
Budget 2016-17

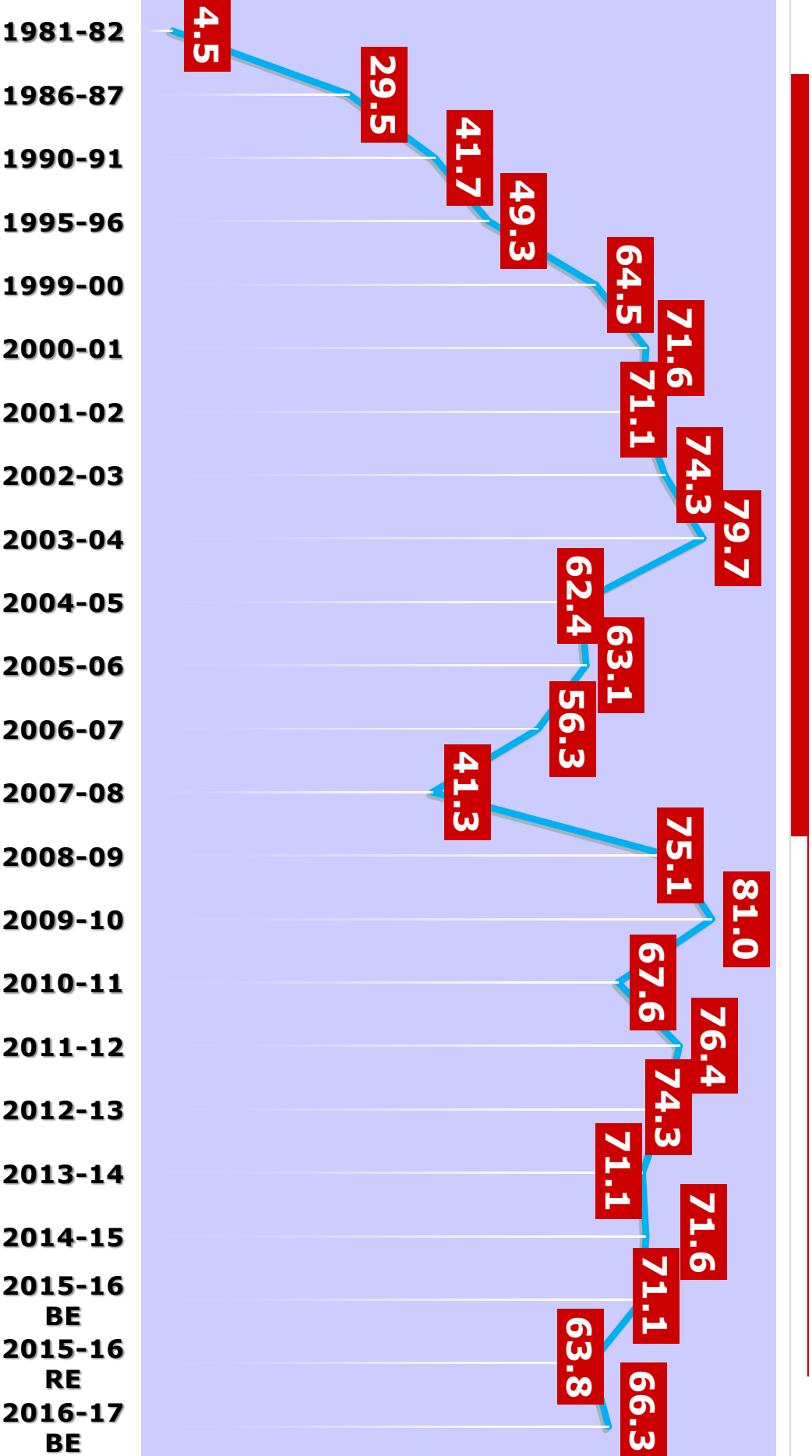
-Reform, fiscal commitment and more.

