

THE UNION BUDGET 2023-24

Homi P. Ranina



FORUM
OF FREE ENTERPRISE

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

- A. D. Shroff
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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Defining Features of India's Growth Story

Homi P. Ranina*

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This booklet is based on his talk at a webinar arranged on 2nd February 2023.

The organizations involved were:

- Bombay Chartered Accountants' Society
- Borivli Sanskrutik Kendra
- Federation of Indian Export Organisations
- Forum of Free Enterprise
- Indo Japanese Association
- Interact Foundation
- Investors' Grievances Forum
- Sydenham Institute of Management Studies, Research & Entrepreneurship Education (SIMSREE)
- The A. D. Shroff Memorial Trust
- The Chamber of Tax Consultants
- World Trade Center, Bengaluru, Kochi and Chennai

Defining Features of India's Growth Story

Despite a slowdown in growth in all developed countries and recessionary pressures in advanced economies, India continues to be one of the fastest growing nations at an estimated rate of GDP growth of 6.5-7%. The budget proposals for 2023-24 set out a roadmap for a prosperous and inclusive India having the vision of a 5 trillion dollar economy by 2027 when India completes 80 years of independence. This is to be done through substantial allocations for infrastructure development, women empowerment, providing opportunities for young entrepreneurs and for establishing a digital landscape.

This growth oriented budget puts significant focus on building a world class infrastructure by allocating a whopping amount of Rs. 10 trillion which is an increase of around 30% over the last year. This includes revamping and modernizing railways, airports, roads and expressways, seaports and building logistics which are vital to push exports of merchandise and services to US\$ 2 trillion by 2027. On education, the Government proposes to spend around Rs. 1.13

trillion and on health related services around Rs. 890 billion.

Revenues and budgetary allocations

The revised tax revenue estimates for the financial year 2022-23 have shown a remarkable growth compared to budget estimates. The fact that the Indian economy has revived during the financial year 2022-23, after the pandemic, is reflected in the budgetary collection by way of tax revenues exceeding Rs. 23.48 trillion. Taking a conservative view, the tax revenue estimate for 2023-24 has been fixed at Rs. 26.32 trillion. This figure is the net amount after paying State Governments their dues based on the recommendations of the Finance Commission.

On the expenditure side, interest outgo is budgeted at Rs. 10.80 trillion, defence allocation is Rs. 4.32 trillion, establishment and pension costs at Rs. 9.79 trillion. The deficit is projected at Rs. 17.87 trillion, being 5.9% of the projected GDP of 2023-24. To finance this deficit, the net market borrowings from dated securities are estimated at Rs. 11.8 trillion and the balance Rs. 3.6 trillion will come from small savings and other sources. Hence, there will be no extra pressure on liquidity. This has comforted the bond market after the budget speech of the Finance Minister.

Despite the huge allocation for physical and social infrastructure projects, the Finance Minister has moved on the path of fiscal consolidation by restricting the fiscal deficit to 6.4% of the Gross Domestic Product (GDP) for the financial year 2022-23. For the next year 2023-24, the fiscal deficit is estimated to be 5.9% of the GDP. A glide path has been drawn up to bring down the fiscal deficit to 4.5% of GDP by 2025-26. For the fiscal year 2023-24, the GDP of India is estimated to be US\$ 3.725 trillion based on a conservative rate of growth of 6.5 to 7%.

Alleviating poverty and protecting the vulnerable

The budget proposals seek to alleviate the problems of the most vulnerable sections of Indian society. For the underprivileged, tribal and backward castes, several schemes have been announced to enable them to find suitable avenues for increasing their income. Special programmes are designed to train them to hone their skills. Women in rural areas are being empowered by setting up self help groups whereby they can pool their talent and resources to produce goods and provide services. For this purpose, large amounts are allocated by way of credit finance at very low rates of interest.

During the last five years the universalization of targeted benefits has seen the setting up of 117 million household toilets and providing 96 million LPG connections. The provision of insurance cover to 446 million citizens under two schemes is unprecedented in the history of the country. Cash transfers have been made of Rs. 2.2 trillion to 114 million farmers.

