# Union Budget 2017-18

# Growth Impetus With Fiscal Prudence

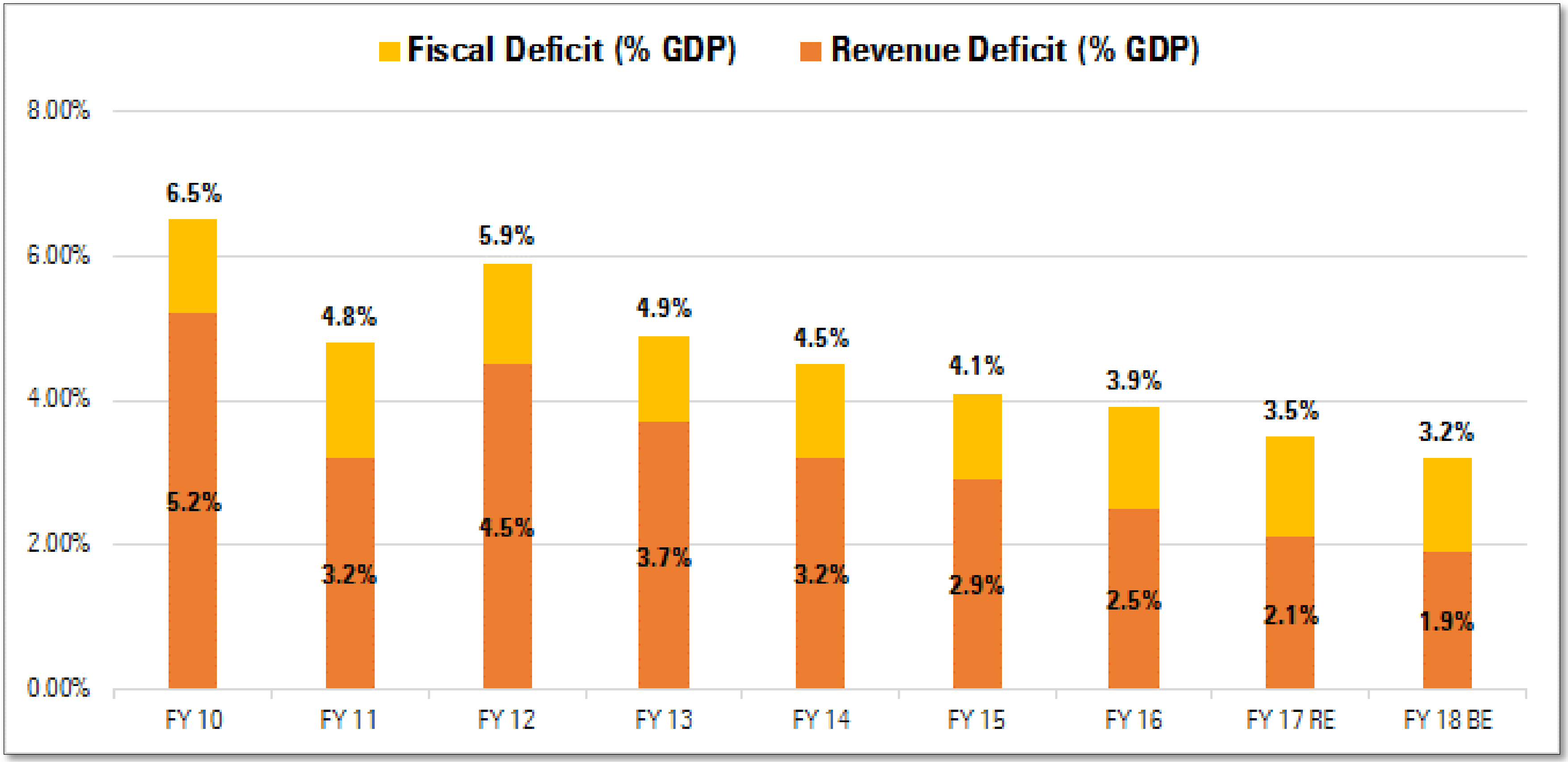
## Morningstar Investment Adviser India Pvt. Ltd.

