

Budget 2019-2020



Typical of the Modi government, Finance Minister N. Sitharaman's dissertation of the budget focused on fiscal discipline coupled with comprehensive and well thought out initiatives to address the current challenges plaguing the economy.

With a view to alleviate farm distress, budgetary allocation has been nearly doubled for the Agri sector to Rs. 1.50 lac crores from the erstwhile Rs. 0.86 lac cr. In order to address India's infrastructure requirements, there has been lot of stress on finding innovative financial solutions.

The other problem plaguing the economy was the NBFC crisis along with heightened PSE Bank NPAs. Here the government has taken a pragmatic decision to bring the NBFC industry under the purview of the RBI (from the NHB) this is expected to spur more discipline in the lending practices. Also a slew of measures have been taken up to kick start the NBFC lending and restore their operations to normalcy. However this will be a medium term objective and is not expected to go away overnight. Further PSU banks have been provided with an allocation of Rs 70,000 crore to take care of any contingency situations. We believe that this facility may remain under utilized since banks are on a revival mode along with excess provisioning.

In its drive to reduce pollution and environmental impact significant sops have been given to the EV industry to spearhead adoption. This is expected to have a not so positive impact on the automobile sector in short run. Hence we do not expect any material recovery in the automobile sector. Comprehensive solutions for the utilities of road, ports, gas, power, water & airports are expected to be tabled for discussion in the next couple of quarters.

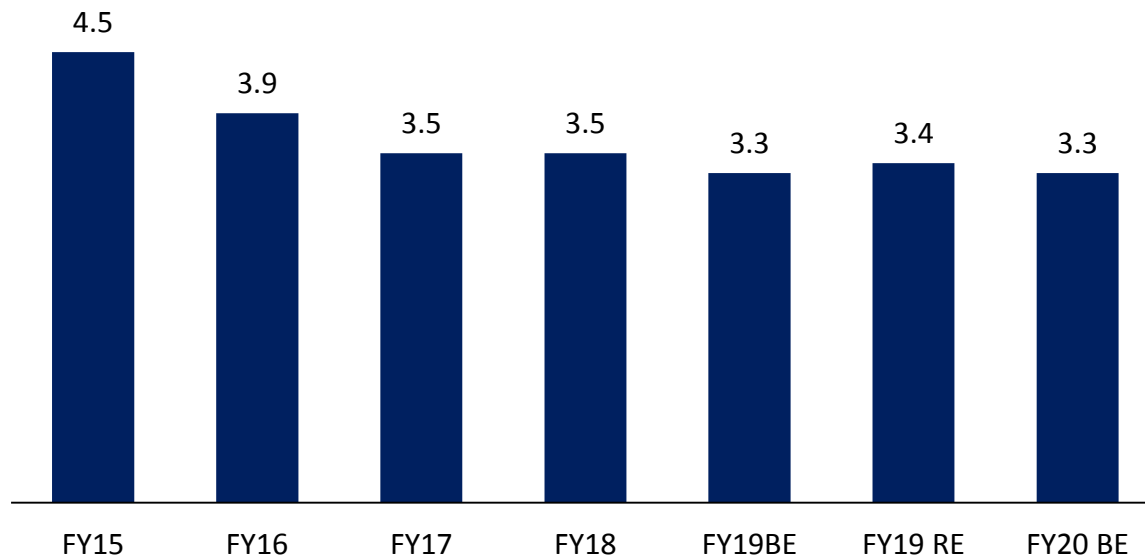
Overall, the budget has been very pragmatic on allocation of resources however we believe the generation of resources will remain a challenge. In its over zealousness, the government has proposed draconian direct tax surcharges to tax the super wealthy. While this is definitely not popular, the decision to reduce corporate tax to 25% on companies with turnover with less than Rs. 400 crore will mask the political fallout if any from the tax levies on the super wealthy.

One more initiative of the FM to improve liquidity in the capital markets by lowering the threshold on minimum float to 35% (from erstwhile 25%) has not gone without flak and it has serious repercussions. This will have a potentially telling effect on fund raising and along with government's divestment target of Rs. 1.05 lac crore. The promoter will have to issue paper to reduce their equity holdings. This has serious potential implications of market cap erosion. There are close to 1500 companies that fits this criteria.

