantages from free trade agreements. In sum, there is nothing spectacular about this Budget which rides on optimistic growth estimates. Whether it flies or falls flat depends on how growth pans out in the economy in the next four quarters.

Pg 12 → All Editions

Editorial

* not attractive to taxpayers who already opted for exemption (house rent allowance, housing loan repayment etc.)

* Even those who opt to new tax rate – doesn't enjoy substantial difference in tax money going out of their pocket

Co-operative societies get 22% tax option

SPECIAL CORRESPONDENT
NEW DELHI

Finance Minister Nirmala Sitharaman on Saturday proposed that cooperative societies be given an option to be taxed at 22% plus surcharge, albeit without any exemptions.

Presenting the Budget, the Finance Minister said cooperative societies played an extremely important role in the country's economy by facilitating access to credit, procurement of inputs and marketing of products to their members.

"As a major concession and in order to bring parity between the cooperative societies and corporates, I propose to provide an option to cooperative societies to be taxed at 22% plus 10% surcharge and 4% cess with no exemption/deductions," the Finance Minister said.

These cooperatives are currently taxed at a rate of 30% with surcharge and cess.

Pg 2 → All Editions

⇒ On Co-operative Societies tax

↳ Current tax : 30% + Surcharge + Cess (with exemptions)

↳ proposed tax : 22% + Surcharge + Cess (without exemptions)

* Co-operative Societies

→ Self-help organisations

→ 'State Subject' – List II of 7th Schedule of Indian Constitution

324 THE CONSTITUTION OF INDIA

(Seventh Schedule)

32. Incorporation, regulation and winding up of corporations, other than those specified in List I, and universities; unincorporated trading, literary, scientific, religious and other societies and associations; co-operative societies.

* Constitutional Provisions
  ↳ By 97^{th} CAA
  1) Art 19(1) of Part III – FR
     • "Right to form a co-operative society"
  2) Art 43 B of Part IV – DPSP
     • direct Govt. policies to encourage co-operatives
  3) Part – IX B : The Co-operative Societies
     • deals with tenure, composition and election to the management of co-operative society

* Legal Provisions
  ↳ State Co-operative Societies Act
  ↳ Multi-state Co-operative Societies Act, 2002

3. In Part IV of the Constitution, after article 43A, the following article shall be inserted, namely:— | Insertion of new article 43B.

"43B. The State shall endeavour to promote voluntary formation, autonomous functioning, democratic control and professional management of co-operative societies.". | Promotion of co-operative societies.

FM proposes taxpayer's charter to boost trust

I-T Act to include taxpayer's rights

SPECIAL CORRESPONDENT
BENGALURU

Finance Minister Nirmala Sitharaman proposed a new 'taxpayer's charter' aimed at boosting trust between citizens and authorities, in order to improve the efficiency of tax administration.

"Our Prime Minister has laid before us ease of living as a goal to be achieved on behalf of all citizens.

"An important aspect of both ease of living and ease of doing business is fairness and efficiency of tax administration," she said.

"We wish to enshrine in the statutes a "taxpayer charter"... government would like to reassure taxpayers that we remain committed to taking measures so that our citizens are free from harassment of any kind," she added.

The charter, which would enumerate taxpayer's rights, would be incorporated in the Income Tax Act through suitable amendments, the Minister said.

"I propose to amend the provisions of the Income Tax Act to mandate the Central Board of Direct Taxes (CBDT) to adopt a Taxpayers' Charter.

The details of the contents of the charter shall be notified soon," she added.

The Budget has also proposed several other steps to smoothen I-T administration

The Budget also proposed several other steps to smoothen the administration of the IT regime, including enhancing the use of technology.

As part of modification of the existing e-assessment scheme, "it is proposed to amend sub-section (3A) of section 143 of the Act to,- (i) expand the scope so as to include the reference of section 144 of the Act relating to best judgment assessment in the said sub-section; (ii) provide that Central Government may issue any direction under sub-section (3B) of the said section up to 31st March, 2022."

This amendment would take effect from April 1, 2020.

A provision for e-appeal has also been included as part of the drive to impart greater efficiency, transparency and accountability to the assessment process.