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A reform -focused budget that enhances fiscal credibility

- In the run-up to the budget, there has been a debate on the desirability of sticking to fiscal consolidation. The economic survey tantalizingly presented both sides of the argument.
 - The government has maintained its commitment to stick to the fiscal consolidation path. It has maintained the fiscal deficit at 3.9% of GDP in FY 2015-16. It has reduced the revenue deficit to 2.5% from the projected 2.8%.
 - Thus, the 15-16 revenue/fiscal deficit ratio is 63.84% the lowest since FY 2007. The government has also committed to deliver a fiscal deficit of 3.5% and a revenue deficit of 2.3% of GDP in FY 2016-17
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RD/FD - Centre



Fiscal Stance

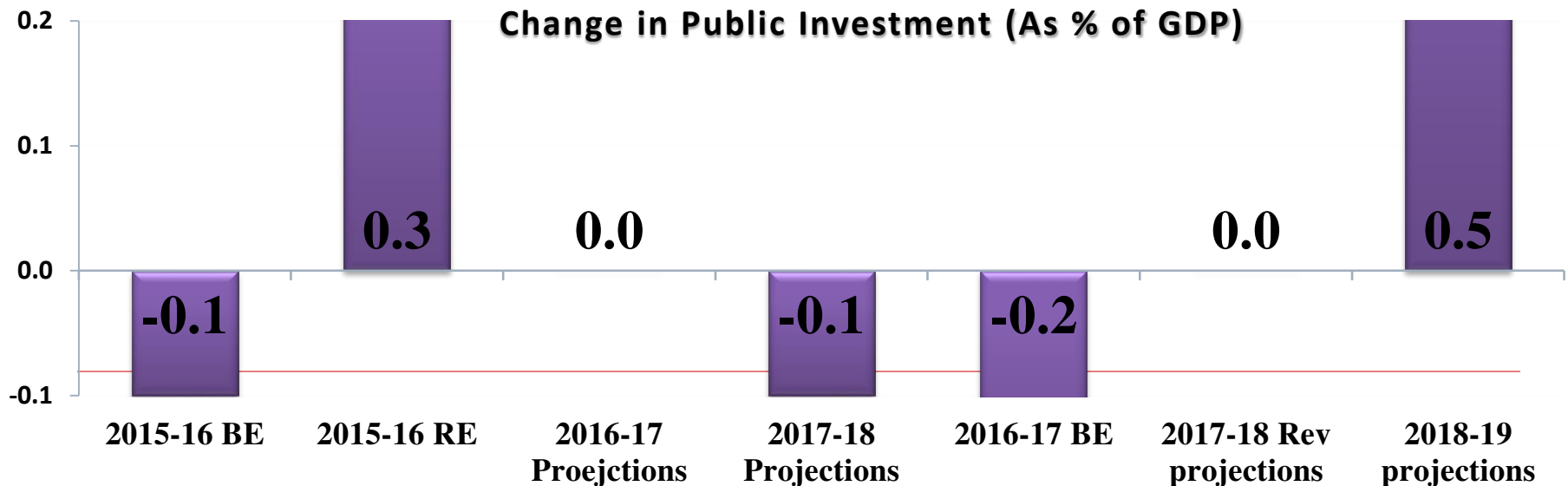
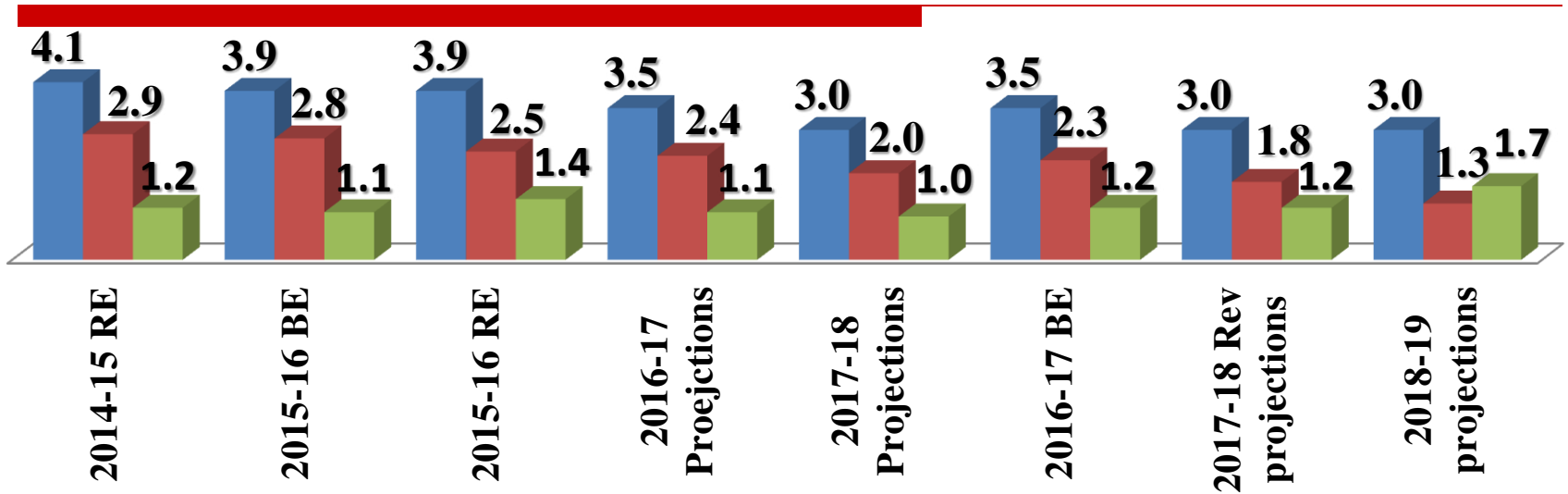
(% of GDP)	2014-15	2015-16 BE	2015-16 RE	2016-17 BE
Revenue Deficit	2.9	2.8	2.5	2.3
Fiscal Deficit	4.1	3.9	3.9	3.5
Revenue/Fiscal Deficit Ratio	71.57	71.0	63.84	66.31
Revenue Receipts (A+B) of which	8.84	8.10	8.89	9.14
i) Gross Tax Revenue	10.0	10.3	10.76	10.83
ii) States share	2.71	3.71	3.73	3.79
A. Net Tax revenue to centre (i-ii)	7.25	6.52	6.98	7.0
B. Non-Tax Revenue	1.59	1.57	1.91	2.14