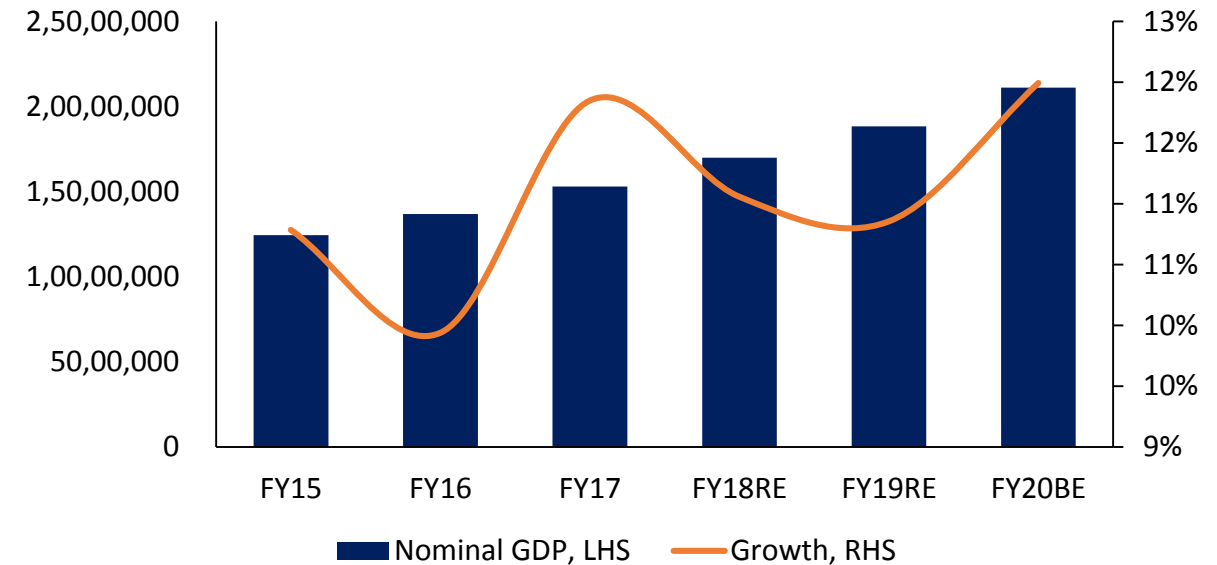
However this being a matter to be examined by SEBI there is no immediate fallout of it's implications. But it will be an overhang on the stocks with poor quality earnings. All and all it's a budget that needs to be closely monitored for implementation.

- Government showcased the budget as a blue-print to transform India's economy to \$5 trillion by 2025.
- Nominal GDP is expected to grow at the rate of 12% in FY20 and augurs well for market buoyancy.
- Rural push, infra spend and focus on core issues (power, water & gas) are showing the efforts of Modi government, given that the path to fiscal prudence has not been altered

Fiscal Deficit remain flat at 3.3%



Nominal GDP to grow at 12% in FY20



- The trend of reported fiscal deficit remained flat to last year budget estimate, which reflects the government's commitment to fiscal consolidation.
- Despite economic slowdown, maintaining fiscal discipline for the current year at 3.3% of GDP is salutary. Guidance for lowering it to 3.3% send the right signals to the global investment community

Financial Summary of Budget Estimates

Figures in Rs Crores	FY18	FY19 BE	FY19 RE	2019-20 BE	Growth (%)
Revenue Receipts	14,35,233	17,25,738	17,29,682	19,62,761	13.5
Net Tax Revenue	12,42,488	14,80,649	14,84,406	16,49,582	11.1
Non Tax Revenue	1,92,745	2,45,089	2,45,276	3,13,179	27.7
Capital Receipts	7,06,742	7,16,475	7,27,553	8,23,588	13.2
Recovery of Loans	15,633	12,199	13,155	14,828	12.7
Other Receipts (Disinvestments)	1,00,045	80,000	80,000	1,05,000	31.3
Borrowings & Other Liabilities	5,91,064	6,24,276	6,34,398	7,03,760	10.9
Total Receipts	21,41,975	24,42,213	24,57,235	27,86,349	13.4
Total Expenditure	21,41,975	24,42,213	24,57,235	27,86,349	13.4
On Revenue Account	18,78,835	21,41,772	21,40,612	24,47,780	14.3
Interest Payments	5,28,952	5,75,795	5,87,570	6,60,471	12.4
Grants in aid for creation of capital assets	1,91,034	1,95,345	2,00,300	2,07,333	3.5
Others	11,58,849	13,70,632	13,52,742	15,79,976	16.8
On Capital Account	2,63,140	3,00,441	3,16,623	3,38,569	6.9
Revenue Deficit	4,43,602	4,16,034	4,10,930	4,85,019	18.0
Revenue Deficit as % of GDP	2.6%	2.2%	2.2%	2.3%	
Effective Revenue Deficit	2,52,568	2,20,689	2,10,630	2,77,686	31.8
Effective Revenue Deficit as % of GDP	1.5%	1.2%	1.1%	1.3%	
Fiscal Deficit	5,91,064	6,24,276	6,34,398	7,03,760	10.9
Fiscal Deficit as % of GDP	3.5%	3.3%	3.4%	3.3%	
Primary Deficit	62,112	48,481	46,828	43,289	-7.6
Primary Deficit as % of GDP	0.4%	0.3%	0.2%	0.2%	