Thrust for agriculture

Technology adoption will be given a further boost with a slew of initiatives. Several schemes have been announced by the Government which specifically deal with issues pertaining to the farm sector. Digital public infrastructure for agriculture will be established to enable farmer centric solutions to be adopted.

This will be done through information services for crop planning, improved access to inputs like high quality seeds, provision of credit to the extent of Rs. 20 trillion and insurance of crops. Assistance will also be provided for crop estimation, market intelligence, and support for growth of the agritech industry.

The Agriculture Accelerator Fund to be set up will encourage startups in rural areas in order to bring innovative and affordable solutions for challenges faced by farmers. This fund will encourage adoption of modern technologies

to transform agricultural practices, increase productivity and profitability. For example, the productivity of extra long staple cotton will be promoted on the basis of a cluster-based and value chain approach.

With India being the largest producer of millets in the world, the Indian Institute of Millet Research will be supported as the Centre of Excellence for providing best practices and technologies at international level. The demand for millets is growing globally as it has a high nutritional value.

In order to reduce wastage of agricultural produce, the Government proposes to implement a plan to set up a massive decentralized storage capacity. This will help farmers store their produce and realize remunerative prices by selling at appropriate times when the demand is high. It is also proposed to facilitate setting up of a large number of multipurpose co-operative societies and dairy societies in every village in the next five years.

Strengthening the Co-operative Architecture

The co-operative sector in India has undertaken twenty new initiatives in the past twenty months. The initiatives include setting up new multi-State co-operative societies for farm related operations, computerization of primary agricultural credit societies, and expanding the ambit of the

societies for carrying out 25 services. Other initiatives include non-farm business activities such as water distribution, LPG and green energy distribution.

Currently, there are about 854,000 co-operatives in the country with around 290 million members, mostly in rural areas. Three national level multi-State co-operatives have been set up dealing with seeds, organic products and promotion of exports. A national co-operative data base is being prepared for country-wide mapping of co-operative societies. Further, the rate of income tax on new manufacturing co-operative societies has been reduced to 15%. The societies are now permitted to register as 'buyers' on the GEM portal for national public procurement.

Education and Skilling

India is expected to have the world's largest workforce by 2030 when almost 60% of the population will be of working age. In a rapidly ageing world (including China), this offers a huge competitive advantage. A two pronged strategy has been announced to reskill and upskill India's workforce in areas like artificial intelligence and mechatronics. There is a dire need to satisfy the technological needs of a globalised labour market. For this purpose, private partnerships

with Indian corporates are proposed to be forged with the Government setting up research and development centres.

A new initiative called the *Pradhan Mantri Kaushal Vikas Yojana* has been announced to skill lakhs of young graduates who will be provided on-the-job training in coding, artificial intelligence, machine learning, robotics, drone technology, Internet of Things, 3-D printing, and other soft skills. For this purpose, thirty Skill India International Centres are to be set up across different States of India.

Provisions have been made for setting up one hundred laboratories in different engineering colleges to build applications around 5G services. These laboratories will increase the employment potential in sectors like smart classrooms, intelligent transport systems, healthcare applications, and precision farming. It is expected that demand for jobs will come from emerging segments, such as whitespace spectrum, virtual network operations, network security, IoT in big data, cyber security and cloud computing. These initiatives are expected to close India's growing demand-supply gap of technical talent and workforce.

To provide adequate opportunities for the growing army of young men and women graduating from colleges and institutes, the Government has

proposed a scheme for providing 4.7 million youth with stipends during their period of apprenticeship with manufacturing companies and other industrial units. This will be done through direct benefit transfer of funds on a pan India basis.

The incentives announced for startups in previous years are being extended to ensure that new entrepreneurs also avail of these benefits. A unified Skill India Digital platform is being launched. This will enable demand based formal skilling, linked with employers including small and medium enterprises. The digital ecosystem will facilitate access to entrepreneurship schemes proposed by the Government.

Emphasis on Healthcare

In order to give a boost to innovation, funds and equipment are being made available for research in public and private medical colleges. Facilities in select laboratories run by the Indian Council of Medical Research will be made available for research by faculty members of public and private colleges. In addition, dedicated multi-disciplinary courses for medical devices will be supported to ensure that skilled manpower is available for high-end manufacturing.

