CIO comments on Union Budget FY20-21

Overall, the budget is inclusive--encompassing various sectors and sections of society, and also focusing on revival of the economy by increasing the disposable income in the hands of individuals, and thereby improving their purchasing capabilities.

Income tax relief to aid in consumption recovery: Tax relief has been provided to individuals by introducing a new income tax regime (revised income tax slabs), and individuals can decide to shift to the new tax regime or stay under the existing regime (whichever is more beneficial)—as a number of exemptions/deductions have been done away with under the new regime. This measure would aid to provide a consumption boost especially for the urban economy, and address some of the demand related issues amidst the economic slowdown. The government also reiterated the stance of doubling farmer's income by 2022 and this would be beneficial for the rural economy from a consumption perspective, over the medium term.

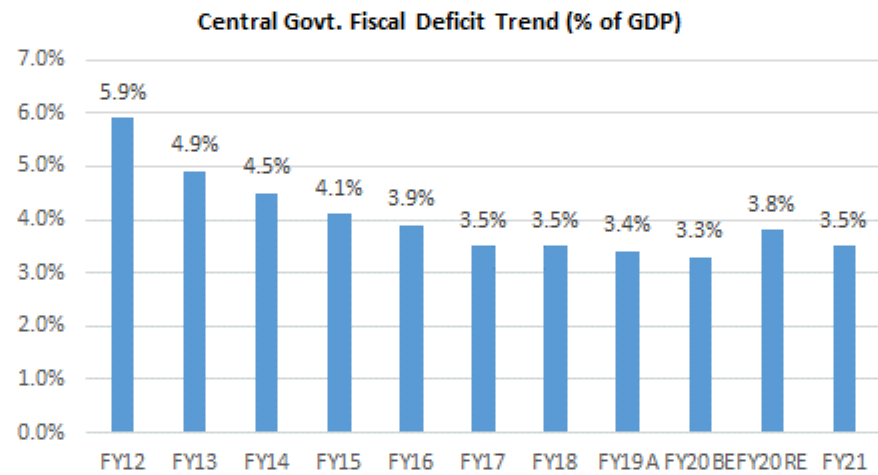
Earlier Personal Income Tax Structure (Individuals below 60 years of Age)	
Taxable Income (Rs.)	Tax Rates
Upto 2,50,000	Nil
2,51,000 to 5,00,000	5%
5,00,001 to 10,00,000	20%
10,00,001 and above	30%

Revised Personal Income Tax Structure (Individuals & HUF)	
Taxable Income (Rs.)	Tax Rates
Upto 2,50,000	Nil
2,51,000 to 5,00,000	5%
5,00,001 to 7,50,000	10%
7,50,001 to 10,00,000	15%
10,00,001 to 12,50,000	20%
12,50,001 to 15,00,000	25%
Above 15,00,000	30%

Source: Budget Documents. Surcharge and cess also applicable. For more details please refer to the budget document and Finance Bill

The government has earlier addressed the supply side, by providing fiscal stimulus through a significant corporate tax cut. These measures should help in a gradual recovery in the economy going forward in FY21.

Some leeway in fiscal slippage allowed: The fiscal deficit for FY20 has been revised to 3.8% of GDP (vs 3.3% earlier), and for FY21 at 3.5% (from 3.0% earlier). This has been done to deal with the economic slowdown and due to lower tax collections. Net market borrowing for FY20 has been revised to Rs. 4.74 crore (from Rs. 4.73 lakh crore earlier) and for FY21 at Rs. 5.44 lakh crore. This borrowing figure is along expected lines.



Source: Budget Documents

Other key measures and figures announced in budget:

- The government has also announced measures to attract foreign capital, by increasing FPI (Foreign Portfolio Investor) limits for corporate bonds from 9% to 15%.
- Divestment revenue target for FY20 has been revised down significantly to Rs. 65,000 crore from Rs. 1.05 lakh crore earlier. However, for FY21 the government has budgeted a very robust figure of Rs. 2.1 lakh crore. Also, the government announced IPO for LIC.
- Dividend distribution tax at the company level has been removed (and is now taxable only in the hands of investors, to avoid double-taxation).
- Gross tax revenue for FY20 has been revised down significantly to Rs. 21.63 lakh crore (from Rs. 24.61 lakh crore earlier), primarily on account of lower than budgeted corporate tax and GST collection. However gross tax revenue is budgeted to rise to Rs. 24.23 lakh crore in FY21 (12%YoY growth).
- However, non-tax revenue for FY20 has been revised upwards (primarily on account of higher RBI dividend), and the figure for FY21 has also been budgeted at a higher level (11%YoY growth).
- Total expenditure is budgeted to rise 13%YoY in FY21 vs 17%YoY in FY20(RE). This is being aided by capital expenditure, which is budgeted to rise 18%YoY in FY21 vs 13%YoY in FY20(RE).