Summary of Tax and Non Tax Revenue

Figures in Rs Crores	FY18	FY19 BE	FY19 RE	2019-20 BE	Growth (%)
Gross Tax Revenue	19,19,009	22,71,242	22,48,175	24,61,195	9.5
Corporation Tax	5,71,202	6,21,000	6,71,000	7,66,000	14.2
Taxes on Income	4,30,772	5,29,000	5,29,000	5,69,000	7.6
Wealth Tax	63	0	0	0	
Customs	1,29,030	1,12,500	1,30,038	1,55,904	19.9
Union Excise Duties	2,59,431	2,59,600	2,59,612	3,00,000	15.6
Services Tax	81,228	0	9,283	0	
GST	4,42,562	7,43,900	6,43,900	6,63,343	3.0
Taxes of UTs	4,721	5,242	5,342	6,948	30.1

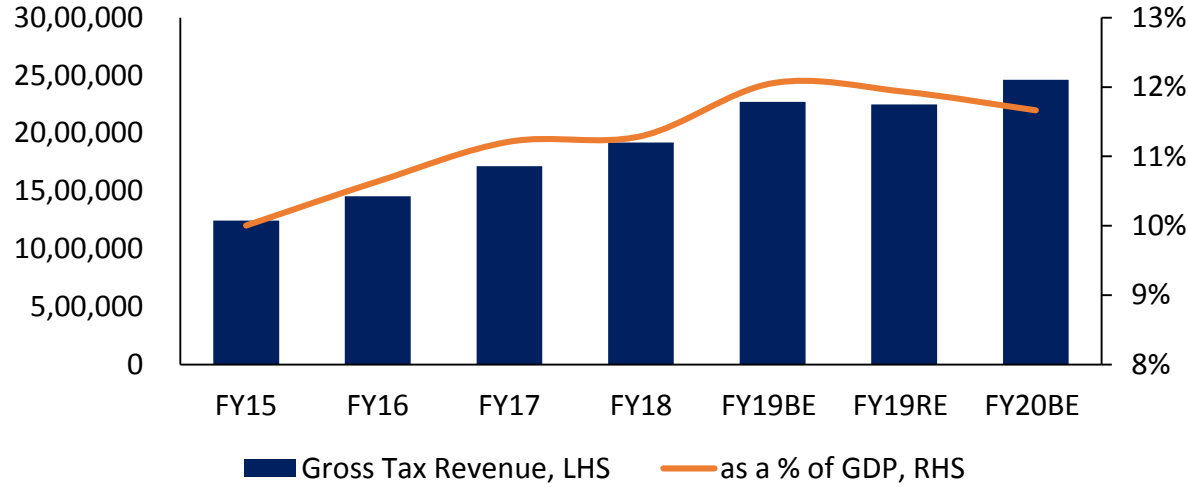
Figures in Rs Crores	FY18	FY19 BE	FY19 RE	2019-20 BE	Growth (%)
Non Tax Revenue	1,92,745	2,45,089	2,45,276	3,13,178	27.7
Interest receipts	13,574	15,162	12,047	13,711	13.8
Dividends and Profits	91,361	1,07,312	1,19,264	1,63,528	37.1
External Grants	3,582	2,667	1,270	1,006	-20.8
Other Non Tax Revenue	82,338	1,17,886	1,10,619	1,32,784	20.0
Receipts of UTs	1,890	2,062	2,076	2,149	3.5

