Future Budget

Arun Jaitley will be presenting a very unique Budget in the aftermath of demonetisation.

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What will be the Demonetisation effects on Budget?

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- What started off as a measure to ward off fake notes used in funding terrorism, corruption and hoarding black money has now ended up with a call for cashless transactions in the aftermath of the long unending queues before banks and ATMs putting the common man to hardship for withdrawing his own money. It is easy to talk about cashless transactions.
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- In our country, the vast majority is not even used to banks leave alone debit cards.
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Minimum income scheme: Apart from fall in GDP growth, demonetisation has also led to expectations that the Budget may announce Universal Minimum Income Scheme under which every Jan Dhan account holder will get 1,000 per month for twelve months, resulting in an outgo of 3 lakh crore for the exchequer.

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Searches and seizures: Revenue gathered from searches and seizures will crystallise after a long time when litigation is over. In the meantime, government is announcing one amnesty after another.

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- We had the **Income Declaration Scheme**, which ended on September 2016 and then came the Taxation Laws Second Amendment Act 2016, providing an amnesty for old currency now demonetised.
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- Undisclosed income in the form of cash or deposits in banks will be taxed at

30 per cent with a surcharge of 33 per cent of the tax and penalty of 10 per cent besides deposit of 25 per cent of the undisclosed income in **Pradhan Mantri "Garib Kalyan Scheme"** 2016 with a lock in period of four years.
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- Non declaration of undisclosed cash or deposit in accounts under the scheme will mean a tax levy of 77.25 per cent.
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What are other Budget options?

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Corporate tax:

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- Government is committed to reducing the corporate tax rates. There is an aversion for levy of corporation tax.
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- The economists points out that about half of the cost of corporate tax is borne by employees in the form of lower wages because of reduced invested capital.
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- The burden falls on shareholders, workers and consumers in varying proportions.
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- The Confederation of Indian Industry has called for reducing the Corporate Tax Rate to 18 per cent including all surcharges and cess along with removal of all tax incentives and concessions.
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- It has noted that there are 32 incentives applicable on corporate profits before calculating tax which has resulted in an effective tax rate of just 19.8 per cent.
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- Corporate tax rates need reduction because we are in a competitive environment where all countries are resorting to unhealthy tax competition to attract foreign direct and portfolio investment.
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- A new phenomenon considered harmful by the OECD relates to the **concept of Base Erosion and Profit Sharing** under which multinationals have the

option to shift their profits to jurisdictions which levy minimum taxes. Barring US, most counties across the world have steeply reduced corporate tax rates.
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- There is the threat after India amended the tax treaties with Singapore, Mauritius and Cyprus, that Foreign Portfolio Investments may face capital gains tax and therefore may shift base to jurisdictions like France, Spain and Netherlands from April 2017.
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Tax GDP ratio:

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- Of the **3.8 per cent of India's population** of 130 crore, barely one quarter crossed the tax threshold; 0.1 per cent declare incomes of more than ten lakhs.
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- Our tax to GDP ratio is just 10.8 per cent. This is well below the OECD average of more than a third.
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- There is call for a relook at the capital gains tax structure with suggestions for abolition of the special treatment for long term capital gains or at least follow the method suggested in the **Direct Taxes Code of 2009**.
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- The way we tax dividends is most unsatisfactory. It favours the rich. A better solution will be to exempt dividends in the hands of the small shareholders and levy tax at the appropriate rate for those with larger dividends.
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- The proposed GST has raised hopes that the tax-GDP ratio will go up because of plugging of loopholes and better data entry in the system.
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What common people expect?

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- The common man seems to be looking to the upcoming Budget to pass on certain benefits to him as fallout of the demonetisation.
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Realign the tax slabs to the taxpayer's advantage:

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- Many hope that the individual basic exemption limit would be enhanced to at least 300,000 per annum from the existing 250,000 per annum.
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- Further, the tax slabs may also be rearranged so that the peak rate of 30 per cent is triggered, on income above 20 lakh a year as against the current 10 lakh.
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- This can help enhance the disposable income in the hands of the taxpayers which could have a **direct bearing on their savings and consumption.**
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Change deduction limits:

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- As we all know, a deduction limited to 150,000 per annum is available under Section 80C of the **Income-tax Act, 1961** towards various specified investments.
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- While this limit was enhanced by 50,000, two years back, there could still be some room to enhance this to at least 300,000 a year.
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- With the increase in banked funds over the past couple of months, increased tax deduction limits may encourage the utilisation of these funds towards desired long-term investments.
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- Also, restoration of tax deduction towards investment in infrastructure bonds could stimulate growth in the infrastructure sector.
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Relief for salaried taxpayers:

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- Salaried taxpayers are entitled to limited deductions from their taxable salary income, towards legitimate expenses incurred by them.
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- It is therefore hoped the standard deduction which was earlier available to them till fiscal 2004-05, be reintroduced with a minimum limit of 50,000 per annum to ease their tax burden and bring around tax parity vis-à-vis the self - employed taxpayers.
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- Also, upward revision of age-old limits of certain tax saving deductions/exemptions is being hoped for, to compensate for the increased cost of living.
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- Amongst the popular ones, with respect to tax free medical reimbursements, there is an expectation to increase the limit to at least Rs 50,000 per annum from the current Rs 15,000.
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- With respect to **Leave Travel Allowance (LTA)**, which is now available for two journeys in a block of four calendar years for travel within India, it can be realigned to at least one journey in each financial year and also extended to include overseas travel, which has become common owing to reduced airfares.
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Way Ahead:

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- While the common man's expectations from Budget 2017 are soaring high, one should be mindful of the overall objective of the Government, which is to curb the menace of black money and encourage wider tax compliance.
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- So, with the benefits, one can also expect enhanced disclosure requirements in the tax returns forms and documentations requirements for the tax deductions, to achieve better tax compliance.
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Source: Business Line

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