Several foreign companies are sending their research teams to India to partner with Indian

scientists and partake of collaborative research programmes. Centres of excellence are being set up in specific priority areas for boosting the pharmaceutical industry. Since 2014, 157 new medical colleges have been set up. It is proposed to set up nursing institutes in the precincts of these colleges.

Infrastructure thrust

Investments in infrastructure have a large multiplier impact on growth and employment. The budget proposals take the lead to ramp up the virtuous cycle of investment and job creation. Capital investment outlay has been increased steeply for the third year in succession to Rs. 10 trillion which is 3.3% of the projected GDP of fiscal year 2023-24. This whopping sum would be almost three times the outlay made in the financial year 2019-20. In fact, the capital expenditure of the Central Government would be complemented by the provision made through the Grants-in-Aid given to States for creation of capital assets. Therefore, the effective capital expenditure of the Union Government is budgeted at Rs. 13.7 trillion which is 4.5% of the GDP.

State Governments are also incentivized to invest in infrastructure by way of a 50-year interest free loan of Rs. 1.3 trillion. The private sector is encouraged by the Infrastructure

Finance Secretariat to invest in railways, roads, power projects and urban infrastructure. A capital outlay of Rs. 2.4 trillion has been provided for railways and related projects. This investment would be nine times the expenditure incurred on this sector in 2013-14.

In order to strengthen the supply chain logistics, one hundred critical transport infrastructure projects have been identified for first and last mile connectivity which will give a boost to ports and facilitate expeditious movement of coal, steel, fertilizers and food grains. With the object of promoting regional connectivity, investments will be made in setting up 50 additional airports, heliports, water aerodromes, and advance landing facilities.

Urban infrastructure development fund is being set up. This will be used by public agencies to create urban infrastructure in Tier 2 and Tier 3 cities. State Governments are being encouraged to undertake urban planning reforms to transform these cities into sustainable cities of the future. To make affordable housing a reality, the Government has increased the outlay for housing to more than Rs. 790 billion. Thus, the allocation for *PM Awas Yojana* has been enhanced by 66%. Such massive outlays are expected to give a substantial boost to the virtuous cycle of investment and push the rate of growth.

Clean Energy Economy

Many analysts have labeled this budget as the first Green Budget of India. To achieve a net zero emissions goal by 2070, the Government has rolled out a comprehensive green growth strategy. India is set to achieve its object of 40% installed electric capacity from non-fossil fuels ahead of 2030. The likely installed capacity from non-fossil fuels will be more than 500 GW by 2030, resulting in a decline of the average emission rate by around 29% compared to 2014-15.

The recently launched National Green Hydrogen Mission will facilitate the transition of the economy to low carbon intensity, reduce dependence on fossil fuel imports, and enable the country to achieve technology leadership in this sunrise sector. To achieve the objective of net-zero carbon emission by 2070, several initiatives have been proposed in this year's budget document. An amount of Rs. 197 billion has been earmarked for the National Green Hydrogen Mission.

The budget provides Rs. 350 billion for priority capital investments towards energy transition and zero objectives. This will strengthen the energy security of the country. Energy storage projects will also be undertaken in the coming financial year. Battery energy storage systems

with capacity of 4000 MWH will be supported with viability gap funding. For encouraging behavioral change, a Green Credit Programme is to be notified under the Environment (Protection) Act. This will incentivize environmentally sustainable and constructive action by companies and local bodies.

To promote the circular economy, five hundred new 'waste-to-wealth' plants will be established. This will include 200 compressed biogas plants and 300 community based plants, entailing a total investment of Rs. 100 billion. Over the next three years, ten million farmers will be assisted to adopt natural farming. For this purpose, hundred Bio-Input Resource Centres are to be set up creating a national level micro fertilizer and pesticide manufacturing network.

The re-cycling of plastic waste has got a boost by the initiative taken by Indian Oil Corporation to convert 10 million plastic bottles into fabric which will be used for making uniforms for employees of public and private sectors. In order to fight environmental pollution, it is necessary to stop the use of old polluting vehicles which use fossil fuel. To support the vehicle scrapping policy, the Government has allocated adequate funds to scrap all old vehicles of Central and State Governments.