# FY 2018 fiscal deficit target at 3.2%, target of 3% set for FY 2019. Nominal GDP growth assumed at 11.75%

| Rs. Trillion / YoY% | FY 2016 | FY 2017 | FY 2018 | FY 2016 | FY 2017 | FY 2018 |
|---|---|---|---|---|---|---|
| | Actuals | RE | BE | Actuals | RE | BE |
| Tax Receipts (Net) | 9.44 | 10.89 | 12.27 | 4.4% | 15.3% | 12.7% |
| Non-tax revenue | 2.51 | 3.35 | 2.89 | 27.0% | 33.4% | -13.7% |
| Non Debt Capital Receipts (Disinvestment & Others) | 0.43 | 0.57 | 0.84 | 22.3% | 31.2% | 49.2% |
| **Total Receipts** | **12.38** | **14.80** | **16.00** | **9.1%** | **19.5%** | **8.1%** |
| | | | | | | |
| Revenue Expenditure | 15.38 | 17.35 | 18.37 | 4.8% | 12.8% | 5.9% |
| Capital Expenditure | 2.53 | 2.80 | 3.10 | 28.6% | 10.6% | 10.7% |
| **Total Expenditure** | **17.91** | **20.14** | **21.47** | **7.6%** | **12.5%** | **6.6%** |
| | | | | | | |
| **Fiscal Deficit** | **5.33** | **5.34** | **5.47** | | | |
| | | | | | | |
| **Fiscal Deficit as % of GDP** | **3.9%** | **3.5%** | **3.2%** | | | |

- The expectation of increased tax collection on account of demonetization and a bounce back in the economy on the back of pent up consumption demand is expected to spur tax collection in 2017-18
- Revenue expenditure in FY 2017-18 stands at ₹18.37 tn, increase of 5.9% over the RE FY 2016-17