Expenditure on Major Items

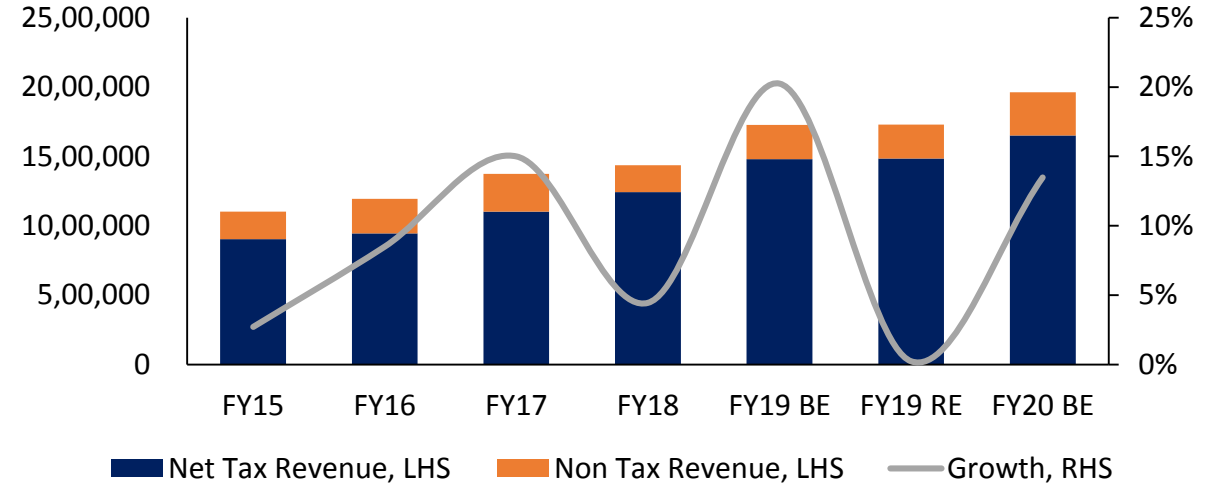
Figures in Rs Cr	FY18	FY19 BE	FY19 RE	FY20 BE	Growth (%)
Pension	1,45,745	1,68,466	1,66,618	1,74,300	4.6
Defence	2,76,572	2,82,733	2,85,423	3,05,296	7.0
Subsidy on Fertiliser	66,468	70,090	70,086	79,996	14.1
Subsidy on Food	1,00,282	1,69,323	1,71,298	1,84,220	7.5
Subsidy on Petroleum	24,460	24,933	24,833	37,478	50.9
Agriculture and Allied Activities	52,628	63,836	86,602	1,51,518	75.0
Commerce and Industry	24,087	27,956	28,394	27,043	-4.8
Development of North East	2,514	3,000	2,629	3,000	14.1
Education	80,215	85,010	83,626	94,854	13.4
Energy	42,155	41,104	46,150	44,638	-3.3
External Affairs	13,738	15,011	15,582	17,885	14.8
Finance	17,392	20,341	18,852	20,121	6.7
Health	52,994	54,668	55,949	64,999	16.2
Home Affairs	87,547	93,450	99,034	1,03,927	4.9
Interest	5,28,952	5,75,795	5,87,570	6,60,471	12.4
IT and Telecom	16,899	22,379	16,282	21,783	33.8
Others	66,306	72,837	74,895	76,665	2.4
Planning and Statistics	4,559	5,199	5,415	5,814	7.4
Rural Development	1,34,973	1,38,097	1,35,109	1,40,762	4.2
Scientific Departments	22,115	24,906	25,099	27,431	9.3
Social Welfare	37,440	44,220	46,492	50,850	9.4
Tax Administration	71,756	1,05,541	67,448	1,17,285	73.9
of which Transfer to GST Compensation Fund	56,146	90,000	51,735	1,01,200	95.6
Transfer to States	1,07,501	1,42,858	1,41,353	1,55,447	10.0
Transport	1,10,399	1,34,572	1,45,399	1,57,437	8.3
Union Territories	14,216	14,123	14,133	15,098	6.8
Urban Development	40,061	41,765	42,965	48,032	11.8
Grand Total	21,41,973	24,42,213	24,57,235	27,86,349	13.4