The e-appeal scheme would help in "eliminating the interface between the Commissioner (Appeals) and the appellant in the course of appellate proceedings to the extent technologically feasible."

Pg 3 → All Editions

⇒ Taxpayer's Charter (proposed)
* To enumerate taxpayer's rights
* by amending Income Tax Act, 1961
* mandated the Central Board of Direct Taxes (CBDT) - to adopt Taxpayer's charter
  ↳ Statutory body under Department of Revenue, Ministry of Finance

A Budget exercise that is designed for stressed times

The FM deserves credit for keeping the capital expenditure steady amid receipts shortfall; but her plan does not meet market expectations of sweeping reforms

Pg 13 → All Editions

⇒ Two options to revive growth
- 1) Allocate more for capital expenditure ✓
- 2) Introduce structural reforms ✗

⇒ Shortfall in receipts (factors)
- Corporate tax cut
- Fall in tax revenue
- Fall in disinvestment receipts

} Negatives

- Rise in non-tax revenues
- Transfer of surplus from RBI

} Positives

⇒ Improved Capital Expenditure (CE)

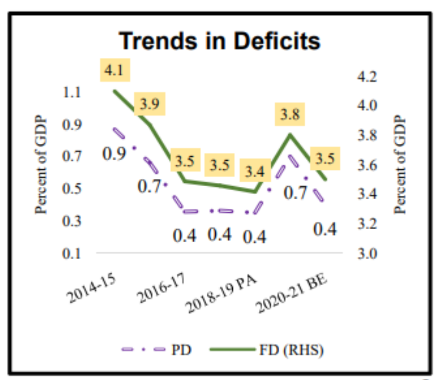
* CE for 2019-20
  - ↳ Rs. 10,338 Crore more than estimate
  - ↳ 13.4 % rise over CE in 2018-19

* CE for 2020-21 is expected to rise by 18% over 2019-20

* CE
  - 1.7 % of GDP (2019-20)
  - 1.8 % of GDP (2020-21) - projected

⇒ Fall in Revenue Expenditure

⇒ Fiscal deficit



Government bites the fiscal deficit bullet

It sets in motion a trigger mechanism for deviation; target for the next year is pegged at 3.5% of the GDP

Pg 6 → All Editions

⇒ Fiscal Responsibility and Budget Management Act (FRBM), 2003

- Escape clause under Sections 4(2) and 4(3)
- Maximum deviation of 0.5% from fiscal deficit target – on the grounds of
  - National Security
  - War
  - Structural reforms in the economy with unanticipated fiscal implications etc.

Govt. to sell part of its stake in LIC via IPO

To be biggest firm by m-cap on listing

SPECIAL CORRESPONDENT
MUMBAI

The government is planning to sell a part of its stake in the Life Insurance Corporation of India through an initial public offering, which could turn out to be the biggest such offering domestically. "The government now proposes to sell a part of its holding in LIC by way of Initial Public Offer (IPO)," Finance Minister Nirmala Sitharaman said in her Budget speech. The stake sale of LIC is crucial for the government to meet its ambitious disinvestment target for the financial year 2020-21.

The government has set a target to raise ₹2.1 lakh crore through divestment in 2020-21, as compared to a target of ₹1.5 lakh crore in the current financial year. The plan is to raise ₹90,000 crore by selling stake in public sector banks and financial institutions, and the remaining by selling stake in central public sector enterprises. The government is also planning to sell the balance holding in IDBI Bank to private, retail and institutional investors. The government has 47% stake in the bank, while 51% is owned by LIC.

For LIC to be listed, the government has to first change the LIC Act since it says the capital of the insurance behemoth will be wholly subscribed by the Government of India.

Finance Secretary Rajeev Kumar said at the post-Budget press meet that the Finance Ministry had begun consultations with the Law Ministry to amend the necessary laws. "LIC is likely to become the country's biggest company by market capitalisation on the day of the listing, given that it is the largest company managed by assets under management," said Kajal Gandhi, analyst, ICICI Direct.

> Even a 10% dilution will be difficult for the market to absorb at one go and govt. may look at doing this in lots
>
> KAJAL GANDHI, Analyst, ICICI Direct

"At even 25-30% of its AUM, the company can be valued at around ₹8-10 trillion. Even a 10% dilution will be difficult for market to absorb in one go and the government may look at doing this in lots," she said.