# Revenue Deficit estimated at 1.9% of GDP in BE 2017-18



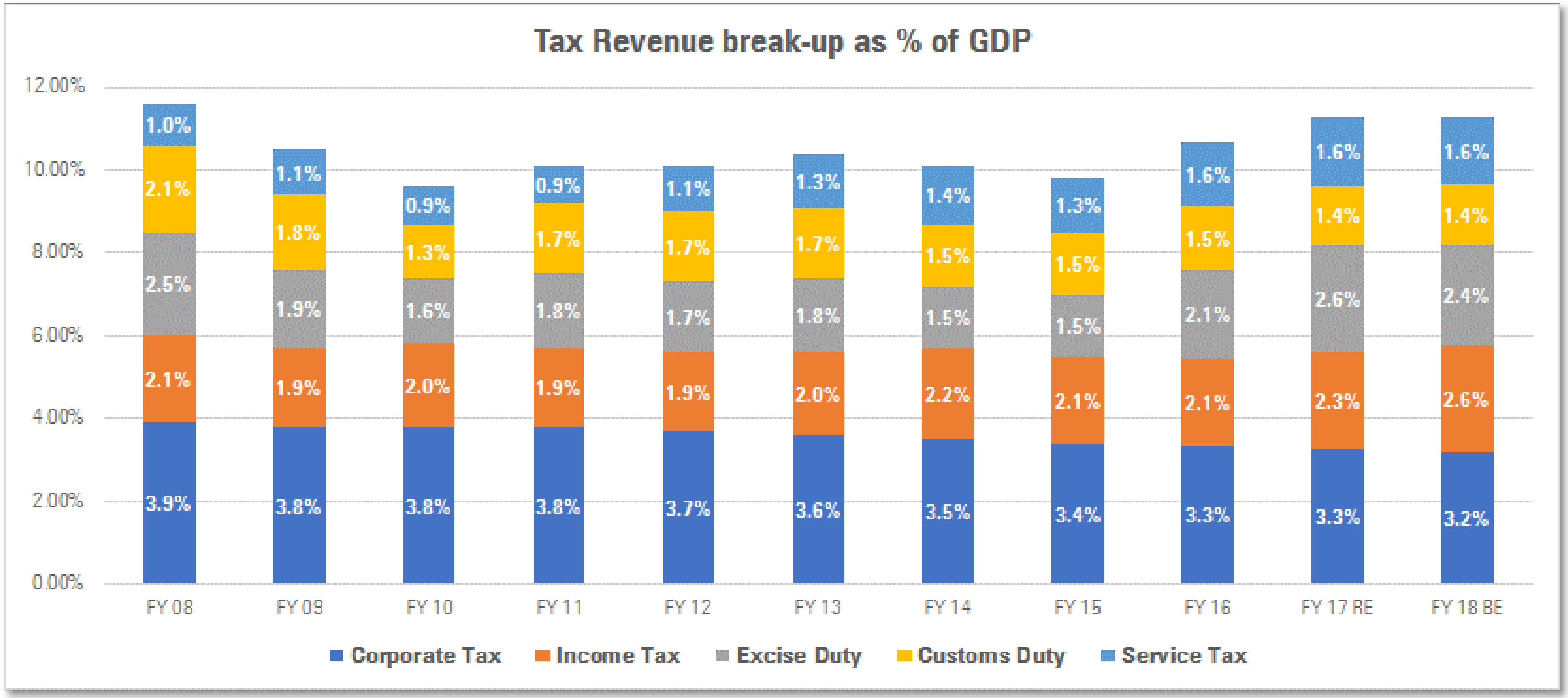

- Revenue deficit was estimated at 2.3% of GDP in BE 2016-17 which is changed to 2.1% of GDP in RE 2016-17. This is despite higher allocation for pensions and salaries provided to meet the requirements on account 7CPC implementation

# Non tax revenue expected to contract in FY 2017-18 by 13.7% with 43.7% fall in telecom revenue on account of no spectrum auction

| Rs. Trillion / YoY% | FY 2016 Actuals | FY 2017 RE | FY 2018 BE | FY 2016 Actuals | FY 2017 RE | FY 2018 BE |
|---|---|---|---|---|---|---|
| **Tax Revenue** | | | | | | |
| **Gross Tax Revenue** | **14.56** | **17.03** | **19.12** | **16.9%** | **17.0%** | **12.2%** |
| Corporate tax | 4.53 | 4.94 | 5.39 | 5.7% | 9.0% | 9.1% |
| Income tax | 2.88 | 3.53 | 4.41 | 8.2% | 22.8% | 24.9% |
| Customs | 2.10 | 2.17 | 2.45 | 11.9% | 3.2% | 12.9% |
| Excise | 2.88 | 3.87 | 4.07 | 51.7% | 34.5% | 5.0% |
| Service | 2.11 | 2.48 | 2.75 | 25.9% | 17.1% | 11.1% |
| **Centre's net tax revenue** | **9.43** | **10.89** | **12.27** | **4.4%** | **15.4%** | **12.7%** |
| | | | | | | |
| **Non Tax Revenue** | **2.52** | **3.35** | **2.89** | **27.0%** | **33.0%** | **-13.7%** |
| Dividend and Profits | 1.12 | 1.53 | 1.42 | 24.8% | 36.7% | -7.0% |
| Other Non tax revenue | 1.13 | 1.62 | 1.26 | 36.0% | 43.8% | -22.4% |
| **Revenue Receipts** | **11.95** | **14.24** | **15.16** | **8.5%** | **19.1%** | **6.5%** |
| | | | | | | |
| **Non Debt Capital Receipts** | **0.63** | **0.57** | **0.84** | **41.8%** | **-10.2%** | **49.3%** |
| **Total Receipts** | **12.58** | **14.80** | **16.00** | **9.1%** | **17.7%** | **8.1%** |

- In RE 2016-17, indirect taxes are estimated at ₹8.51 tn which is ₹0.72 tn more than the BE. Direct tax collections are estimated at ₹8.47 tn at budgeted level on expectations of better compliance on individual income tax
- Non-debt capital receipts expected to grow 49.3% on account of disinvestment in PSUs (₹72,500 crore) and listing of insurance companies. This seems optimistic given the disinvestment track record

# The trend of higher share of direct taxes compared to indirect taxes maintained, the gap is closing down is short run trend




- Tax on income is expected to grow by 24.9% over RE 2016-17. Corporate tax estimated to grow at 9.1% over RE 2016-17
- Excise growth trend is expected to moderate in FY 2017-18 due to the impact of base effect on account of additional excise on oil in the previous year



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# Total expenditure of the Centre is estimated at ₹21.47 tn in BE 2017-18 with an increase of 6.6% over the RE 2016-17

| Rs. Trillion / YoY% | FY 2017 | FY 2018 | YOY Variation |
|---|---|---|---|
| | RE | BE | Excess(+) |
| **Total Expenditure** | **20.14** | **21.47** | **1.32** |
| Interest payment | 4.83 | 5.23 | 0.40 |
| Capital outlay excl. Defence | 1.63 | 1.82 | 0.20 |
| Defence | 2.48 | 2.62 | 0.14 |
| Grants and Loans to states | 2.93 | 3.07 | 0.14 |
| Food subsidy | 1.35 | 1.45 | 0.10 |
| Education | 0.32 | 0.37 | 0.05 |
| Police | 0.62 | 0.66 | 0.04 |
| Pensions | 1.28 | 1.31 | 0.03 |
| Health and Family welfare | 0.14 | 0.17 | 0.03 |
| Other Subsidies | 1.25 | 1.27 | 0.02 |
| Other Expenditure | 3.24 | 3.44 | 0.20 |