Union Budget 2020

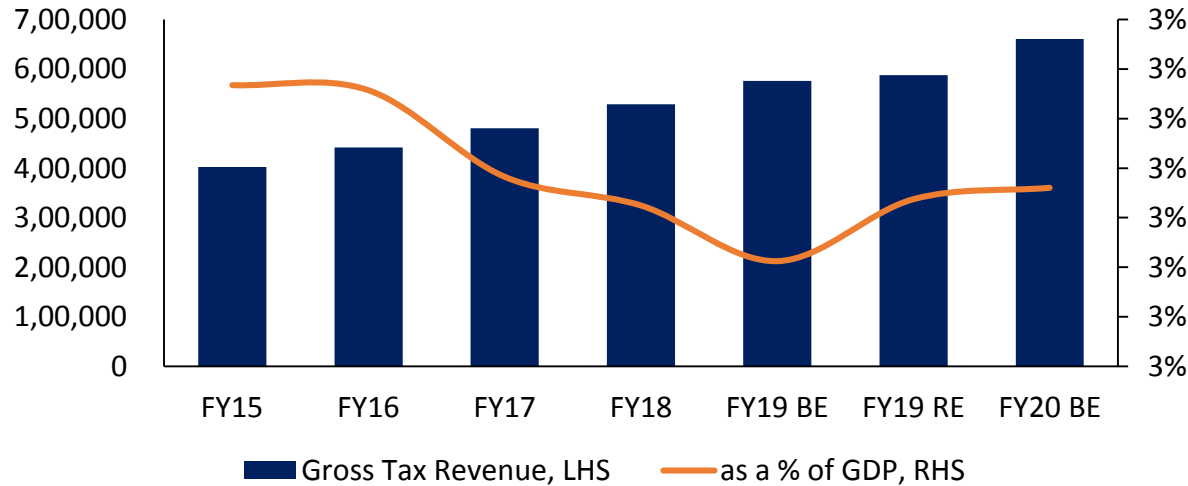
Gross Tax Revenue



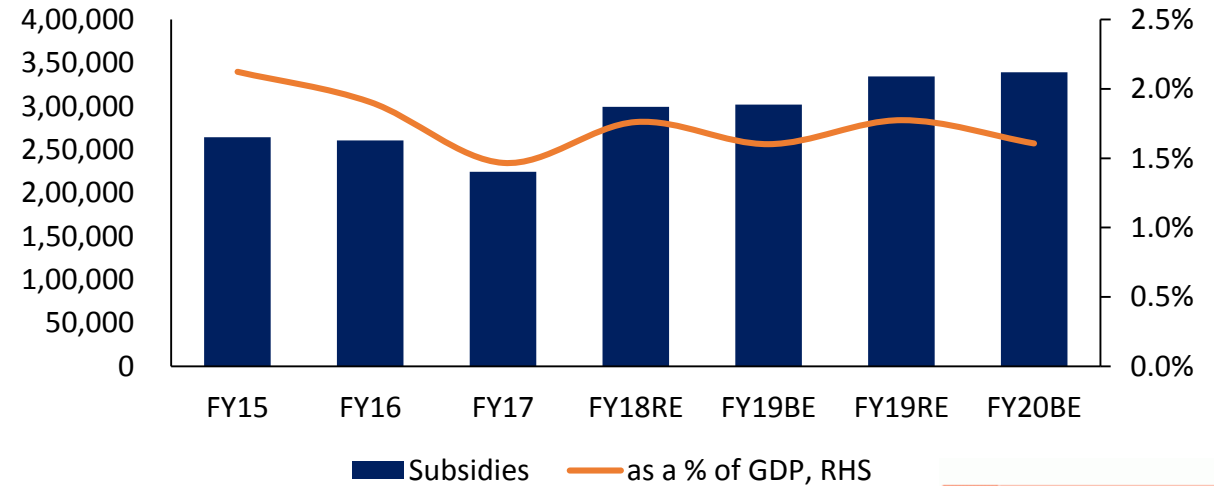
Revenue Receipt

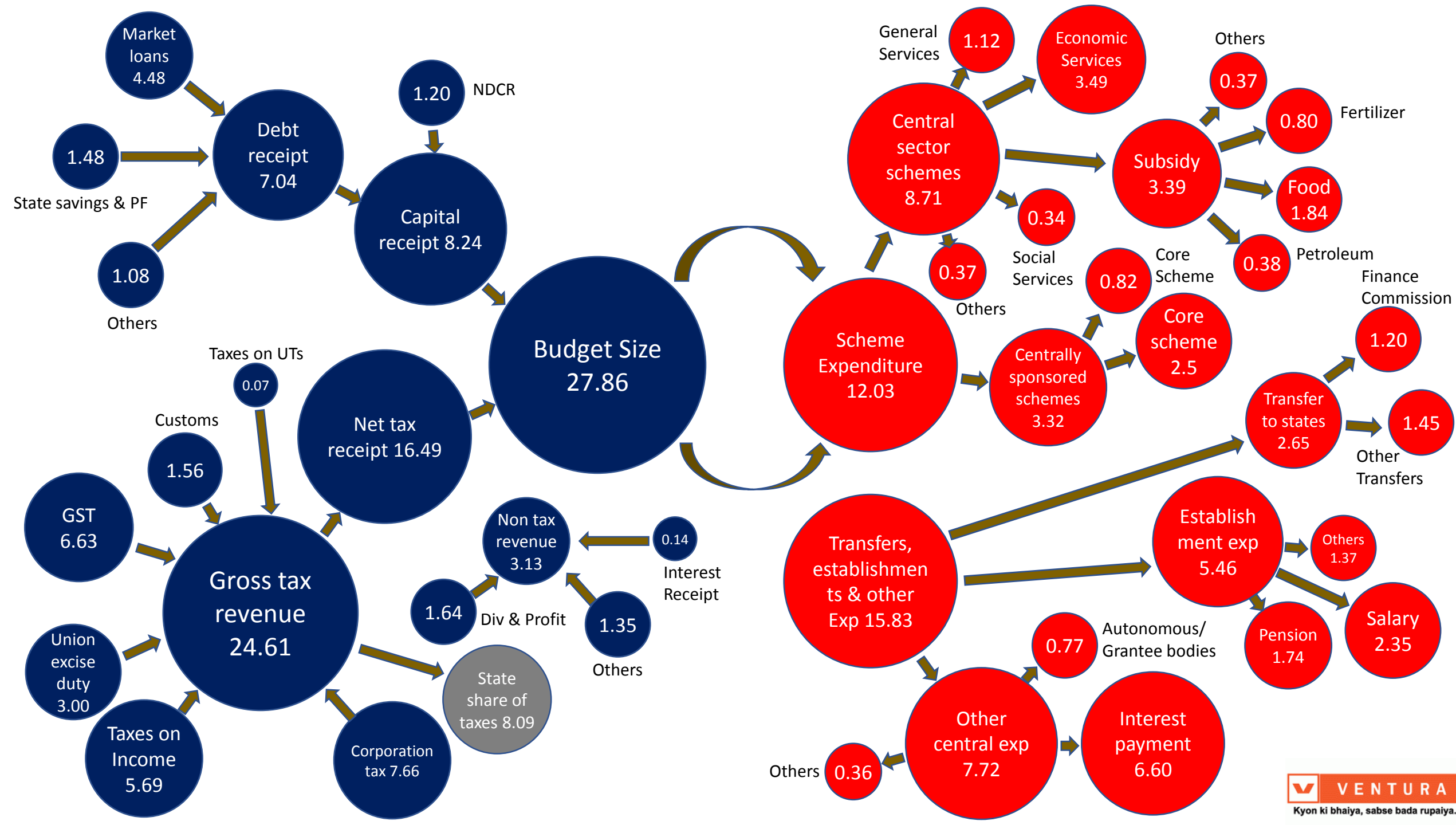


Interest Payment





Subsidies








Dissertation on the Budget document


 With 300 kilometers approved in 2018-19 and 210 kms metro lines operationalized, 657 kilometers of Metro Rail network has become operational.

 Railway Infrastructure would need an investment of Rs.50 lakh crores between 2018-2030 to unleash faster development under PPP.

 Public infrastructure and affordable housing to be built on land parcels held by Central Ministries and Central Public Sector Enterprises

 In the second phase of PMAY-G, Rs 1.95 crore houses are proposed to be provided to the eligible beneficiaries.

 A Credit Guarantee Enhancement Corporation for infrastructure financing will be set up in FY 2019- 20.

 The PMGSY-III is envisaged to upgrade 1,25,000kms of road length over the next five years, with an estimated cost of Rs 80,250 crore.

Rs in Crore

Major capital outlay on Infrastructure Schemes		
Scheme	RE 2018-19	BE 2019-20
Capital Outlay on Defence Services	93,982	103,394
Budgetary support to Schemes of Ministry of Railways	55,135	68,019
Road Work	40,906	45,880
National Highways Authority of India	37,321	36,691
Metro Projects	14,865	17,714
Urban Rejuvenation Mission: AMRUT and Smart Cities Mission	12,569	13,750

Key Beneficiaries









Seimens

UltraTech Cement

Larsen and Toubro

Supreme Industries

Proposed new tax regime

-  The tax burden on small and medium income earners has been alleviated as income tax is required to be paid only when the annual taxable income exceeds 5 lakh
-  All companies with an annual turnover up to 400 Crore will be taxed at the lower rate of 25% only. This covers 99.3% of the companies. Now only 0.7% of companies will remain outside this rate.
-  To boost economic growth and Make in India, the government will launch a scheme to invite global companies and provide them investment linked income tax exemptions under section 35 AD of the Income Tax Act, and other indirect tax benefits.
-  Cases selected for scrutiny shall be allocated to assessment units in a random manner and notices shall be issued electronically by a Central Cell, without disclosing the name, designation or location of the Assessing Officer.
-  To resolve the so-called 'angel tax' issue, the start-ups and their investors will not be subjected to any kind of scrutiny in respect of valuations of share premiums.
-  Start-ups will not be required to justify fair market value of their shares issued to Category-II Alternative Investment Funds.
-  The period of exemption of capital gains arising from sale of residential house for investment in start-ups will be extended to 31.3.2021.
-  An additional deduction of up to 1,50,000/- for interest paid on housing loans borrowed (up to 31st March, 2020) over and above the existing limit of Rs 2 lakh for purchase of an affordable house valued up to Rs.45 lakh shall be made available.



