THE UNION BUDGET 2022-23

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Forum of Free Enterprise

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

- A. D. Shroff
Founder-President
Forum of Free Enterprise

Vision for A Digital India

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This booklet is based on his talk at a webinar arranged on 2nd February 2022.

The organizations involved were:

- Bombay Chartered Accountants' Society
- Borivli Sanskrutik Kendra
- Cosmopolitan's Valia College of Commerce & Arts
- Forum of Free Enterprise
- Indo Japanese Association
- Interact Foundation
- Investors Grievances Forum
- Nani A. Palkhivala Memorial Trust
- Rotary Club of Bombay Pier
- Sydenham Institute of Management Studies, Research & Entrepreneurship Education (SIMSREE)
- The A. D. Shroff Memorial Trust
- The Chamber of Tax Consultants

Vision for A Digital India

The proposals set out by the Finance Minister in documents of the Union Budget 2022 are designed to release the much-needed kinetic energy to power the nation, post the Covid period. It has a long-term vision supported by growth-oriented policies to drive digital inclusion and infrastructure development. It sets the tone for India's 'techade' and for establishing the country as a global hub for technology innovation. The Government's focus on technology enabled development in key sectors like fintech, healthcare, education, agriculture and manufacturing is a testament to India's technological prowess.

The focus by the Government on increasing productivity will foster technology adoption and help India achieve its sustainability goals and ensuring economic growth. The significant increase in capital expenditure under the budget proposals aggregating to Rs.10.68 trillion will kick-start the economy and strengthen the 'Make-in-India' commitment.

Budgetary Receipts and Expenditure

The fiscal deficit for 2022-23 is estimated to be a whopping figure of Rs. 16.61 trillion which is 6.4% of the projected GDP, breaching the mandate of the Fiscal Responsibility and Budget Management Act. Growth in Government spending has fallen in this financial year and allocation for subsidies has been reduced.

Low tax revenue collection has always been and continues to be the Achilles Heel of the Indian economy. The gross tax revenue which is estimated to be collected during the fiscal year 2022-23 is Rs.27.57 trillion. Such gross tax revenue collection of about US$ 368 billion is much less than what the single largest multinational corporation earns in revenues every year. After transferring funds to State governments and Union Territories as per the mandate of the Finance Commission, the net tax revenue which will remain with the Central Government will be Rs.19.35 trillion.

The Government's collection by way of the Goods and Services Tax is estimated to be Rs. 7.8 trillion. Corporate tax is proposed to bringin Rs. 7.2 trillion and personal income-tax Rs.7 trillion. Customs and excise duty put together will bring around Rs. 5.5 trillion. The Government has to raise non-tax revenues by way of disinvestment proceeds and monetization of assets. Therefore, the aggregate of tax and non-tax revenues is expected to garner for the Exchequer around Rs. 22.84 trillion during the fiscal year 2022-23.

The total Government expenditure is to be Rs. 39.45 trillion, of which interest payment will be Rs. 9.4 trillion, defence expenditure Rs.3.85 trillion and establishment expenditure Rs.6.92 trillion. The Gross Domestic Product for fiscal year 2022-23 is estimated at a figure of Rs.258 trillion which is equivalent to roughly US$ 3.44 trillion. It will take a while before the India reaches the coveted goal of having a 5 trillion-dollar economy.

Pillars of development

The Finance Minister has based her budget proposals on the following four key pillars to pull forward the economy in unison –

- Infrastructure development
- Inclusive development
- Productivity enhancement and investment
- Sunrise opportunities and energy transition to a carbon neutral economy.

Infrastructure development outlays

Government capital expenditure has been increased by 35.4%. An amount of Rs.7.5 trillion which is 2.9% of the GDP will be incurred in financial year 2022-23. If capital investment made through grants in aid to State Governments is taken into account, the effective capital expenditure will be in the region of Rs.10.68 trillion. To ensure sustainable development, infrastructure spending will be primarily on roads, railways, airports, seaports, mass transport, waterways and logistics. The *Gati Shakti* national master plan will cover highways network which is to be expanded by 25,000 kilometers.

A Unified Logistics Interface Platform is being set up to provide for efficient movement of goods through different modes, reducing logistics cost, assisting inventory management and eliminating cumbersome documentation. Railways will develop new products and provide logistical services to small farmers in small and medium enterprises. Four hundred new generation trains are to be developed and manufactured in the next three years which would be energy efficient. A new programme for national ropeways development is to be launched to improve connectivity and convenience for persons residing in hilly areas. This will also promote tourism.

