# Impact Analysis
# Union Budget FY 2015 -16

The first full year budget of the new government has attempted to carry forward the positive sentiments surrounding the Indian economy by providing a roadmap for the future. The broad measures/allocations announced, including the various social and welfare allocations, can provide for benefits in the long term as opposed to any significant changes in the immediate timeframe.

While recognising the various challenges faced, the budget has rightly focussed on 4 key areas – agriculture, infrastructure, manufacture and fiscal discipline, to realise its vision and trajectory for the country's economy. The thrust laid on the infrastructure sector, the measures announced to stimulate the "Make in India" programme and the facilitation of "Ease of Doing Business" sets the tone for revival of the economy.

## Macro Highlights:

- Fiscal deficit target at 3.9% of GDP for FY16, 3.5% in FY17 and 3.0% in FY18. Current account deficit below 1.3% of GDP.
- Nominal GDP is projected to grow by 11.5% year-on-year (YoY) in FY16 over advance estimates of FY15.
- Planned expenditure is budgeted at Rs. 4.65 lakh crore, a decline of 0.6% YoY over FY15.
- Gross tax revenues are budgeted to grow at 15.8% YoY in FY16.
- Gross borrowings pegged at Rs. 5.6 lakh crore, while net borrowing is flat at Rs. 4.6 lakh crore.
- Disinvestment targeted at Rs. 69,500 crore.

## Key Changes in Direct Tax

**Resident Individual Tax:**

- Base income-tax brackets for the financial year 2015-16 on personal income remains unchanged, however an individual tax payer can get tax benefit upto Rs.4,44,200.
- Surcharge has been increased from 10% to 12% on Income Tax for income exceeding Rs.1 crore, thereby increasing the effective maximum rate of tax to 34.61% from 33.99%, an incremental impact of 0.62%. The additional 2% surcharge is in lieu of the Wealth Tax which has been abolished.
- Transport allowance exemption is being increased from Rs.800 per month to Rs.1,600 per month.
- Health Insurance Premium:
    - Limit of deduction of health insurance premium increased from Rs.15,000 to Rs.25,000, for senior citizens limit increased from Rs.20,000 to Rs.30,000.
    - Senior citizens above the age of 80 years, who are not covered by health insurance, to be allowed deduction of Rs.30,000 towards medical expenditures.
- Limit on deduction on account of contribution to a pension fund and the new pension scheme increased from Rs.1 lakh to Rs.1.5 lakh.
- Additional deduction of Rs.50,000 for contribution to the new pension scheme u/s 80CCD of Income Tax Act, 1961.
- Investment made towards Sukanya Samriddhi Scheme, relating to education of girl child shall be eligible for 100% deduction under Section 80C.

**Corporate Tax:**

- Rates of corporate tax remains unchanged for both domestic and foreign companies.
- Reduction in Corporate Tax rate from 30% to 25% over next four years. But the various exemptions provided to companies will be removed and the corporation tax rate cut will take effect from FY 2016-17.
- Rate of Surcharge increased for Domestic Companies:
  - Surcharge has been increased from 5% to 7%, for income exceeding Rs.1crore and upto Rs.10 crore, thereby increasing the effective maximum rate of tax to 33.06% from 32.45%.
  - Surcharge has been increased from 10% to 12%, for income exceeding Rs.10 crore, thereby increasing the effective maximum rate of tax to 34.61% from 33.99%.
- Proposed to levy a surcharge of 12% as against 10% on additional income-tax payable by companies on distribution of dividends and buyback of shares, or by mutual funds and securitisation trusts on distribution of income.

## Impact of other key announcements

**STRENGTHENING THE STATE FINANCES**

- Changing the current Command and Control Approach by divesting more power and responsibility into the hands of the States.
- As should be the case in a truly federal set-up, the Government has decided to devolve 42% of the share of Divisible Pool to the states. This would translate to a devolution of Rs.5.24 lakh crore to the states in FY2015-16 as against Rs.3.38 lakh crore in FY2014-15(Revised Estimates).
- The states were so far getting 49% of the all-India total national tax revenue. This budget has increased it to 62%. So the states will have more finances in their hands.

*Rationale and Impact:*

- This will lead to an improvement in the Centre-State relationship and allow for smoother implementation of policies.
- Also, the states are the ones who have to implement and spend at the grassroots levels and need not have to rush to the Centre for everything. This would give a lot of comfort to the State Governments.

**PLUGGING THE BLACK MONEY DRAIN – Getting back what is ours:**

- Bill for a comprehensive new law to deal with black money parked abroad to be introduced in the current session of parliament.
- Benami Transactions (Prohibition) Bill to curb domestic black money to be introduced in the current session of Parliament.
- Evasion of tax in relation to foreign assets to have a punishment of rigorous imprisonment upto 10 years, be non-compoundable, have a penalty rate of 300% and the offender will not be permitted to approach the Settlement Commission.
- Foreign assets if undisclosed, may get seized.
- Concealment of income/evasion of income in relation to a foreign asset to be made a predicate offence under Prevention of Money Laundering Act, 2002.

*Rationale and Impact:*

- The Budget proposals would significantly contribute to making India a "business friendly" investment destination through the simplification of taxation and clarity thereof.
- The deferment of GAAR and exempting Foreign Institutional Investors from MAT is a significant confidence booster which can augment FPI flows into India.
- The tough laws proposed against black money and the parallel economy would provide a clean business environment for global corporates and increase business confidence.