Fiscal Arithmetic

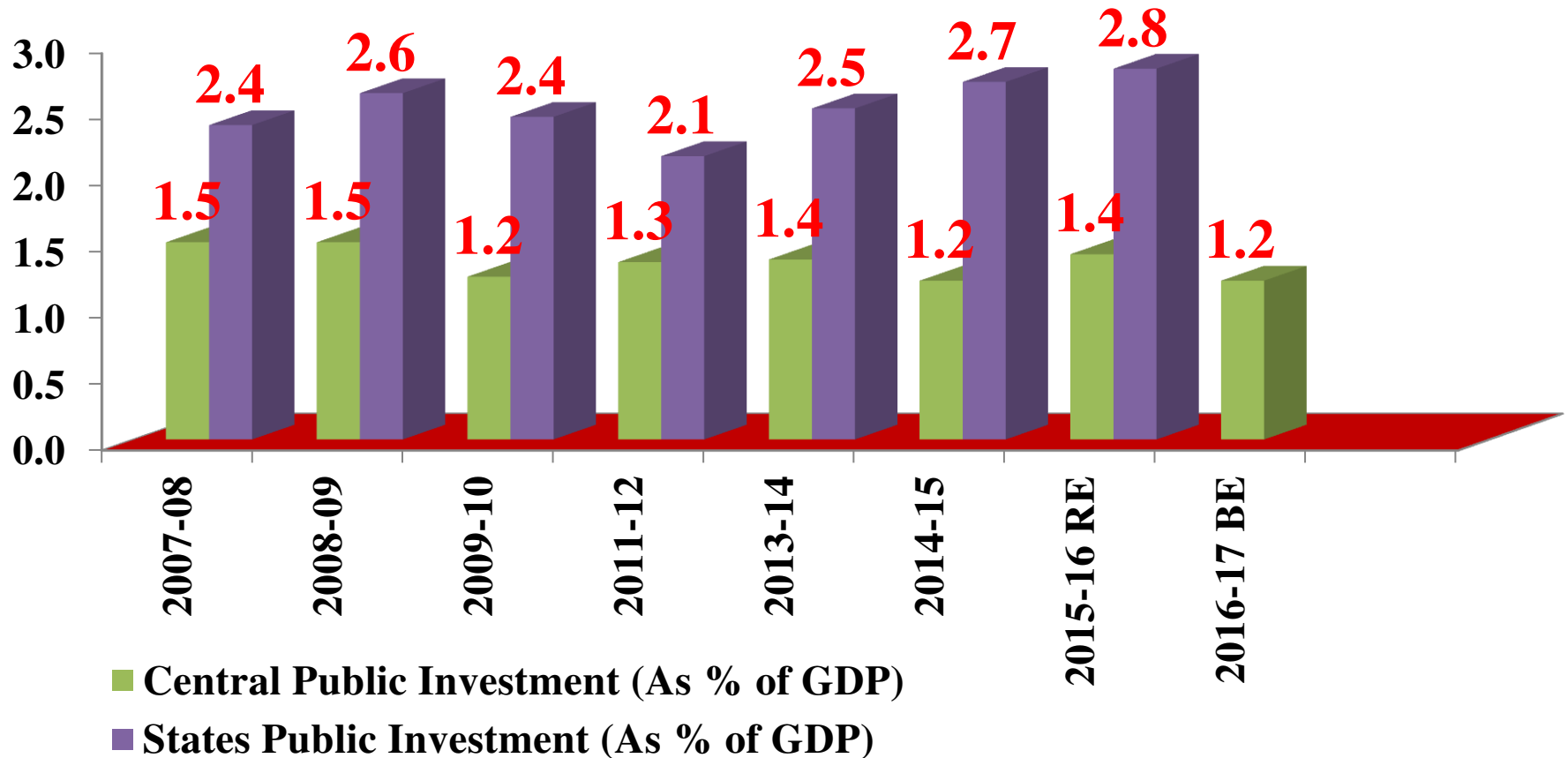
(% of GDP)	Change over previous year		
	2015-16 (BE) over 2014-15	2015-16 (RE) over 2014-15	2016-17 (BE) over 2015-16
	Actuals	(Actuals)	(RE)
EXPENDITURE			
Total Revenue Non-Plan Expenditure	-0.36	0.03	-0.13
Total Capital Non-Plan Expenditure	0.02	-0.03	-0.04
Total Non-Plan Expenditure	-0.34	0.00	-0.16
Total Revenue Plan Expenditure	-0.53	-0.40	0.21
Total Capital Plan Expenditure	0.12	0.20	-0.08
Total - Plan Expenditure	-0.42	-0.20	0.13
Total Budget Support for Central Plan	0.31	0.38	0.12
TOTAL EXPENDITURE	-0.76	-0.20	-0.03
Total Central Assistance for State (Rev+Cap)	-0.73	-0.59	0.02

Change in public investment

■ Fiscal Deficit (As % of GDP) ■ Revenue Deficit (As % of GDP) ■ Central Public Investment (As % of GDP)



Public investment- States vs. Centre



A reform -focused budget that enhances fiscal credibility

- This consolidation has been achieved under very difficult circumstances. Growth has been lower than projected, the external environment difficult, the pressure to spend more from just about every interest group, considerable.
 - The government has finally bitten the bullet and commenced important structural reforms in the fiscal and financial architecture.
 - This budget has broken with the horrid tradition of taxpayers harassment. More than half of part B of the budget (on taxation) is about reducing litigation, providing certainty, simplifying and rationalizing the tax system.
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A reform -focused budget that enhances fiscal credibility