HDFC Life has a market cap of ₹1.13 lakh crore, while SBI Life Insurance has a market cap of about ₹89,000 crore. Another listed life insurance company, ICICI Prudential, has a market cap of around ₹65,000 crore. The State-run insurer paid a dividend of ₹2,610.74 crore to the government for financial year 2018-19.

In 2018-2019, LIC generated a valuation surplus of ₹53,214.41 crore, which is a 9.9% growth over the previous year. LIC has a market share of around 76% in number of policies and about 71% in terms of first-year premium.

If listed, LIC has to be more transparent in disclosure. The insurer has to make quarterly disclosures to the stock market about their financial performance.

"Liberties that the government can take with a company that is 100% owned by them [government] can't be taken even if 10% is privately owned. They have to disclose all the related party transactions," said a former LIC chairman.

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A Budget exercise that is designed for stressed times

⇒ Huge disinvestment target

- Rs. 2.1 lakh crore for FY 2020-21
- More than thrice of receipts of Rs. 65000 cr in 2019-20
- Rs. 2.1 lakh Cr
  - Rs. 1.2 lakh cr from PSUs
  - Rs. 90,000 Cr from LIC & IDBI
- Questions raised
  - ↳ compromising role of LIC?
  - ↳ will IDBI generate sufficient profits?

⇒ Criticisms of Budget (No important Structural reforms)

1) No reference to reforming
   a) Essential commodities Act, 1955
   b) Govt. regulations on drug price

2) No measure to reforming public sector banking system (except IDBI sale)

3) No measure to reform struggling NBFC sector

Another lost opportunity to revive growth

The Budget has failed to provide any kind of stimulus for the revival of consumer or investment demand; nor has it been able to contain deficits

M. GOVINDA RAO

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Criticisms

1) Failed to keep FRBM target on fiscal deficit

2) Unrealisable disinvestment target

3) Fall in revenue expenditure
   * Especially in Central Sector and Centrally Sponsored Schemes
   * Impacts agriculture, irrigation, rural development and health
   * More pressure on states

No fireworks

Whether the Budget flies or falls flat will depend on its ability to fuel growth

Nirmala Sitharaman's second Budget is not a spend-and-stimulate exercise despite the fact that it has overrun the 3.3% target on fiscal deficit by as much as 0.5 percentage point. Nor is it a feel-good budget even accounting for the new tax regime for personal income tax with lower rates. It reflects the difficult circumstances under which it has been drawn up: falling tax revenues, rising borrowings and the need to rein in spending. It will certainly disappoint those who were expecting a big bang stimulus in terms of increased public spending or additional boost for investment. There were calls in the run-up to the Budget for the Finance Minister to relax the fiscal deficit target so that she could spend to revitalise the economy. In the event, as things turned out, Ms. Sitharaman did oblige them on the deficit front but that was more to compensate for the less-than-expected growth in revenues and not for extra spending. She has taken cover under a clause in the Fiscal Responsibility and Budget Management Act that gives her leeway to breach the set target.

That said, the Budget has been built on the assumption of a nominal GDP growth rate of 10% in 2020-21, which does appear optimistic given the state of the economy now. The nominal growth rate for fiscal 2019-20 as per government estimates is 7.5%. The recovery from here has to be sharp to justify next year's projection. The gross tax revenue growth projection of 11.99% also appears very optimistic especially because it has been built on the premise of an 11.54% rise in corporate tax collections. Given the slowdown in profit growth and the lower corporate tax rate now, it is debatable if this projection can be met. And then, there is the huge ₹2,10,000 crore revenue assumed under disinvestment proceeds. This is based on the successful culmination of the disinvestment process in Air India and Bharat Petroleum, both of which have been set in motion, and on the planned disinvestment of equity in the Life Insurance Corporation of India (LIC) through an IPO. In addition to this, the government has also budgeted for receipts from the telecom players – of ₹1,33,027 crore – which, apart from the regular licence fees and spectrum charges, also includes the arrears that they would now have to pay consequent to the Supreme Court verdict that went against them. Just to put the importance of these two non-tax revenue items in perspective, they together account for over 11% of total receipts budgeted for the next fiscal. On the expenditure side, the Minister has extended a tight fist with allocations for major social sector schemes being maintained at about the same level as the budgeted estimates of 2019-20. In the case of MGNREGA, the allocation of ₹61,500 crore is lower than the revised estimate of ₹71,002 crore in 2019-20, though it is marginally better than the budgeted estimate of ₹60,000 crore last year. The spending on most heads of social sector schemes in 2019-20 has been much lower than the budgeted levels, including in the much spoken about PM KISAN scheme where the government spent only ₹54,370 crore compared to an outlay of ₹75,000 crore. The projected outlay of ₹75,000 crore under this head in the coming year shines only because of the lower spending in 2019-20. In fact, this can be said for most schemes such as the PM Gram Sadak Yojana, Ayushman Bharat and BharatNet where this year's outlay appears higher only because of the much lower spending in 2019-20 compared to what was budgeted for. The compression in spending is a reflection of the extent of revenue shortfall this fiscal.