Several direct tax incentives will be provided to an IFSC including 100 % profit-linked deduction under section 80-LA in any ten-year block within a fifteen-year period.



Pre-filled tax returns will be made available to taxpayers containing details of salary income, capital gains from securities, bank interests, and dividends etc. and tax deductions hence ensuring accuracy of reporting of income and taxes.



A TDS of 2% on cash withdrawal exceeding 1 crore in a year from a bank account will be levied. Further, the low-cost digital modes of payment offered by the business establishments with annual turnover of more than 50 crore will attract no charges or Merchant Discount Rate.



An additional income tax deduction of 1.5 lakh will be provided on the interest paid on loans taken to purchase electric vehicles.




Those in the highest income brackets will encounter enhanced surcharge (on individuals having taxable income from 2 crore to 5 crore and 5 crore and above) so that effective tax rates for these two categories will increase by around 3 % and 7 % respectively.





Individual or HUF (even when not subjected to audit) is required to deduct tax at source @ 5% if the annual payment made to a contractor or professional exceeds Rs. 50 lakh.





Compulsory filing of return for persons, who have deposited more than Rs. 1 crore in a current account in a year, or who have expended more than Rs. 2 lakh on foreign travel or more than Rs. 1 lakh on electricity consumption in a year.

 Gift of any sum of money, or property by a resident to a person outside India on or after 5th day of July 2019, shall be deemed to accrue or arise in India.

 IFSC units to get 100% deduction for 10 consecutive years and also an option to claim the said deduction for any 10 consecutive years out of 15 years from the year of commencement of operations.

 DDT to be exempted on distribution out of accumulated profits (accumulated by the unit after 1st April, 2017) from operations in IFSC.





 NPS limit of exemption to be raised from current 40% to 60% of payment on final withdrawal from NPS.

 Listed companies shall also be liable to pay additional tax at 20% in case of buy back of shares.






Direct Tax revenue increased by over 78% from Rs 6.38 lakh crore in FY2013-2014 to around Rs 11.37 lakh crore in FY2018-2019 registering a double digit growth every year.



Procedural Reforms :-

-  With further simplifying GST processes, simplified monthly return has been rolled out.
-  Tax payer having annual turnover of less than Rs. 5 crore shall file quarterly return.
-  Free accounting software for small businesses along with implementation of a fully automated GST refund module.
-  Propose to roll-out electronic invoice system from Jan 2020, where there shall be no need for e-way bills. This shall reduce the compliance burden significantly.



Exemption from GST :-




-  Import of defense equipment that are not being manufactured in India exempted from basic customs duty.
-  To incentivize e-mobility, customs duty is being exempted on certain parts of electric vehicles.
-  Capital goods required for manufacture of specified electronic goods to be exempted from custom duty.

Reduction in GST :-

-  With the vision of making India as a global hub of manufacturing of Electric Vehicles , government has moved GST council to lower GST rate on electric vehicle to 5% from 12%.
-  Further, to promote domestic manufacturing, custom duty reduction proposed on inputs of CRGO sheets, amorphous alloy ribbon, ethylene di-chloride, propylene oxide, cobalt matte, naphtha, wool fibers, inputs for manufacture of artificial kidney and disposable sterilized dialyzer, and fuels for nuclear power plants

Imposition of GST :-

-  To promote the Make in India goal, basic customs duty is being increased on items such as cashew kernels, PVC, Vinyl flooring, tiles, metal fittings, mountings for furniture, auto parts, certain kinds of synthetic rubbers, marble slabs, optical fibre cable, CCTV camera, IP camera, digital and network video recorders etc. Also, exemptions from custom duty on certain electronic items
-  To encourage domestic publishing and printing industry, 5 % custom duty is being imposed on imported books.

-  Increase in Special Additional Excise duty and Road Infrastructure Cess each by Rs. 1/ per liter on petrol and diesel.
-  Custom duty on gold and other precious metals to be increased from 10% to 12.5%
-  A nominal basic excise duty is being imposed on Tobacco products and crude.

Key Beneficiaries of GST rate cut

Kajaria ceramics

Cera sanitaryware

HUL

ITC

Dabur

HDIL

Finolex Cables

Polycab

Godrej Consumer

Asian Paints

Berger Paints

Pidilite








Key Beneficiaries of EV







Olectra Greentech Ltd.