- Increase in food subsidy on account of implementation of the National Food security Act (NFSA) across all states. Subsidy on petroleum products likely to see declining trend

- Capital expenditure growth is estimated at 10.7% in BE FY 2017-18, focus on road and railways

# Allocation to major schemes continue to rise, except recapitalization of PSU banks

| Rs. Trillion / YoY% | FY 2016 | FY 2017 | FY 2018 | FY 2017 | FY 2018 |
|---|---|---|---|---|---|
| **Scheme** | **Actuals** | **RE** | **BE** | **RE** | **BE** |
| **Major Centrally Sponsored Schemes** | | | | | |
| MGNREGA | 0.37 | 0.47 | 0.48 | 27.2% | 1.1% |
| National Education Mission | 0.27 | 0.28 | 0.30 | 4.4% | 4.6% |
| Pradhan Mantri Awas Yojna | 0.12 | 0.21 | 0.29 | 80.4% | 38.7% |
| Pradhan Mantri Fasal Bima Yojna | 0.03 | 0.06 | 0.09 | 84.4% | 63.6% |
| National Health Mission | 0.20 | 0.23 | 0.27 | 11.8% | 20.1% |
| Integrated Child Development Services | 0.17 | 0.17 | 0.21 | -1.5% | 25.2% |
| Pradhan Mantri Gram Sadak Yojna | 0.19 | 0.19 | 0.19 | -1.5% | 0.0% |
| Swach Bharat Mission | 0.07 | 0.13 | 0.16 | 73.0% | 26.9% |
| Pension Schemes | 0.13 | 0.15 | 0.15 | 8.2% | 6.2% |
| Green Revolution | 0.10 | 0.10 | 0.14 | 6.0% | 32.2% |
| **Major Central Sector Schemes** | | | | | |
| Interest Subsidy (short term credit to farmers) | 0.13 | 0.14 | 0.15 | 4.6% | 10.3% |
| Recapitalization of Public Sector Banks | 0.25 | 0.25 | 0.10 | 0.0% | -60.0% |
| MRTS and Metro Projects | 0.09 | 0.16 | 0.18 | 68.8% | 14.6% |
| Bharatnet | - | 0.06 | 0.10 | - | 66.7% |

# Financing of FY 2017-18 fiscal deficit primarily by net borrowings and small savings

| Rs. Trillion | FY 16 Actuals | FY 17 RE | FY 18 BE |
|---|---|---|---|
| GDP | 136.80 | 150.80 | 169.17 |
| Nominal GDP Growth | 10.0% | 10.2% | 11.8% |
| Fiscal Deficit | 5.33 | 5.34 | 5.47 |
| **Fiscal Deficit as % of GDP** | **3.9%** | **3.5%** | **3.2%** |
| | | | |
| **Gross G-Sec Borrowings** | **5.85** | **5.82** | **5.80** |
| Repayments | 1.44 | 1.75 | 1.57 |
| Net Buyback | 0.38 | 0.60 | 0.75 |
| Net Switching of securities | 0.01 | - | - |
| **Net G-Sec Borrowings** | **4.04** | **3.47** | **3.48** |
| Net T-Bills (Short Term Borrowings) | 0.51 | 0.19 | 0.02 |
| **Net Market Borrowings including short term** | **4.55** | **3.66** | **3.50** |
| | | | |
| **Net G-Sec Borrowings as % of Fiscal Deficit** | **75.8%** | **65.0%** | **63.7%** |
| | | | |
| **Financing of Deficit** | | | |
| Net borrowing including sort term | 4.55 | 3.66 | 3.50 |
| Securities against small savings | 0.52 | 0.90 | 1.00 |
| State provident fund | 0.12 | 0.13 | 0.14 |
| Other receipts (internal debt & public account) | -0.12 | 0.10 | 0.54 |
| External Debt | 0.13 | 0.15 | 0.16 |
| Cash Balance | 0.13 | 0.40 | 0.13 |

- Net G-sec borrowing for FY 2017-18 at ₹3.48 tn is lower than the market expectations of approximately ₹4.23 tn on account of buybacks of ₹75,000 crore as compared to ₹60,000 crore in RE FY 2016-17