Insurance cover on deposits raised to ₹5 lakh

The first increase in 27 years assumes significance in the wake of the Punjab and Maharashtra Cooperative Bank crisis

SPECIAL CORRESPONDENT
MUMBAI

The government has decided to increase the insurance cover for bank deposits to ₹5 lakh from ₹1 lakh, Finance Minister Nirmala Sitharaman said in her Budget speech.

This is the first time since 1993 that the deposit insurance cover has been raised.

The Finance Minister assured that there was a robust mechanism in place to monitor the health of all Scheduled Commercial Banks and that depositors' money was safe.

"The Deposit Insurance and Credit Guarantee Corporation (DICGC) has been permitted to increase [the] Deposit Insurance Coverage for a depositor, which is now ₹1 lakh to ₹5 lakh per depositor," she said.

The clamour for higher cover for bank deposits grew stronger following the Punjab and Maharashtra Cooperative Bank crisis, where depositors are facing restrictions on deposit withdrawals.

Timeline of increase in deposit insurance

Effective from	Insurance Limit (₹)
May 1, 1993	1,00,000
July 1, 1980	30,000
Jan. 1, 1976	20,000
April 1, 1970	10,000
Jan. 1, 1968	5,000

PMC Bank fiasco

The Reserve Bank of India imposed the restrictions following financial irregularities at PMC Bank. At present, the withdrawal from the bank is capped at ₹50,000.

The increase on deposit insurance to ₹5 lakh will raise bank premia costs

ABIZER DIWANJI,
Partner & Leader, Financial Services, EY India

"Raising deposit insurance cover to ₹5 lakh from the current ₹1 lakh is significant and will give a big comfort to depositors," Shanti Ekambaram, president - Consumer Banking, Kotak Mahindra Bank Ltd., said.

The Deposit Insurance and Credit Guarantee Corporation (DICGC) had proposed to increase the deposit insurance limit to the ₹3-5 lakh range following the crisis at PMC Bank.

The DICGC Act will have to be amended to increase the deposit cover.

The increase in deposit cover will increase the cost for the banks.

"The increase on deposit insurance to ₹5 lakh will increase bank premia costs to these institutions," Abizer Diwanji, Partner & Leader, Financial Services, EY India, said.

The present premium rate is 10 paise for a deposit of ₹100.

The premium paid by the insured banks to the DICGC is required to be borne by the banks themselves and is not passed on to the depositors.

The DICGC insures all bank deposits such as savings, fixed, current and recurring.

Deposits not covered by the Corporation include those of foreign governments and of Central/ State governments, deposits of State Land Development Banks with State cooperative banks, inter-bank deposits, deposits received outside India and those specifically exempted by the DICGC with the prior approval of the banking regulator.

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* Insurance cover on bank deposits increased from Rs. 1 lakh → Rs. 5 lakh
  ↳ Sense of security to savers and investors – amidst bank frauds and defaults

States' tax share to stay at 42%

Fifteenth Finance Commission to continue formula set by predecessor

SPECIAL CORRESPONDENT
NEW DELHI

The Fifteenth Finance Commission, in its interim report tabled in Parliament on Saturday, has recommended maintaining States' share in the divisible pool of tax collections at virtually the same level of 42% set by its predecessor, for 2020-21.