- The government has also delivered on its promise made in the last budget, and commenced reducing the headline corporate tax rate while lowering exemptions.
 - These are strategic reforms which will yield a higher tax-GDP ratio with less taxpayer harassment and greater transparency in the medium term.
 - I have been depressed and concerned about the bipartisan inability of successive governments to make important structural changes in fiscal management, especially public expenditure reforms.
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A reform -focused budget that enhances fiscal credibility

- The absence of any output in the public domain from the expenditure management commission has only added to my depression.
 - It is, therefore, heartening to see that the government has initiated a series of concrete measures on this front. It has announced a new policy for management of government investment.
 - Renaming the department of disinvestment as the department of investment and public asset management is not just optical. Every fiscal entity must have a strategic framework within which it decides what assets to keep and sell, in line with its delivery priorities.
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A reform -focused budget that enhances fiscal credibility

- The use of the word “schemes” to describe public spending initiatives was resonant of fiscal drag and pandering. Every “scheme” will now have a sunset date and outcome report. Commendable.
 - Government has also decided to do away with the plan/non-plan classification. Presumably, this means that we will have a modern medium-term fiscal framework in place with medium-term allocable expenditure ceilings and a credible revenue forecast, built around a macro-fiscal framework that specifies how much government will borrow to meet its fiscal aims.
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A reform -focused budget that enhances fiscal credibility

- Thus, this budget has put in place all the building blocks necessary to build a fiscal framework which will finally move India from outdated annual budgeting to strategic medium-term fiscal execution.
 - In this context, I read the proposed review of the FRBM as a step in that direction, unlike many who, I suspect, will see this as a sign that government wishes to backtrack on its future consolidation commitments. Other important reforms -- to the Indian financial code, rationalizing CSSs and targeting subsidies, and improving the ease of doing business -- have also been announced.
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A reform -focused budget that enhances fiscal credibility

- ❑ There are, of course, some bad habits in this budget which persist.
 - ❑ The most serious is the continued tendency to increase cesses rather than tax rates to meet intended spending objectives.
 - ❑ This would nominally be an optical matter, but in our system, cesses are not shared with states and imposing these is tantamount to an unfair theft of resources from the divisible pool.
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Cesses Budget 2016-17

Cess	Rate	Notes
Krishi Kalyan Cess	0.50%	At 0.5% on all taxable services, proceeds of which would be exclusively used for financing initiatives relating to improvement of agriculture and welfare of farmers. The Cess will come into force with effect from 1st June 2016. Input Tax credit of this cess will be available for payment of this cess.
Infrastrcuture Cess	1%	Levied on small petrol, LPG, CNG cars, 2.5% on diesel cars of certain capacity
Infrastrcuture Cess	4%	Levied on other higher engine capacity vehicles and SUVs.
Clean Environment Cess	200 per tonne to `400 per tonne	Levied on Coal
Oil Industries Development Cess	Existing: ` 4500 PMT Proposed: 20% ad valorem	Levied on domestically produced crude oil
13 cesses, levied by various Ministries	Abolished	To reduce multiplicity of taxes, associated cascading and to reduce cost of collection. The revenue collection for these cesses is less than `50 crore in a year.