Exide Industries Ltd.

Amara Raja Batteries Ltd.

Goods	
28% to 18%	wires, cables, electrical boards, panels, consoles, cabinets, particle/fibre boards and ply wood etc, slabs of marbles and granite, ceramic tiles of all kinds, paints and varnishes, mattress, bedding and similar furnishing, Soaps, shampoos, hair oil, toothpastes, perfumes and cosmetics, detergents, and other organic surfactants, fans, pumps, lamps and light fittings, Trunk, suitcase, vanity cases, brief cases, travelling bags and other hand bags, cases, Sanitary ware, floor covering, baths, shower, sinks, washbasins, seats, sanitary ware of plastic, vacuum flasks, lighters, cutlery, stoves, cookers, lighters, chocolates, malt extract like milk drinks, waffles and wafers coated with chocolate, custard powder, refrigerators, washing machines, vacuum cleaners, juicers, mixers, storage water heaters, Electric smoothing irons and Televisions and computer monitors, printers, fax machines, photocopiers
28% to 12%	Specified tableware, kitchenware, other household articles Specified items of wood and stones Wet grinder, Tanks and other armoured fighting vehicles
28% to 5%	Aircraft engines, tyres and seats Parts and accessories for the carriages for disabled persons, Hard Rubber waste or scrap
18% to 12%	Specified parts of specified agricultural, horticultural, forestry, harvesting or threshing machinery, Specified parts of sewing machines, Bamboo furniture, Spectacles frames, Hand bags of jute and cotton, Handicrafts like art ware of cork, stone art ware, stone inlay work, ornamental framed mirrors, glass statues, art ware of iron, brass, copper, handcrafted lamps, Drinking water packed in 20 liters bottles, Confectionary, Condensed milk, Pasta, Mayonnaise, Curry paste, Brass Kerosene Pressure Stove, Nozzles for drip irrigation or sprinklers, Drip irrigation system including laterals, sprinklers, Handbags including pouches and purses and jewellery box
18% to 5%	Food items such as chikki, chutney powder, Fly ash, fly ash aggregate with 90% or more fly ash content, Tamarind Kernel Powder, Mehendi paste in cones, Solid bio-fuel pellets, Plastic waste, Rubber waste, Cullet or other waste or scrap of Glass, Biomass briquettes, Fertilizer grade
12% to 5%	Walnuts, tamarind dried, roasted gram, mangoes sliced dried, khakra and plain chapati / roti, idli, dosa batter, namkeens (other than branded), Dhoopbatti, dhoop, sambhrani and other similar items, Textile items like corduroy fabrics, saree fall, handmade lace, hand-woven tapestries, hand-made braids and ornamental trimming in the piece, Ayurvedic, Unani, Siddha, Homeopathy medicines (other than branded), Desiccated coconut, Handicraft goods like Handmade carpets
3% to 0.25%	Rough industrial diamonds including unsorted rough diamonds, Diamonds and precious stones
Services	
28% to 18%	Services by way of admission to entertainment events/ amusement parks, Cinema tickets above Rs. 100.

-  Government will examine opening of FDI in Aviation, Media and insurance sector.
-  100% FDI permitted for Insurance intermediaries.
-  Ease of credit for MSME's with loans upto Rs. 1 crore in 59 minutes with allocation of Rs. 350 crores.
-  2% interest subvention for all GST registered MSMEs
-  Enhanced target of Rs. 1,05,000 crore disinvestment by government for FY19-20.
-  To facilitate on-shoring of international insurance transactions and enabling opening of branches by foreign reinsurers in the International Financial Services Centre, Net owned Fund requirement reduced from Rs. 5,000 crore to Rs. 1,000 crore
-  Undertakings where government to retain control, current policy of 51% stake holding to be modified to **51% stake including stake of Government controlled institutions.**

-  Investment in agriculture infrastructure with support from private entrepreneurs in driving produce from field and allied activities like Bamboo and timber and for generating renewable energy.
-  SEBI to consider increasing the threshold for minimum public shareholding in listed companies from 25% to 35%.
-  With a view to provide NRI's with seamless access to Indian equities, the Foreign Portfolio Route to be merged with NRI-Portfolio Investment Scheme Route.
-  New Space India Ltd., incorporated as a new commercial arm of Department of Space for spearhead commercialization of products like launch vehicles, and marketing of space products.
-  Reformed model tenancy law to be circulated for promoting rental housing.
-  One Nation, One Grid to ensure availability to states at affordable housing along with making blueprint for developing gas grids, water grids, and airports.

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