THE UNION BUDGET 2024-25

Homi P. Ranina

FORUM
OF FREE ENTERPRISE

"Free Enterprise was born with man and shall survive as long as man survives".

- A. D. Shroff
(1899-1965)
Founder-President
Forum of Free Enterprise

SHAILESH KAPADIA

(24-12-1949 – 19-10-1988)

Late Mr. Shailesh Kapadia, FCA, was a Chartered Accountant by profession and was a partner of M/s G.M. Kapadia & Co. and M/s Kapadia Associates, Chartered Accountants, Mumbai.

Shailesh qualified as a Chartered Accountant in 1974 after completing his Articles with M/s Dalal & Shah and M/s G.M. Kapadia & Co., Chartered Accountants, Mumbai. Shailesh had done his schooling at Scindia School, Gwalior and he graduated in Commerce from the Sydenham College of Commerce & Economics, Mumbai, in 1970.

Shailesh enjoyed the confidence of clients, colleagues and friends. He had a charming personality and was able to achieve almost every task allotted to him. In his short but dynamic professional career, spanning over fourteen years, Shailesh held important positions in various professional and public institutions.

Shailesh's leadership qualities came to the fore when he was the President of the Bombay Chartered Accountants' Society in the year 1982-83. During his tenure he successfully organized the Third Regional Conference at Mumbai.

Shailesh was member, Institute of Fiscal Studies, U.K.; member of the Law Committee and Vice-Chairman of the Direct Taxation Committee, Indian Merchants' Chamber. He was also a Director of several public companies in India and Trustee of various public Charitable Trusts.

He regularly contributed papers on diverse subjects of professional interest at refresher courses, seminars and conferences organised by professional bodies.

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An expressway for the pursuit of Viksit Bharat

Homi P. Ranina*

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This booklet is based on his talk at a webinar arranged on 24th July 2024.

The organizations involved were:

- Borivli Sanskrutik Kendra
- Federation of Indian Export Organisations
- Forum of Free Enterprise
- Ghatkopar Study Circle of WIRC (ICAI)
- Sydenham Institute of Management Studies, Research & Entrepreneurship Education (SIMSREE)
- The A. D. Shroff Memorial Trust
- World Trade Center, Bengaluru, Kochi and Chennai

An expressway for the pursuit of Viksit Bharat

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Kudos to the Finance Minister for formulating a well-balanced and comprehensive strategy for India's development and economic growth based on the strong pillar of fiscal consolidation. The Finance Minister's job this year was cut out requiring her to do a fine balancing act to take care of several conflicting and complex challenges.

The annual budget proposals provide an opportunity for the Government to showcase its economic and financial strategies and policies, apart from presenting the receipts and expenditure statement for the year under review. Budget proposals for the fiscal year 2024-25 must not be looked at in isolation.

The fiscal deficit target for this financial year has been set at 4.9% of GDP. The proposal to bring down the deficit to 4.5% of GDP in the financial year 2025-26 shows determination and commitment towards fiscal discipline. At the same time, it is commendable that budgetary capital expenditure has been stepped up to the extent of Rs.1,11,111 crore for infrastructure development and Rs.1,48,000 crore for education, skilling and employment.

With fiscal consolidation being the first priority of the Government, nine other priorities have been set out in the budget speech pertaining to productivity in agriculture, employment and skilling, human resource development, incentivizing manufacturing and services sectors, urban development, enhancing energy security, strengthening infrastructure development, providing a boost to research and development, and finally setting out the vision for next generation reforms. Thus, ten priorities have been highlighted in the Budget speech of the Finance Minister which would enable the country to reach its objective of *Viksit Bharat.*

Fiscal Consolidation

Global rating agencies have appreciated the Government's commitment to adhere to the fiscal consolidation path. For the financial year 2024-25, the estimated fiscal deficit which was earlier estimated at 5.1% of the GDP has been reduced to 4.9% and for the succeeding financial year 2025-26 to 4.5%. This has been done without compromising on the budgeted capital expenditure of Rs.11.1 trillion which constitutes 3.4% of the country's GDP. The fiscal deficit of Rs.16.14 trillion has been arrived at based on the budgeted total expenditure of Rs. 48.21 trillion and total revenue of Rs. 32.07 trillion. The gross and net market borrowings through dated securities are estimated at Rs.14.01 trillion and Rs.11.63 trillion respectively which will be less than that in the financial year 2023-24.

