Budget 2020: Govt may consider tax sops, easier norms to boost investments

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The Union Budget may focus on giving a boost to the investment climate by providing tax concessions to private investors and announcing easier operational norms, official sources said on Monday.

With revenue projections, relating particularly to taxes, going awry in the current fiscal year (April 2019-March 2020, or FY20), the targets in the Budget are likely to be far more realistic, the sources said. Also, off-Budget expenditures would be clearly mentioned to give a clear-cut picture of the fiscal deficit.

On the revenue side, the sources said, emphasis could be on raising non-tax revenues that could include disinvestment in public sector enterprises. While on the non-tax revenue front, officials said, a big focus could be asset monetisation of companies in which the government has 100 per cent shareholding.

chartThe sources said there is limited scope for any big-ticket tax reform, given the strained fiscal position of the government. But, some tweaking, such as raising income tax threshold from Rs 250,000 a year, may put more money into the hands of the common people.

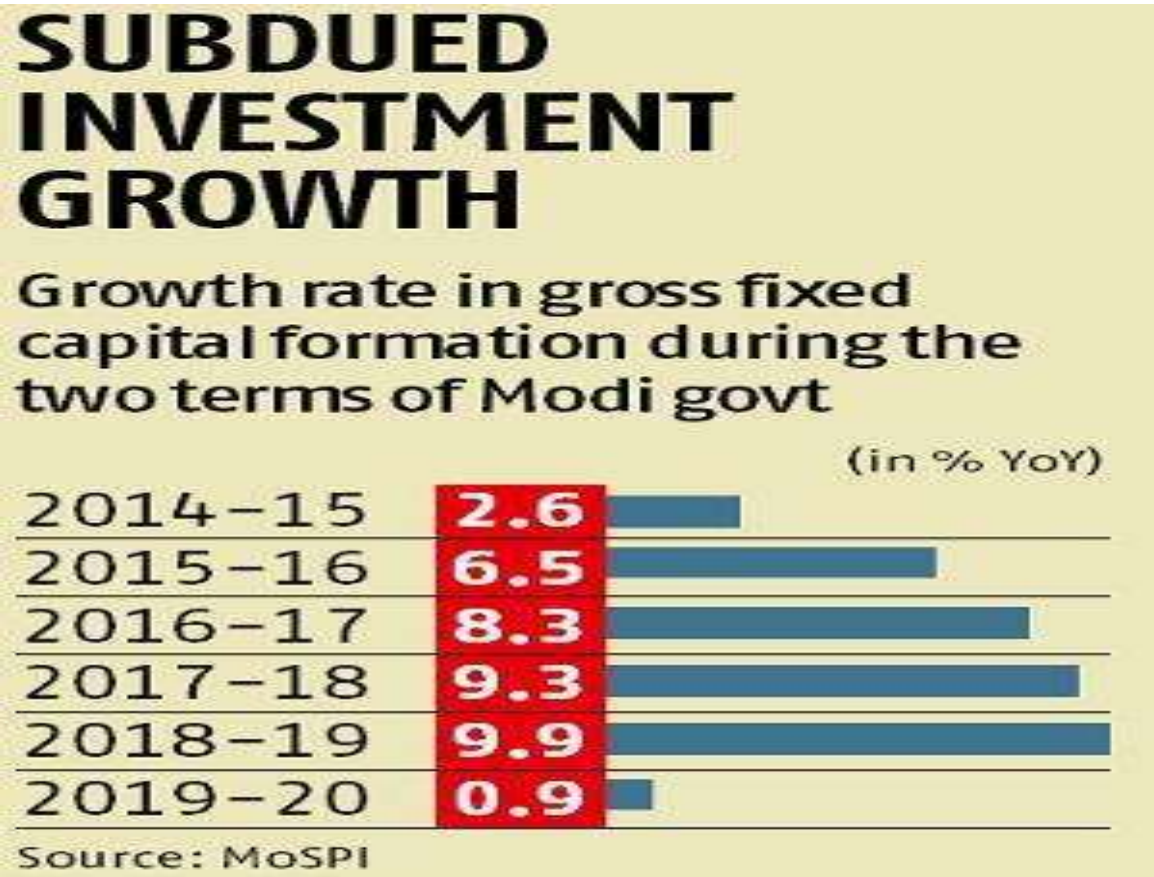
The Budget would be prepared from the point of view that the worst is behind and slowdown seems to have bottomed out.

To boost investments, dividend distribution tax on companies is likely to be abolished and may instead be levied on shareholders receiving it, while long-term capital gains tax may also be tweaked.

Growth in gross fixed capital formation, which denotes investments, has been projected to fall to a 15-year low of 0.97 per cent in FY20 by the Advance Estimates against around 10 per cent a year ago.

chartIn its pre-Budget interaction with Finance Minister Nirmala Sitharaman, industry sought incentives to boost investments. The Confederation of Indian Industry wanted, among other things, expansion of new reduced rate of corporation tax at 15 per cent for all manufacturing units and not just those that were set up after October 2019.

Of late, revenue projections have been falling short. The Budget for FY20 did not give actual figures for 2018-19, but the revised numbers given in the interim Budget. The actual numbers missed the revised estimate figures by Rs 1.68 trillion in 2018-19. Growth projected in the tax revenue collections was just 9.47 per cent for FY20 compared to the revised estimates of 2018-19. However, it meant a growth of 18.31 per cent compared to the actual numbers of FY19.



Now, officials say there could be shortfall of Rs 2.5 trillion in tax revenues owing to corporation tax rate cuts and wrong projections.

Economic growth is expected to fall to a decade low of 5 per cent in FY20, according to advance estimates. At current prices, growth is projected at 7.5 per cent, much lower than the 12 per cent assumed in the Budget for FY20.

Also, revenue projections on higher nominal GDP growth are now proving to be much ambitious. In this regard, assumption for economic growth at current prices for 2020-21 would be quite important.