Education and healthcare

An amount of Rs.1.04 trillion is set aside for education and programmes for reskilling and upskilling. The skilling programmes are to be formulated in partnership with industry and, to provide skilled labour to industry on a sustainable basis, a National Skill Qualification Framework is to be set up. A digital ecosystem for skilling is to be launched which will enable qualified but unemployable citizens to acquire skills through online training. Startups are to be promoted through various applications in select ITIs. For vocational courses, 750 virtual laboratories in science and mathematics are to be set up in the financial year 2022-23. A Digital University will be established on a networked hub-spoke model. This will provide access to students across the country for quality universal education in different Indian languages.

On the healthcare front, the Government has allocated Rs.866 billion to be spent during the financial year 2022-23, apart from an allocation of Rs.306 billion for scientific departments. An open platform for the National Digital Health Ecosystem is to be rolled out. It will consist of digital registries of healthcare providers and health facilities. A network of 23 tele-mental health centres is to be set up with technology support.

Agriculture

Drones will be provided for crop assessment and spraying of insecticides and nutrients which will help to improve land productivity. Farmers are also to be given support and advice for producing the right agricultural commodity having regard to the nature of the soil of their farms. To reduce dependence on import of oilseeds, a comprehensive scheme has been formulated to increase domestic production and encourage farmers to go into the cultivation of pulses and oilseeds. These initiatives will definitely have a telling effect on the income which farmers will earn in the coming years. State Governments have been roped in for a comprehensive package for developing fruit processing in respect of certain varieties of fruits and vegetables having an export potential.

A substantial outlay is earmarked for river linking projects. An amount of Rs.446 billion is budgeted for, which would provide irrigation benefits to 9.08 lakh hectare of agricultural land, provide drinking water supply for 62 lakh citizens, and generate hydro and solar power.

Rural Development

For the rural sector, the budget has focused largely on creating tangible assets such as roads and houses in villages. This has been done despite reducing the allocation for the Mahatma Gandhi National Rural Employment Guarantee Scheme by 25.51% against the revised estimates for financial year 2021-22. However, in the financial year 2021-22, an amount of Rs. 2.37 trillion will be transferred to the bank accounts of 163 lakh farmers by way of payment of the minimum support price for wheat and rice.

This injection of funds will give a boost to the purchasing power of the rural masses which, in turn, will have a cascading effect on consumption of consumer and industrial goods, thereby helping the manufacturing sector. Farmers will be assisted by government agencies which will provide digital and hi-tech services to strengthen the agri-value chain. Drones will be used for spraying insecticides and nutrients and for promoting crop assessment. The linking of rivers will provide irrigation benefits to more than two lakh hectares of farm land and ensure drinking water supply for 62 lakh citizens living in the adjoining areas.

The Government's vision is to improve the quality of life of citizens in the most backward districts of the country in key sectors such as health, nutrition, financial inclusion and basic infrastructure. A new Vibrant Villages Programme has been announced which will cover construction of housing, village infrastructure like roads, tourist centres, providing renewable energy and education facilities. Around 3.8 crore households are to be provided tap water connections for which an allocation of Rs.600 billion has been made.

Focus on Entrepreneurship

The portals set up for the micro, small and medium enterprises will be interlinked and will provide services pertaining to credit facilitation, skilling and recruitment with the object of enhancing entrepreneurial opportunities. The Credit Guarantee Trust for these enterprises will be revamped with additional infusion of funds. This will facilitate granting of additional credit of Rs.2 trillion. The Emergency Credit Line Guarantee Scheme will benefit more than 130 lakh enterprises and the guarantee cover is to be increased by Rs.500 billion to Rs.5 trillion, the additional amount being earmarked solely for the hospitality sector which has suffered grievously during the Covid lockdown period.

Startups have emerged as drivers of growth for the Indian economy which has seen a manifold increase. Those which are established by 31st March, 2022 are eligible for a tax holiday for three consecutive financial years out of ten years from the date of their incorporation. It is now proposed to extend this date and to allow a startup to claim this incentive if it is incorporated by 31st March, 2023.