Turning to the budget arithmetic, the gross tax revenue for the current financial year 2024-25 is projected at Rs.38.4 trillion. Personal income tax will account for Rs.11.87 trillion, Corporate tax Rs.10.20 trillion, Goods & Services Tax Rs.10.62 trillion, Excise duties Rs.3.19 trillion, and Customs duties Rs.2.38 trillion. As per recommendations of the Finance Commission, the tax revenue will be shared with State Governments to the extent of Rs.12.47 trillion. On the non-revenue side, the receipts, including dividend from Reserve Bank of India, are estimated at Rs.5.48 trillion.

In a path breaking move, the Finance Minister has announced that from the financial year 2026-27 the Government will endeavour to keep the central government debt on a declining path as a percentage of GDP. Therefore, there is a significant transition from using fiscal deficit as a measure of fiscal health to debt-GDP ratio being the anchor of fiscal management in the coming years. Hereafter, the Government will not focus on the deficit number but endeavour to reduce the Nation's debt-GDP ratio. Each financial year's calibration will be based on the quantum of debt which will be on a reducing path. Robust tax revenues and higher dividend payout of Rs.2.1 trillion by the Reserve Bank of India have helped the Government in its fiscal consolidation plan. Moody's rating has projected the general Indian Government's debt to stabilize around 80% of GDP over the next three years which would be much lower than 89.3% in fiscal year 2020-21.

This will help in reducing the annual burden of interest which has been rising in the past. In the financial year 2024-25, interest will account for a whopping amount of Rs.11.63 trillion. Establishment expenditure has been estimated at Rs.7.84 trillion while defence expenditure has been budgeted at Rs.4.55 trillion. Cost of subsidies for fertilizer, food and petroleum is projected at Rs.3.81 trillion.

Agriculture and rural development

An amount of Rs.1.52 trillion has been earmarked for agriculture and allied sectors. It is proposed to initiate one crore farmers across the country in the next two years into natural farming, supported by certification and branding. This will be implemented through scientific institutions and 10,000 need-based bio-input resource centres. New high yielding and climate resilient varieties of 32 field and horticulture crops will be made available for cultivation by farmers.

In order to achieve self-sufficiency in pulses and oilseeds, the production, storage and marketing initiatives will be strengthened. Large scale clusters for vegetable production are to be developed close to major consumption centres. To bring more income to farmers, co-operatives and startups for vegetable supply chains which will be involved in collection, storage and marketing are to be promoted.

Land reforms and Housing

In urban areas, land records are to be digitized with GIS mapping. It is proposed to establish an IT-based system for property record administration, updation and tax administration. Rural land related measures will include assignment of a Unique Land Parcel Identification Number. Further, there will be digitization of cadastral maps as well as survey of map sub-divisions based on current ownership. A land registry is to be set up which will be linked to the farmer's registry. As land administration and planning falls within the purview of State Governments, the Central Government will provide fiscal support to States.

Housing needs of ten million urban poor and middle class families will be addressed with an investment of Rs.10 trillion. Interest subsidies will be provided to facilitate loans to indigent sections of society at affordable rates. Multilateral development banks, in partnership with State Governments, will promote water supply, sewage treatment, and solid waste management projects for hundred large cities through adequate provisioning of finance. These initiatives are bound to drive construction activity in urban and rural areas with a cascading beneficial effect on allied sectors. The surge in construction activity is expected to boost demand for building materials and rejuvenate industries such as cement, steel and home appliances.

Entrepreneurship, self employment and skilling

Well directed emphasis has been provided for employment generation, entrepreneurship, skilling, and the startup platform. An amount of Rs.2 trillion is proposed to be spent over the next five years which would benefit more than 40 million budding entrepreneurs. The scheme to provide 10 million young Indians with internship prospects at large Indian companies with Government support is a momentous step taken by the Finance Minister. The employment linked incentive scheme for first time employees blazes a new trail in Government policy.

A new centrally sponsored scheme has been announced for skilling 2 million budding entrepreneurs over a five year period in collaboration with industry. One thousand Industrial Training Institutes will be upgraded by aligning the course content with the needs of industry. The Model Skill Loan Scheme is proposed to be revised to facilitate loans upto Rs.750,000 with a guarantee from a Government promoted fund. This will help around 25,000 students every year. Loans upto Rs.1 million will be given to students for higher education in domestic institutions. E-vouchers for this purpose will be provided directly to 100,000 students every year by way of annual interest subvention of 3% of the loan amount.