To factor in the changed status of the erstwhile State of Jammu and Kashmir, the rate at which funds may be shared with the States has been reset to 41%. This is after 'adjusting one percentage point for the needs, including special ones of the two new union territories of J&K and Ladakh,' the Commission noted in its report.

An official said that the actual pool of funds available to States will be equivalent to what they were receiving from the 42% share granted by the Fourteenth Finance Commission, as the number of States are now 28 instead of 29. The one percentage point reduction is what would have been earmarked for J&K as a State.

"In the spirit of co-operative federalism, I am pleased to announce that we have, in substantial measure, accepted the recommendations of the Commission," said Finance Minister Nirmala Sitharaman in her Budget speech.

Fifteenth Finance Commission Chairman N.K. Singh, left, with Finance Minister Nirmala Sitharaman. • FILE PHOTO

Having missed its original deadline of November 2019, the Commission attributed the delay to new developments that took place when its work was at an advanced stage, such as the enactment of the J&K Reorganisation Act to create two new union territories, the unpredictable and slowing global economy, and India's own sluggish economy that made revenue projections tricky.

XV FINANCE PANEL

The current slowdown in the Indian economy coincides with major 'structural reforms' such as demonetisation and GST taken over the past five years, the Commission noted.

"Short-term transitional difficulties in implementing these structural reforms can create a pessimistic view on the medium term prospects of economic growth and revenue collections," it said, stressing that all these changes will 'take time to filter through the economy' so forecasting efforts based on current trends could be misplaced.

An expert group comprising officials from the Finance, Defence and Home Ministries will examine and propose alternative mechanisms so as to ensure predictable and stable flow of funds for defence and internal security, which was added as term of reference for the Commission.

The Defence Ministry, in its submissions to the Commission, has proposed some radical steps to ensure capital outlays are fully funded so as to ensure 'complete defence preparedness.'

Arguing that current provisions are inadequate for big defence acquisitions, the Ministry has mooted disinvestment of defence public sector enterprises, levying of a cess, monetisation of surplus land and other assets, as well as the issuance of tax-free defence bonds and the creation of a non-lapsable fund.

"The defence capital outlay was less than the Budgetary provision for five years from 2011-12 to 2015-16. We have noticed a reversal in this trend during 2016-17 to 2018-19," the Commission noted in its interim report.

The Defence Ministry said that though India is currently not engaged in any conflict, the nature of threats it faces demands complete defence preparedness. The expert group to be constituted by the Commission would consider the detailed modalities and implementation plan for an alternative mechanism such as the proposed non-lapsable fund.

The Commission would submit its final report to the President during the latter part of the year, that would include the devolution formula proposed between the Centre and the States for the five-year period from 2021-2022 till 2025-2026. The interim report was submitted to provide a formula for 2020-21 alone.

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⇒ Finance Commission

* Under Art 280 of the Constitution
* Constitutional body
* recommends tax devolution → Vertical / horizontal

280. Finance Commission.—(*1*) The President shall, within two years from the commencement of this Constitution and thereafter at the expiration of every fifth year or at such earlier time as the President considers necessary, by order constitute a Finance Commission which shall consist of a Chairman and four other members to be appointed by the President.

(*2*) Parliament may by law determine the qualifications which shall be requisite for appointment as members of the Commission and the manner in which they shall be selected.

(*3*) It shall be the duty of the Commission to make recommendations to the President as to—

(*a*) the distribution between the Union and the States of the net proceeds of taxes which are to be, or may be, divided between them under this Chapter and the allocation between the States of the respective shares of such proceeds;

(*b*) the principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India;

[1][(*bb*) the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats in the State on the basis of the recommendations made by the Finance Commission of the State;]

[2][(*c*) the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Municipalities in the State on the basis of the recommendations made by the Finance Commission of the State;]

[3][(*d*)] any other matter referred to the Commission by the President in the interests of sound finance.

(*4*) The Commission shall determine their procedure and shall have such powers in the performance of their functions as Parliament may by law confer on them.