# Personal Income Tax

| Taxable Income | Existing Tax | New Tax | Savings |
|---|---|---|---|
| Rs.2.5 Lakhs | - | - | - |
| Rs.3.5 Lakhs | 5,150 | 2,575 | 2,575 |
| Rs.5 Lakhs | 20,600 | 12,875 | 7,725 |
| Rs.10 Lakhs | 128,750 | 115,875 | 12,875 |
| Rs.50 Lakhs | 1,364,750 | 1,351,875 | 12,875 |
| Rs.75 Lakhs | 2,137,250 | 2,336,813 | (199,563) |
| Rs.100 Lakhs | 2,909,750 | 3,186,563 | (276,813) |

- Rate of taxation for individuals with income between ₹2.5L and ₹5L has been reduced from 10% to 5%
- Tax payers with income above ₹5L will also get a uniform benefit of ₹12,500/-
- Rebate of ₹5,000 for individuals having income between ₹2.5L and ₹5.0L is reduced to ₹2,500 and is now available for individuals with income of up to ₹3.5L
- Surcharge on tax payable at the rate of 10% for income between ₹50L and ₹1Cr, and 15% for income more than ₹1Cr

# Real Estate

- Holding period to avail the benefit of Long Term Capital Gains (LTCG) tax has been reduced from 36 months to 24 months
- Base year for computation of capital gains tax has been shifted from 1981 to 2001 so as to provide that the cost of acquisition of an asset acquired before 01.04.2001 shall be allowed to be taken as fair market value as on 1st April, 2001
- Expanding the scope of long term bonds under 54EC – Bond issuer basket now includes any Central Government notified bond that are redeemable after 3 years along with NHAI and REC. LTCG up to the extent of ₹50L is exempted if invested within specified time
- Affordable housing will be given infrastructure status

# Proposals to reduce cash transaction

- A person shall not take in cash an amount of ₹3.0L or more in aggregate from a person in a day, single transaction or transaction relating to one event or occasion
- Any one held in contravention of this will be levied a penalty of sum equal to the amount of such receipt; except for persons or receipts notified by Central Government

## Mutual Funds

- In case of consolidation of two funds, the cost and the holding period of the units received from the consolidated fund will be that of the consolidating plan – Capital gains will be calculated on the basis of the NAV, as on the purchase date of the units in the consolidating fund
- Existing deduction available under Rajiv Gandhi Equity Savings Scheme (RGESS) to be phased out from FY 2017-18. Individuals who have claimed deduction under RGESS in FY 2016-17 will be allowed to deduct the same till FY 2017-18

## National Pension Scheme

- Tax exemption on partial withdrawal not exceeding 25% of the contribution made by an account holder. The existing provision provides that payment from NPS trust to an employee on closure of one's account or opting out shall be exempt up to 40% of total amount payable
- Self-employed NPS investor can now claim deduction up to the extent of 20% of gross total income

# Political Funding

- Maximum amount of cash donations a political party can receive is ₹2,000 from one person. They can receive higher amount through cheque or digital mode. This could lead to the cleansing of the system of political funding in India
- Amendment is being proposed to the Reserve Bank of India Act to enable the issuance of electoral bonds, which a donor could purchase from authorized banks and it shall be redeemable only in the designated account of a registered political party
- Political parties will not be required to furnish the name and address of the donors who contribute by way of electoral bonds

# Other Key Proposals

- Government to ensure time bound listing of identified CPSEs on stock exchanges. Shares of Railway PSEs like IRCTC, IRFC and IRCON will be listed in stock exchanges
- New ETF with diversified CPSE stocks and other Government holdings will be launched in 2017-18

## Other Key Proposals

- Propose to create an integrated public sector 'oil major" enabling to match the performance of international and domestic private sector peers
- Allocation of ₹10,000 crores made for re-capitalization of banks in 2017-18, which is lower than ₹25,000 allocated in 2016-17. Additional allocation will be provided if required
- Foreign Investment Promotion Board (FIPB) to be abolished in 2017-18, which would to lead to 100% FDI inflows being made through automatic route
- Banks have targeted to introduce additional 10 lakh new PoS terminals by March 2017. They will be encouraged to introduce 20 lakh Aadhar based PoS by September 2017, making it beneficial for those who do not have debit cards, mobile wallets and mobile phones
- Process of registration of financial market intermediaries like mutual funds, brokers, portfolio managers, etc. will be made fully online by SEBI. This will improve ease of doing business

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