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Budget wand may grant farm and tax sops

Income support for farmers to the tune of ₹1.5 lakh crore expected; salaried class may get a breather

TCA SHARAD RAGHAVAN

The Vote-on-Account on February 1 will very likely contain an income support package for farmers in the range of ₹1.5 lakh crore, and also some income tax benefits for the salaried class in the form of increased exemption limits, or reduced tax rates, according to economists and experts alike. One other concrete proposal before the Finance Ministry is for the pension for the elderly poor to be hiked.

While conventionally the Vote-on-Account does not contain any major changes to the Finance Act or the Income Tax Act, there is no rule that prevents this, according to legal experts, and so the government is well within its rights to change tax rates and tax exemption limits. "Our guess is that since tax collections have been good, with the increase in the range of 16-18%, this definitely leaves room for them to do something that will benefit the salaried taxpayers," Archit Gupta, founder and CEO of ClearTax told *The Hindu*.

Future pain: If a farm package impacts fiscal deficit, the next government will face the problem, says Pronab Sen. •G.N. RAO

Standard deduction

"These could be in several forms," he added. "One is by increasing the standard deduction limit. They announced it at ₹40,000 last year but it took away medical reimbursement and travel allowance, so there has been a lot of talk that the net impact has been only ₹5,800 or so. So, there could be some increase in the standard deduction limit."

Another option, he said, could be for the government to announce an increase in the tax exemption limit under Section 80C of the Income Tax Act. The limit is currently ₹1.5 lakh a year. The government also has the option of reducing personal income tax rates. They already did so last year, in the Budget, when they reduced the tax on the 10% slab to 5%.

"They have also announced some benefit to NPS, where they said that 60% of the withdrawal will be exempt from tax," he explained. "But nobody knows how that is going to work. Is it only for central government employees? There is no reason for it to be only for them. So, they will clarify on this in the Budget."

The government also announced that contributions to the tier-II of NPS would be exempt from tax under Section 80C. All of these changes, according to tax experts, will have to be made in the Budget documents because they involve amending the Finance Act.

The Hindu reported last week that the Rural Development Ministry has requested the Finance Ministry to allocate it more funds in the Vote on Account so it can implement its plan to hike the monthly pensions of the elderly poor, disabled and widows to ₹800 from the current ₹200. For those above the age of 80, the proposal is to increase the pension from ₹500 to ₹1,200 a month.

"One thing the government will have to do is to indicate whether the fiscal consolidation process according to the FRBM targets of reaching 3% by FY20 will be achieved or not," D.K. Srivastava, chief policy advisor at EY India said, adding that he thought the government would be able to achieve its target.

"The second question is, if they come up with an agricultural package, what would be the size and how would it be financed, while meeting the fiscal consolidation targets," he added. "The way the package may be administered will likely be an income support scheme of some kind."

"In the speech, something on agriculture is certainly expected," former Chief Statistician of India Pronab Sen said. "They have already tried hiking the MSP, which had no effect. Loan waivers have already been taken away by the Congress, which has done it in the States. Now, they will have to look at some form of income support."

Fiscal consolidation

"At the moment, the fiscal space to do it will become a problem that will confront them only if they win the general elections," Mr. Sen added. "It is something the next government has to deal with."

Experts said the income support scheme could be either in the form of a Centrally Sponsored Scheme or be administered through a Special Purpose Vehicle. In the former case, the government needs to only budget for a fraction of the amount, with the remaining amount coming from the States. In the case of an SPV, the remaining amount can come through various off-budgetary sources.

Package anticipated

"On the issue of the agricultural package, there is a lot of talk around the figure of ₹1.5 lakh crore, which translates to 0.7% of GDP at current market prices for FY20," Mr. Srivastava explained. "Now, 0.7% may be difficult for the central government to accommodate given the budgetary arithmetic. So, I think a fraction of this, about 0.3% of GDP will be provided for in the Budget and the rest will be either from the State governments or off-budgetary resources."

Mr. Sen also added that the Budget will almost certainly contain some sort of support for the MSME sector, which is currently in a bad state. While an income support scheme for the farmers could help the MSME sector in turn, more needs to be done, he said.

"They have made a lot of announcements for the sector, but none have amounted to much," Mr. Sen said. "The fact is the MSME sector is hurting badly. The bulk of the problem lies in lack of liquidity and lack of credit available. You have to get the liquidity moving, and income support to the farmers will get liquidity moving for MSMEs. But the sector needs more."