To incentivize companies to employ more freshers, subsidies will be provided directly both to the employer and employee with respect to their contribution to the Employees' Provident Fund Office in the first four years of employment. It is estimated that the scheme will benefit three million freshers who are employed for the first time. The Government will reimburse employers upto the limit of Rs.3,000 per month for two years towards their EPFO contribution for each additional employee. This scheme is expected to incentivize employment of 5 million citizens. To promote participation of women in the workforce, the Government proposes to set up working women hostels in collaboration with industry and establish crèches.

MSMEs and Start-ups

The Finance Minister has given a boost to labour intensive manufacturing by medium, small and micro enterprises by formulating a package which will cover financing, regulatory changes, and technology support. Long term loans will be provided for purchase of machinery and equipment without collateral or third party guarantees. A credit guarantee scheme is being introduced which will be self financing as the borrower will have to provide an upfront guarantee fee.

The limit of *Mudra* loans is doubled from Rs.1 million to Rs.2 million for entrepreneurs who have availed of these loans in the past and successfully repaid them. Banks have been asked to formulate a new mechanism for facilitating continuation of bank credit to MSMEs during their stress period so that they may continue their business and avoid getting into the category of non-performing assets. To enable these enterprises and traditional artisans to sell their products in international markets, e-commerce export hubs will be set up in public-private partnership mode. These hubs will facilitate trade and export related services. To give a further boost to Indian startups, the decision to abolish the so-called 'Angel tax' is a welcome step which will foster growth and innovation.

Empowering women has always been the focus of the Government and several reforms have been announced for women backed up by an allocation of almost Rs. 3 trillion. In collaboration with industry, women specific skilling programmes are to be organized, apart from providing market access to women owned enterprises.

Energy Security Initiatives

The transition towards green energy has taken root in India and a roadmap is being formulated for moving industries from energy efficiency targets to lower emission targets. Appropriate regulations for transition of industries to “Indian Carbon Market” mode are to be put in place. Financial assistance is to be provided to micro, small and medium enterprises for shifting them to cleaner forms of energy.

The Government’s initiative to install rooftop solar plants will enable 10 million households to obtain free electricity upto 300 units every month. More than 1.4 million applications for this scheme have already been received which will ensure its success. Nuclear energy is expected to form a very significant part of the energy mix alongwith renewable energy. Therefore, the private sector will be roped in for setting up Bharat Small Reactors. Research and development of newer technologies for nuclear energy is gaining speed and adequate budgetary resources are allocated for this purpose.

Massive capital outlay for infrastructure projects

Over the past ten years, the Central Government as well as some of the State Governments invested substantial amounts in building infrastructure for roads, expressways, railways, ports, and other critical projects. In the financial year 2024-25, an amount of Rs.11.1 trillion, constituting 3.4% of the GDP, has been allocated apart from making a provision of Rs.1.5 trillion for long term interest free loans to State Governments. The private sector is being enthused to enter into public-private partnership arrangements with the promise of viability gap funding which would make their investments profitable.

Public investment in digital infrastructure has helped in improving access by all citizens to market resources, education, health and services. This has made India the most digitized economy in the world. Adoption of technology for further digitization of the economy is being implemented under the Digital India mission initiative.

It is expected that the setting up of world class infrastructure will promote tourism apart from giving a boost to exports of both industrial and agricultural products. The Government is determined to position India as a global tourist destination which will create jobs, stimulate investments and unlock economic opportunities for other sectors.

India has already achieved substantial milestones in exporting automobiles, mobile phones and electronic products and components. The success story is partly attributable to the dramatic improvement in the quality of infrastructure, be it roads, expressways, seaports, airports and other logistical projects.

Direct taxation

On the tax front, the Finance Minister has announced that there would be a comprehensive review of the Income-tax Act, 1961 with a view to make it concise, lucid and devoid of ambiguities which would reduce litigation. Apart from announcing the revival of the scheme for resolving pending disputes with the income tax department, the period for reopening past assessments has been curtailed which would bring some finality to past assessments at the end of the period of five years.