Direct tax proposals

No sops have been announced for salaried employees or middle-class citizens in this year's budget proposals. It is quite likely that in the budget proposals of the next year, several sops and benefits will be given to employees and the middle class as the 2023 budget will be the last one before the next general elections to be held in February 2024.

To encourage certain domestic companies to avail of the prevailing competitive business environment, a concessional regime of 15% tax rate under section 115-BAB of the Income-tax Act, 1961 was introduced for newly incorporated manufacturing companies. This was subject to the condition that they commence manufacture or production of an article or thing latest by 31st March, 2023. This date has now been extended to 31st March, 2024.

Long term capital gains on listed equity shares, units, etc. are liable to a maximum surcharge of 15% while other long term capital gains are subjected to a graded surcharge which goes up to 37%, depending upon the slabs of taxable income. The Finance Bill, 2022 proposes to limit the rate of surcharge to 15% on long term capital gains arising on transfer of any capital asset. In the case of a non-resident who derives income from offshore derivative instruments or over the counter derivatives issued by an offshore banking unit, income from interest and any other income received from portfolio management services rendered in an International Financial Services Centre, like the GIFT City, will be wholly exempt from tax.

Dividends received by Indian corporates from the foreign companies in which they hold 26% or more of the nominal capital are currently taxed at the rate of 15% under section 115 BBD of the Income tax Act. This provision will not be applicable with effect from the Assessment Year 2023-24 relevant to the financial year ending on 31st March, 2023. Thus, dividends received from such foreign companies will now be taxable at the general corporate tax rate. This is a revenue earning proposal which will adversely impact companies across diverse sectors like information technology, pharmaceuticals, automotive and engineering products.

To counter tax evasion, it is proposed that no loss will be allowed to be set off against any income which is detected during search and survey operations. This provision will also set at rest the litigation on the subject which has been going on for several years. It is further proposed that if a person claims that he has received a cash credit or loan from another person, such person will also be required to prove the source of the funds out of which he gave the loan, failing which the cash credit amount or loan will be deemed to be his concealed income under section 68 and will be liable to tax at the flat rate of 60% under section 115-BBE.

For the first time, profits made in transactions in virtual digital assets are sought to be made liable to tax at a flat rate of 30%. No deduction in respect of any expenditure or allowance will be permitted while computing such income, except the cost of acquisition. Further, it is proposed that loss from transfer of a virtual digital asset cannot be set off against any other income. In order to capture the transaction details, tax will be deductible at source on payments made in relation to the transfer of the asset at a rate of 1% of the consideration. The value of the gift of a virtual digital asset will be taxable in the hands of the recipient of such asset.

Customs Duty revamp

The process of rationalizing customs duty exemptions has been continued this year after consulting all the stake holders. More than 350 exemption entries are proposed to be gradually phased out. These include customs duty exemption on certain agricultural produce, chemicals, fabrics, medical devices and medicines for which there is sufficient domestic capacity. This phasing out of exemptions will simplify the tariff structure, particularly for chemicals and metals.

Concessional duties on raw materials which go into the manufacturing of intermediate products will promote the objective of the Government to ‘Make in India’. As a result of these measures, the domestic capital goods sector will get a boost and strengthen the National Capital Goods Policy which seeks to double the production of capital goods in India by 2025. Project imports will attract a moderate duty of 7.5% which will provide a level playing field to players in power projects, mining and other infrastructure enterprises.

To address the issue of leakage of sensitive information pertaining to exporters and importers, a clause has been added in the Customs Act which makes publishing of such information a punishable offence. Any information leaked relating to the value, quantity or details of an importer or exporter may attract imprisonment upto six months or a fine upto Rs. 50,000 or both.

SEZ reforms

The Government plans to undertake reforms in customs administration of Special Economic Zones and make them fully IT-driven. The current Special Economic Zone Act is 16 years old and is proposed to be recast with a view to boost exports, enhance competitiveness and remove anomalies. The revised legislation is meant to remove complexities in the rules and to make the law compliant with the World Trade Organization framework. The central law will ensure that State Governments are roped in as partners with a view to increase productivity and boost the country's overall investment climate.

The Government wants to use the SEZ infrastructure for domestic industrial activities as well and not just for exports. Therefore, it is proposed that SEZs will gradually move towards the plug-and-play infrastructure. This would permit a large number of SEZs which have land, factory sheds or buildings to be put to use for expanding common activities for both domestic and export production. State industrial parks will also enjoy the same benefits as special economic zones.