Cesses Budget 2015-16

Cess	Rate	Notes
Education Cess	2%	Levied on Income Tax
Clean Energy Cess	On Union Excise Duty	The effective rate of Clean Energy Cess is being increased from 100 per tonne to 200 per tonne. Levied from 1st March 2015
Swachh Bharat Cess	0.5%	Government has levied a Swachh Bharat Cess at the rate of 0.5% on all taxable services from 15th Nov 2015.
Road Cess	The road cess has been increased from Rs 2 to Rs 8 for petrol and diesel, but the effective rate is Rs 6	Levied from 1st March 2015

A reform -focused budget that enhances fiscal credibility

- There continue to be an unacceptably high number of exemptions and rebates on direct and indirect taxes which clearly pander to specific interest groups and leech revenue that could be used for other purposes. This is a bad legacy that continues.
 - The share of subsidies in total expenditure has not fallen, despite a fall in fuel subsidies.
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Rupee Goes to

Year	States Share of taxes and duties	Non-plan assistance to States and UTs	State and UTs Plan Assistance	Central Plan	Other Non-plan expenditure	Subsidies	Defence	Interests	Total
2008-09	19	5	7	19	10	8	11	21	100
2009-10	15	4	7	18	14	9	13	20	100
2010-11	16	4	7	21	13	9	11	19	100
2011-12	17	5	7	22	11	9	11	18	100
2012-13	17	4	7	22	11	10	11	18	100
2013-14	17	4	7	21	11	12	10	18	100
2014-15	18	3	15	11	11	12	10	20	100
2015-16	23	5	9	11	11	10	11	20	100

A reform -focused budget that enhances fiscal credibility

- Like every budget, this one makes grandiose claims and seeks to please political constituencies.
 - But unlike many in the past, it maintains prudence, enhances credibility of the government as a fiscal manager and initiates important, unglamorous structural reforms.
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□ Political Economy of Revenue Foregone

Profile of sample companies across range of profits before taxes

Profit Before taxes	Number of companies Financial Year 2014-15	Number of companies Financial Year 2013-14	Share in Total Corporate Income Tax payable (%) 2014-15	Share in Total Corporate Income Tax payable (%) 2013-14	Effective Tax Rate (%) 2014-15	Effective Tax Rate (%) 2013-14
less than zero	2,54,079	2,28,447	0.47	0.50	-	-
zero	18,080	25624	2.81	3.98	-	-
Rs.0-1 crore	2,76,531	2,78,515	3.25	3.41	29.37	26.89
Rs.1-10 crore	26,983	25,613	7.40	7.72	26.99	25.84
Rs. 10-50 crore	5,130	4664	9.48	9.67	25.52	24.99
Rs.50-100 crore	894	853	5.26	5.63	25.14	24.29
Rs. 100-500 crore	895	808	15.12	15.38	23.97	23.11
Greater than Rs. 500 crore	297	263	56.21	53.71	23.97	20.68
All companies	582889	564787	100	100	24.67	23.22

Corporate Tax reforms

- The new manufacturing companies which are incorporated on or after 1.3.2016 are proposed to be given an option to be taxed at 25% + surcharge and cess provided they do not claim profit linked or investment linked deductions and do not avail of investment allowance and accelerated depreciation.
 - I also propose to lower the corporate income tax rate for the next financial year of relatively small enterprises i.e companies with turnover not exceeding `5 crore (in the financial year ending March 2015), to 29% plus surcharge and cess.
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Revenue Foregone-Corporate Taxes

Major tax expenditure on corporate taxpayers during the financial years 2014-15 and 2015-16

Nature of incentive	Revenue Foregone (in Rs. crore) 2014-15	Projected Revenue Foregone (in Rs. crore) 2015-16	Rank in Budget 2016-17	Rank in budget 2015-16
Accelerated Depreciation (section 32)	41530.56	43856.27	1	1
Deduction of export profits of units located in SEZs (section 10A and 10AA)	16685.53	17619.92	2	2
Deduction of profits of undertakings engaged in generation, transmission and distribution of power (section 80-IA)	9621.02	10159.8	3	3
Deduction/weighted deduction for expenditure on scientific research (section 35 (1), (2AA) & (2AB))	8401.97	8872.48	4	4
Deduction of profits of undertakings engaged in development of infrastructural facilities (section 80-IA)	4225.3	4461.92	5	7
Deduction of profits of industrial undertakings derived from production of mineral oil and natural gas (section 80-IB)	3227.32	3408.05	6	5