In order to make more attractive the recently introduced tax regime under section 115-BAC of the Income-tax Act, 1961, which is the default regime, the Finance Minister has widened the tax rate slabs which would bring down the burden of tax payable. The standard deduction for employees who avail of the new tax regime has been increased from Rs.50,000 to Rs.75,000. For pensioners, the deduction available on family pension has been enhanced from Rs.15,000 to Rs.25,000. It has been estimated that about 40 million salaried individuals will be given relief. In actual terms, a salaried employee under the new tax regime will save upto Rs.17,500 in income-tax.

To enhance social security benefits, employers who contribute to the National Pension System will get a higher deduction of 14%, currently 10%, of the employee's salary. Under section 80-CCD, employees of the private and public sectors who make a contribution from their salary will also get a higher deduction of 14% provided they opt for the new tax regime. It may be noted that individuals who opt for the new tax regime are permitted to claim a deduction only under section 80-CCD and under no other provision of Chapter VI-A of the Act. In short, those who opt for the new tax regime are not eligible for any deduction of contributions to provident fund, life insurance premium, medical insurance premium, etc.

The taxation of capital gains has undergone a significant change both for short term and long term assets. Short term gains on specified financial assets will become taxable from 23rd July, 2024 at a flat rate of 20% instead of 15%. Short term capital gains on sale of other financial and non-financial assets will continue to be taxed at the slab rates applicable to individuals. Long term capital gains on all financial and non-financial assets will be taxable at the uniform rate of 12.5%.

Listed financial assets held for more than one year will be classified as long term while unlisted financial assets and all non-financial assets, including immovable property, will need to be held for atleast two years to be classified as long term assets. To benefit middle class investors, long term capital gains on certain listed financial assets to the extent of Rs. 125,000 made in a financial year will be exempt from tax which will enable them to harvest the capital gains and roll them back in the capital market.

When the budget proposals were announced by the Finance Minister on 23rd July, 2024, it was proposed that the benefit of indexation of the cost of acquisition was to be removed with immediate effect in respect of all long term capital assets and the capital gains would be liable to tax at the flat rate of 12.5% instead of 20% which was applicable prior to this date. However, while moving the Finance Bill in Parliament, the Finance Minister has tweaked this rule regarding indexation but only in a case where land or building or both were acquired prior to 23rd July, 2024. In respect of such assets, the benefit of indexation would continue to be available at the option of the tax payer whereby the cost would be increased by applying the cost inflation index. In such a case, the long term capital gains so arrived at would be taxed at the rate of 20%. If he foregoes the benefit of indexation, the tax would be at the lower rate of 12.5% on the actual capital gains.

In short, an option has been given to a person who held an immovable property prior to 23rd July, 2024 to pay tax either under the old system or the new one. Therefore, a person who held property prior to this date would have to compute the tax under both the options, (1) claim indexation and calculate tax at the rate of 20% on the reduced capital gains, or (2) forgo indexation and compute tax at the rate of 12.5% on the actual capital gains. Based on such calculations, he is liable to pay tax which is the lower of the two.

Unlisted bonds and debentures, debt mutual funds and market linked debentures will be treated as short term capital assets, irrespective of their holding period. Hence, tax on capital gains of such assets will be attracted at the regular slab rates applicable to individuals.

When a shareholder offers his shares under a buyback scheme of the company, tax will now be chargeable on the entire amount received by him as regular income as the proceeds of buyback will now be treated as dividend. However, the original cost of such shares which are offered under the buyback scheme will be treated as a capital loss to the investor, which he can set off against capital gains made by him on sale of assets during the same financial year or the subsequent eight financial years.

In order to curb speculation and dampen the enthusiasm of investors to enter the F&O segment of the securities market, the rates of the securities transaction tax has been hiked from 0.0625% to 0.1% of the option premium on sale of an option in securities. On sale of futures in securities, the STT rate has been increased from 0.0125% to 0.02% of the price at which such futures are traded. SEBI has cautioned investors as, according to a study made by it, F&O trading has resulted in losses in more than 75% of such transactions.

Foreign companies which are planning to invest in India will be considerably benefited with the reduction of the tax rate from 40% to 35%. Simplification of foreign direct investment rules would ensure further inflows of direct investment into the country. Withdrawal of the 2% equalization levy and expanding the scope of safe harbour rules are steps in the right direction which would make India one of the most favourable investment destinations in the world.