⇒ State's tax share – 41% (from 42%)

* by 15^{th} Finance Commission – for FY 2020-21 – under Art 281 of Constitution

* From 42% to 41% of Union taxes → devolved to states

  → 1% of deducted taxes – For newly created UTs of Ladakh and J & K

PREVIOUS YEAR PRELIMS QUESTIONS ON UNION BUDGET

Previous year Question - Prelims 2011

Q. When the annual Union Budget is not passed by the Lok Sabha?

(a) The Budget is modified and presented again.

(b) The Budget is referred to the Rajya Sabha for suggestions.

(c) The Union Finance Minister is asked to resign.

(d) The Prime Minister submits the resignation of Council of Ministers

Previous year Question – Prelims 2011

Q. What is the difference between "vote-on-account" and "interim budget"? (2011)

1. The provision of a "vote-on-account" is used by a regular Government, while an "interim budget" is a provision used by a caretaker Government.
2. A "vote-on-account" only deals with the expenditure in Government's budget, while an "interims budget" includes both expenditure and receipts.

Which of the statements given above is/are correct?

(a) 1 only
(b)2 only
(c)Both 1 and 2
(d)Neither 1 nor 2

Previous year Question – Prelims 2012

Q. Which of the following are the methods of Parliamentary control over public finance in India?

1. Placing Annual Financial Statement before the Parliament.
2. Withdrawal of moneys from Consolidated Fund of India only after passing the Appropriation Bill.
3. Provisions of supplementary grants and vote-on-account.
4. A periodic or at least a mid-year review of programme macroeconomic forecasts and expenditure by a Parliamentary Budget Office.
5. Introducing Finance Bill in the Parliament.

Select the correct answer using the codes given below:

(a) 1, 2, 3 and 5 only
(b) 1, 2 and 4 only
(c) 3, 4 and 5 only
(d) 1, 2, 3, 4 and 5

Previous year Question – Prelims 2014

Q. With reference to Union Budget, which of the following is/are covered under Non-Plan Expenditure?

1. Defence expenditure
2. Interest payments
3. Salaries and pensions
4. Subsidies

Select the correct answer using the code given below.

(a) 1 only
(b) 2 and 3 only
(c) 1, 2, 3 and 4
(d) None

Previous year Question – Prelims 2015

Q. With reference to the Union Government, consider the following statements:

1. The Department of Revenue is responsible for the preparation of Union Budget that is presented to the Parliament.
2. No amount can be withdrawn from the Consolidated Fund of India without the authorization from the Parliament of India.
3. All the disbursements made from Public Account also need the authorization from the Parliament of India.

Which of the statements given above is/are correct?

(a) 1 and 2 only
(b) 2 and 3 only
(c) 2 only
(d) 1, 2 and 3

Previous year Question – Prelims 2016

Q. There has been a persistent deficit budget year after year. Which of the following actions can be taken by the government to reduce the deficit?

1. Reducing revenue expenditure
2. Introducing new welfare schemes
3. Rationalizing subsidies
4. Expanding industries

Select the correct answer using the code given below.

(a) 1 and 3 only
(b) 2 and 3 only
(c) 1 only
(d) 1, 2, 3 and 4

Previous year Question – Prelims 2016

Q. Which of the following is/are included in the capital budget of the Government of India?

1. Expenditure on acquisition of assets like roads, buildings, machinery, etc.
2. Loans received from foreign governments
3. Loans and advances granted to the States and Union Territories

Select the correct answer using the code given below.

(a) 1 only
(b) 2 and 3 only
(c) 1 and 3 only
(d) 1, 2 and 3

Previous year Question – Prelims 2018

Q. Consider the following statements:

1. The Fiscal Responsibility and Budget Management (FRBM) Review Committee Report has recommended a debt to GDP ratio of 60% for the general (combined) government by 2023, comprising 40% for the Central Government and 20% for the State Governments.
2. The Central Government has domestic liabilities of 21% of GDP as compared to that of 49% of GDP of the State Governments.
3. As per the Constitution of India, it is mandatory for a State to take the Central Government's consent for raising any loan if the former owes any outstanding liabilities to the latter.

Which of the statements given above is/are correct?

(a) 1 only
(b) 2 and 3 only
(c) 1 and 3 only
(d) 1, 2 and 3