Boosting tourism

After several years of neglect, the Government is highlighting the need for promoting tourism in India. The potential for tourism growth is immense which has recently been brought in focus post Covid. From 2022, there has been a dramatic spurt in domestic tourism, while international tourism has shown a declining trend in view of current geopolitical tensions, especially in Eastern Europe. More than 50 destinations in India are proposed to be selected based on physical connectivity, virtual connectivity, tourist security and other relevant factors.

Every destination would be developed as a complete package. An integrated development of theme-based tourist circuits is to be launched under the Vibrant Villages Programme. Apart from the fact that this will create millions of additional jobs, international tourism will also pick up in the next few years as the global economy moves out of its present recessionary phase and geopolitical tensions ease.

States are to be encouraged to set up a Unity Mall in every State capital as well as tourist centre of the State. The Mall will showcase not only the handicraft products made in the State but also provide space for similar products of all other States of India.

Income tax changes

The new income-tax regime of lower rates of personal tax under section 115BAC of the Income Tax Act applicable to resident individuals is sought to be made more attractive by increasing the exemption limit to Rs. 700,000 per annum and allowing salaried employees and pensioners to avail of the standard deduction.

The senior citizens' saving scheme under which funds are invested at a rate of interest of 8%, is made more attractive by allowing investments upto Rs. 3 million as against Rs. 1.5 million at present. Though the interest is taxable, senior citizens whose taxable income is within the limit of Rs. 700,000 per annum will not be liable to tax under the tax regime covered by section 115BAC.

For salaried employees, the Finance Minister has been extremely liberal in hiking the exemption limit for encashment of earned leave from Rs. 300,000 at present to Rs. 2.5 million. Such increase by more than 800% is indeed heartening. Further, the Government has sought to reduce the maximum rate of income-tax for individuals from 42.7% to 39%.

For small businesses, the presumptive scheme of taxation of deeming just 6% of the digital turnover (non-cash turnover) as taxable

income has been enhanced by making this scheme applicable to units having a turnover of Rs. 30 million as against Rs. 20 million at present. For professionals, the presumptive scheme of deeming 50% of the gross receipts as taxable income will now be applicable to those whose receipts are upto Rs. 7.5 million, as against Rs. 5 million at present, in a financial year. While giving these tax sops, the Government has foregone revenue of around Rs. 350 billion.

A few provisions have been made to garner more tax revenue. The capital gains tax exemption where profits from sale of a residential house or other long term capital assets are reinvested in another residential house is now restricted to taxable capital gains upto Rs. 100 million. Investment in a new residential property exceeding Rs. 100 million would attract tax at the flat rate of 20% plus surcharge and education cess. Where a trademark, copyright, franchisee rights or other intangible assets are sold, transferred or assigned, the cost of such assets will be deemed to be nil and therefore the entire sale proceeds will be liable to tax either as short term or long term capital gains depending upon whether such assets were held for less or more than three years.

Market-linked debentures have been popular with high net worth investors. It is now proposed

that the income derived therefrom will be treated as regular income because the capital gains will be deemed to be short term in nature and will be taxed at the applicable rates. Further, tax will be deducted at source when the interest is paid on such instruments. Payments made by real estate investment trusts and infrastructure investment trusts will be taxable. Maturity proceeds of a life insurance policy will now be made liable to tax where the premium paid exceeds Rs. 500,000 in a financial year. However, the maturity proceeds would be exempt if received on the death of the insured.

At present, a closely held company is liable to pay tax when it issues shares at a premium which exceeds the fair market value of the shares defined under section 56 (2) (vii-b). This provision is applicable when shares are subscribed by resident Indians. In order to widen the scope of this provision and to plug the loophole, it is proposed that when shares are subscribed even by non-residents at a value higher than the fair market value of the shares, the difference would be taxable as income in the hands of the closely held company. Shares issued by a listed company recognized on a stock exchange are exempt from this provision.

Financial sector revamp

The credit guarantee scheme for micro, small and medium enterprises will come into force from 1st April, 2023 through the infusion of Rs. 90 billion in the corpus of the fund. This will provide collateral free guaranteed credit of Rs. 2 trillion to such enterprises. To facilitate business activities in GIFT IFSC, it is proposed to set up a single window IT system for registration and approval from all regulatory authorities. Further, offshore derivative instruments will be recognized as valid contracts.