Private limited companies will now be spared from the so-called “Angel tax” whereby they are required to pay tax at the highest rate on the amount of premium which exceeds the fair market value of the shares. Hence, foreign and domestic capital will flow freely into start-ups which will give a boost to sunrise ventures and strengthen the entrepreneurial spirit of innovators.

Customs Duty rationalization

The Finance Minister's proposals pertaining to customs duties are designed to support domestic manufacturing, deepen local value addition, promote export competitiveness and simplify procedures. Specific measures have been taken to promote the manufacture and export of mobile phones which have shown substantial growth in the last six years. The Finance Minister, with a view to help domestic consumers, has reduced the basic customs duty on mobile phones to 15%. Further, customs duty has been fully exempted on 25 critical minerals which are used for renewable energy, defence, telecommunications, and hi-tech electronics. This will provide a major fillip for the refining of minerals such as lithium, copper, cobalt, and rare earth elements which are used in critical and strategic sectors.

The list of exempted capital goods which are used in the manufacture of solar cells and panels has been expanded which would support energy transition to fight climate change. Leather and textiles have tremendous export potential. To enhance the competitiveness of exports, several items have been added to the list of exempted goods for manufacture of garments, footwear and other leather products. The duty structure on raw hides, skins and leather has been rationalized. The jewellery industry has been given a significant benefit by reducing customs duty on gold and silver to 6% and on platinum to 6.4%. This is bound to have an impact on smuggling of gold and silver which has led to tax evasion.

To incentivize domestic manufacturing, the basic customs duty has been selectively increased which will benefit the chemicals and petrochemicals sectors which are setting up additional capacities. Likewise, the customs duty is sought to be increased on specified telecom equipment which will benefit the domestic manufacturers.

Towards Viksit Bharat

The budget proposals deal with diverse areas from space economy to the development of spiritual tourism. The budget presents a well defined strategy which balances multiple objectives of reducing fiscal deficit as well as Government debt while sustaining robust public investment in critical sectors of the Indian economy. International credit rating agencies are bound to take cognizance of the strong fiscal foundation which is sought to be laid, while fostering sustainable growth with massive capital investment.

To sustain the growth momentum and move towards a 7 Trillion Dollar economy by 2030, it is imperative to remove all procedural bottlenecks and reduce the customs tariffs for import of components so that the ‘Make in India’ vision is realized to its full potential. Further, India has to strengthen intellectual property rights enforcement as foreign companies will give their technology only if their proprietary rights are protected. Labour law reforms will need to be expedited and land acquisition regulations and processes for implementing infrastructure projects need to be streamlined in partnership with State Governments.

Rating agency S&P estimates that India’s GDP will increase from US$ 3.4 trillion in 2023 to US$ 7.3 trillion by 2030. This will make the Indian economy larger than the economies of Japan and Germany. Global leaders of multinational companies consider the 21st century to belong to India primarily because India has embraced digitization in a manner in which no other country has done. India is playing a leadership role in the digital field.

India has been a significant driver of global growth considering the fact that its economy has increased in size by 90% during the last ten years compared with a 35% increase in the size of the global economy. A new class of young Indians is paving the path for innovations and creativity. More than 250 million Indians have transcended poverty and entered the growing middle class of consumers which is comparable to the population of England, France and Germany put together.

A solid foundation has been laid based on the trinity of fiscal prudence, public investment and inclusive growth. This multi-dimensional approach adopted by the Finance Minister will enable India to meet the challenges of the current fragile global economic environment. It is internationally recognized that India is the bright star on the horizon and it will march forward with renewed vigour on its path to becoming a developed nation and the third largest economy in the world by 2030.

The views expressed in this booklet are not necessarily those of the Forum of Free Enterprise.

“People must come to accept private enterprise not as a necessary evil, but as an affirmative good”.

- Eugene Black
Former President,
World Bank
(1949-1962)

FORUM
OF FREE ENTERPRISE

The Forum of Free Enterprise is a non-political and non-partisan organisation started in 1956, to educate public opinion in India on free enterprise and its close relationship with the democratic way of life. The Forum seeks to stimulate public thinking on vital economic problems through booklets, meetings, and other means as befit a democratic society.

In recent years the Forum has also been focusing on the youth with a view to developing good and well-informed citizenship. A number of youth activities including elocution contests and leadership training camps are organised every year towards this goal.

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