Digital India

The Government has promised to fund research and development in Artificial Intelligence, Geospatial Systems, Drones, semi conductor eco-system, Space Economy, Genomics, Green Energy and Clean Mobility systems. This has immense potential to promote sustainable development and modernize the country which would put it in the league of developed nations. It is indeed heartening to see the country creating a new landscape by encouraging production of green hydrogen, bringing in emission controls and moving steadily towards decarbonization.

A roadmap has been laid out to bring in 5G technology and give a fillip to the semi conductor ecosystem. This will make the country one of the fastest growing digital economies in the world. Thematic funds with 20% Government capital will increase resource availability in sunrise sectors of climate action and deep technology. The budget announcements give a kick start to Web 3.0 with emphasis on gaming, virtual worlds and digital assets. The task force to be set up to develop Animation, Visual Effects and Gaming will recommend steps to create employment opportunities for the technologically savvy.

To give a further boost to digital banking and to ensure that it spreads throughout India, 75 Digital Banking Units in 75 districts of the country will be set up by scheduled commercial banks. The proposed introduction by the Reserve Bank of India of the digital rupee using blockchain and other technologies is a historic step as India will be one of the first few countries to have a virtual currency which will open up vast opportunities for innovation and invite investments by venture capital funds.

Digital healthcare has helped smoothen out inefficient practices and tackle the problem of physician shortages. Telehealth has got a tremendous boost from digital therapeutics and advanced medical devices. The adoption of telemedicine in India has risen by 35% from 2019 to 2021.

Data centre business has been given the infrastructure status. This will allow data centres to play a key role in the formation of a digital economy and provide access to foreign investment and private equity capital at lower rates of interest. India's geographic location and favourable policies are expected to make the country a hub for data centres catering to the South East Asia region in the next five years.

Data centres are of strategic importance in building a robust digital infrastructure and in securing data by localization. However, the Government needs to introduce data protection legislation with a clear framework on the regulations pertaining to hosting data in third party data centres. Further, fiscal incentives to be given for this industry should be linked with quality certification of data centres.

Fit-for-future India

India is facing headwinds from the global economy which need to be addressed. The rising commodity prices and inflationary trends worldwide can only be ignored at our peril. The Government will need to work hard and come up with radically innovative policies to integrate India into the global value chain. The overarching ambition should be to set India on a virtuous path of enhanced competitiveness leading to higher real and nominal GDP growth.

While the budget proposals deal with economic development, the focus will now be shifted to the Reserve Bank for coming up with a stable monetary policy with the dual purpose of ensuring liquidity to sustain the growth momentum and at the same time keeping inflation in check. The spectre of inflation is now confronting even developed countries like the United States, with runaway inflation in Turkey. The Reserve Bank will have to perform a delicate balancing act to make sure that inflation is kept in control while the liquidity demands of industry and the small-scale sector are met.

The budget has taken many steps which are in continuation of the Government's thrust on 'Make-in-India'. These include a review of certain customs duty exemptions to promote domestic manufacturing, extending the tax benefits for startups, expansion of the production linked incentive scheme and proposing a new law for Special Economic Zones. Opening up the defence sector for Indian manufacturing companies and making it mandatory for 68% of all defence procurements to be reserved for Indian industrial units will not only ensure self reliance but give Indian industry a booster dose for reaching a level of growth exceeding 15%.

The Finance Minister has rightly emphasized the need for continuity in policy making and adhering to the pathway laid out since 2014. This roadmap consists of an accelerated build up of infrastructure, improvement in logistics to ensure competitiveness for the manufacturing sector and kick-starting development by leveraging digital opportunities.

Conclusion

This budget will be marked for being the inflection point which will propel India in a higher orbit of growth. It invests boldly in India's future and sows the seeds of many futuristic ideas like sovereign green bonds and strengthening of the electric vehicle and semi conductor ecosystems. The Finance Minister has taken into consideration the need for supportive policies, light-touch regulations and facilitative actions to keep the economy growing for a fit-for-future India.

Kudos to her for skillfully navigating the fiscal constraints and balancing the need to revive the economy in a highly complex and challenging environment. She has put forth a forward-looking plan of action, be it an increased push to digitization, a commitment to build a world class infrastructure or putting technology to use for a greener and cleaner India. Implementation of all these measures will define India's growth trajectory in the coming years.

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

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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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