A National Financial Information Registry is proposed to be set up to serve as the Central Repository of financial and ancillary information. This is meant to facilitate efficient flow of credit, promote financial inclusion and foster fiscal stability. A Central Processing Centre is being set up for faster response to companies through centralized handling of various forms filed with field offices under the Companies Act, 2013.

The Government has taken a pragmatic view on disinvestment targets. An amount of Rs. 510 billion has been fixed for the fiscal year 2023-24 which is lower than the target of Rs. 650 billion fixed for the financial year 2022-23. According to the Government, the process of disinvestment should be looked at

from the point of view of reforms and employment creation and not just for garnering budgetary resources.

For the financial year ended on 31st March, 2023, the Government has collected Rs. 311 billion which is 48% of its targeted figure. For the year ending 31st March, 2024, the Government has firmed up plans to sell its shares in IDBI Bank, Shipping Corporation of India, BEML and Container Corporation of India through strategic sales which will result in transfer of management and control.

According to the budget document, capital receipts from monetization and other transactions outside of disinvestment have been fixed at Rs. 100 billion for the financial year 2023-24. Hence, it is expected that by 31st March, 2024 the Government will conclude the transactions which are already in the pipeline with no additional disinvestment issues on the anvil.

Technology and digitization as drivers of growth

Digitization, innovation and futuristic technologies are themes that run throughout the fabric of the budget. It is proposed to set up three Centres of Excellence for Artificial Intelligence in some of the best educational institutions of India. Private sector industry players will partner in conducting

inter-disciplinary research, develop cutting edge applications, and assist in finding solutions. This will help develop scalable solutions and skilling programmes in the fields of robotics, mechatronics, IoT, drones, machine learning and 3D printing.

In digital governance and payment systems, India is already a global leader. India's data rates are amongst the lowest in the world inspiring an incredible explosion of entrepreneurial activities. Several initiatives announced in the Budget speech will further strengthen digitization. An open-source, open-standard digital infrastructure for agriculture will make farmers more informed and better connected to markets, thereby enhancing their income potential. This will also give a boost to agri start-ups.

A National Data Governance Policy will be announced shortly which will enable emerging entrepreneurs to secure access to anonymized data. A DigiLocker will be set up for the benefit of small, medium and large enterprises for storing and sharing documents online in a secured manner. The DigiLocker service and Aadhaar platform will be used as a one-stop solution for reconciliation and updating of identity and address of individuals maintained by different Government agencies and regulators. Digitization is also to be used to tone up the justice

delivery system by implementing Phase 3 of the E-Courts project to be launched with an outlay of Rs. 70 billion.

It is also proposed to set up a hundred laboratories for developing applications using 5G services in engineering institutions. This is being done to embrace a new range of opportunities and business models. These laboratories will cover applications for precision farming, intelligent transport systems, smart classrooms and healthcare applications. Indeed, the synergy between physical and digital infrastructure will be one of the defining features of India's growth story.

Conclusion

The budget proposals announced by Finance Minister Ms. Nirmala Sitharaman on 1st February, 2023 are credible and fiscally prudent. They are consistent with the past focus on pushing growth by increasing capital expenditure on infrastructure, urban and rural development and agriculture. The proposals set out a blueprint for a resurgent India with good governance being on top of the agenda.

The Government has promised a transparent and accountable administration that works for the welfare of all its citizens. Whether it is

Mission *Karmayogi* that focuses on capacity building of Government officers or the reduction of 39,000 compliances and decriminalization of certain laws, the constant focus has to be on ensuring trust-based governance and providing an efficient administration.

The object of the budgetary exercise is to put India firmly on the path of digital and technological innovations. At present, India is the fifth largest economy in the world, having surpassed both England and France. According to the International Monetary Fund, based on the purchasing power parity model, the Indian economy currently is the third largest in the world.

The budget initiatives for 2023-24 are bold and progressive in their scope and realistic in their assumptions. These proposals will propel India's rate of growth to a higher trajectory, building on a solid foundation of post Covid macro-economic stability. This budget will be remembered as a historic exercise as India takes a decisive step towards a five trillion dollar economy moving steadily towards the goal of becoming a developed nation and a rising economic power on the global landscape.

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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