Our supply bottlenecks cost us in terms of tax expenditures

Effective Tax Rate-Selected Sectors

Effective tax rate, inclusive of surcharge and education cess, of sample companies across industry (financial year 2015-16)

Sector	Industry	Effective Tax Rate (%)	Rank in Budget 2016-17	Rank in Budget 2015-16
Financial Service Sector	Leasing Companies	1.53	1	1
Manufacturing Industry	Sugar	6.95	2	7
Manufacturing Industry	Cement	9.01	3	2
Manufacturing Industry	Steel	12.06	4	9
Contractors	Mining Contractors	14.02	5	3
Manufacturing Industry	Power and energy	14.74	6	6
Service Sector	Consulting Services	15.88	7	30
Manufacturing Industry	Paper	17.34	8	5
Manufacturing Industry	Petroleum and Petrochemicals	18.49	9	11
Manufacturing Industry	Vanaspati and Edible Oils	19.62	10	14
National Average Effective Tax Rate (%)		24.67		

THANK YOU

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BUDGET 2016-2017

Budgeting :

Continuity

Successivist & Incrementalist | | Routine
Boring Budgets are good budgets

Change

1. Environment undergoes a change
Recession, Inflation, Drought, War
etc.
Emergency
2. Ruling Party changes: Left to Right !
In India All ruling parties are
knocked till they become centrist

BUDGET - 2016-2017

BUDGET 2015-2016

	Budget	Revised	
Revenue Deficit	2.8	2.5	↓
Fiscal Deficit	3.9	3.9	→
Tax Revenue	9,19,842	9,47,508	↑
Non-Tax Revenue	2,21,733	2,58,576	↑
Recoveries of Loans	10,753	18,905	↑
Interest Payments	4,56,145	4,42,620	↓
Borrowings	5,55,649	5,35,040	↓
Disinvestment Proceeds	69,500	25,312	?

*Shows Good management on all fronts!

Disinvestment proceeds budget of Rs. 56,500 Cr. (16-17) doubtful?

Non Tax Revenue (16-17)	3,22,921 Cr. ?
Borrowings (16-17)	5,33,908 Cr. ?

Indradhanush Rs. 1 lakh crore by sale of PSU shares to Pvt.
Individuals?

NDA-II STRUCUTRAL BREAKS

* Most Commentators : Lukewarm & Tepid response to budget 16-17
Have seen continuity instead of change
Are there any places where
A Structural Policy change,
A paradigm shift is visible?

1. Agriculture & Irrigation Breaks

Rs. 25,988 Cr. to Rs. 47,912 Cr. (Increase of 85%)
Agriculture Credit: Rs. 9 lakh crores

2. Social Security

Pradhan Mantri Fasal Bima	:	Rs. 5,500 crores
Health Insurance for Poor	:	coverage 1/3 of Population S/I = Rs. 1 Lakh
Atal Pension Scheme & Pradhan Mantri JanDhan Yojana	:	Before Budget
Cheap Medicines	:	Jan Aushadhi Yojana

3. Decentralisation of Finances

14 th Finance Commission	:	Central Share of Taxes Reduced from 68% to 58%
Budget 2016-17	:	Rs. 2.87 lakh crores to local government's jump of 228%!

4. Tax Incentives

Exemptions for START-UPS
Reduced Rates for small companies

OTHER NOTABLE FEATURES

Infrastructure outlay Rs. 2.2 lakh crores (Roads+Railways)

Non-Budget: Institutional Infrastructure

- ❖ Statutory status for AADHAR
- ❖ Bankruptcy Code
- ❖ Statutory Basis for Monetary Policy Framework
- ❖ Revamping of FRBM & PPP Codes
- ❖ Income Tax Dispute Resolution Forums

Bank Capitalisation: Only Rs. 25,000 Cr! Good !
Experiences of Q.E. ambiguous
Consolidation First!
(a) Of subsidiaries
(b) Of weak and strong banks