## Infrastructure Gets Strong Boost

**ROADWAYS AND RAILWAYS - Focus on connecting everyone to the mainstream:**

- Rs.70,000 crore increase in infrastructure spend has been proposed, apart from the Rs.40,000 crore allocated for the sector out of exchequer receipts through Rs .4 increase in the excise duty of petrol and diesel.
- 100,000 km of road projects to be awarded and 178,000 unconnected habitations to be connected by all - weather roads.
- Increase in Gross Budgetary Support to Roads by Rs.14,031 cr and to railways by Rs.10,050 cr.
- Tax Free Infrastructure Bonds for projects in rail, road and irrigation is being considered.

**CAPEX IN PSUs AND NEW UMPPs:**

- Increase in capex of PSUs by Rs.80,844 cr over FY2014-15 (Revised Estimates).
- 5 Ultra Mega Power Projects (UMPPs) of 4000MW entailing investments of around Rs.100,000 cr.

**THRUST ON HOUSING:**

- 6 crore houses to be built by 2022 under the "Housing for All" scheme (2 crore houses in urban India and 4 crore in rural India).

*Rationale and Impact:*

- All the above initiatives will boost the investment in infrastructure segment and ultimately augment the Government's long term push of its "Make In India" focus.

## Impact on Key Sectors

**Capital goods and infrastructure:**

*Positives*

- Substantial increase in roads (2.5 times over last year i.e. 2014-15) – partly funded by Rs. 40 bn of transfer from excise on auto fuel to roads) and railways (1.5 times over last year i.e. 2014-15) spending
- Movement on DMIC (Delhi Mumbai Industrial Corridor) corridor with certain nodes ready for implementation of infrastructure now.
- Aim to set up National Investment Infrastructure Fund which would invest in equity of infrastructure financing agencies like Indian Railway Finance Corporation, National Housing Bank where it gets levered further for spending.

- Defence capital spending is up 15% over FY15RE but is flat over FY15 (Budgeted Estimates)

*Negatives*

- Clean energy cess on coal increased from Rs 100 per tone to Rs 200 per tone; increase input cost for a stressed sector

**Financials:**

*Positives*

- FII & FDI limits merged to composite sectoral cap of foreign investment.
- Distinction between FII and FDI within sectorial limit has been removed raising the composite cap for private banks to 74%.
- NBFCs get access to SARFAESI. NBFCs with an asset size of Rs. 5 bn+ will now be able to access the SARFAESI Act provisions. Prior to this, only housing finance companies were eligible for SARFAESI.
- Thus, all secured lenders like Commercial Vehicles, auto financiers will find it easier to repossess Non-performing assets without having to go to court (as is the existing practice). Thus, procedurally, this is a significant positive.

**Consumer Staples & Durables:**

*Positives*

- Corporate tax rate to drop to 25% over four years. Positive for high tax paying companies.
- Excise duty on footwear cut from 12% to 6% on footwear priced between Rs. 500 and Rs. 1,000 – positive for footwear companies

*Negatives*

- Excise duty hike on cigarettes
- Service tax increase to 14% from 12%

**Oil & Gas:**

*Positives*

- The anticipated increase in crude oil customs duty was not implemented.

*Negatives*

- Budgeted subsidy was lower than expected; however, the government may choose to roll forward some payments to FY17.
- No relief for gas taxation.

## Our Outlook

In line with our expectations, the budget has come out with a clear long term vision that will help Indian economy to recover and achieve its potential growth rate. Given the fiscal constraints and lower Tax to Gross Domestic Product (GDP) ratio, we expected the budget to be well balanced in terms of managing expenditure and revenues. It is a budget that aims to ramp up growth, aided by a slowed pace of fiscal deficit cuts and a bundle of tax measures to put private domestic and foreign capital to work.

The budget is well balanced since it gives impetus to long term growth and lays a credible road map of fiscal consolidation. The budget has increased allocations towards infrastructure spending to kick start capital expenditure and have subsequently revised fiscal deficit targets that could be achieved over the next three years. The revenue target forecast for next fiscal appears realistic and seems achievable; this is a positive takeaway from this budget.

Few announcements like implementation of GST, achieving double digit growth rate, allocating more resources to states, monetising gold investments, deferment of GAAR and curbing black money transactions are helpful in achieving sustainable long term economic growth. The direction of the budget is right and the vision is clear.

The inflation forecast at 5% by the end of the fiscal year ending March 2016, undershooting the Reserve Bank of India's 6% target can create room for lower interest rates. A proposal to amend Reserve Bank of India Act to announce a Monetary Policy Committee (MPC) and an agreed monetary policy framework also bodes well for the fixed income market.

We continue to believe that equities, albeit reasonably valued, offers a good medium to long term investment opportunity. Investors are recommended to invest in equities with 3 to 5 year view. On fixed income side we believe that there is scope for interest rates to come down and it remains an appropriate investment opportunity in the short to medium term period.

**Mutual Fund investments are subject to market risks, read all scheme related documents carefully.**

GDP-Gross Domestic Product, GAAR-General Anti-Avoidance Rule, MAT-Minimum Alternate Tax, FPI-Foreign Portfolio Investors, PSU-Public Sector Undertaking, FII-Foreign Institutional Investors, FDI-Foreign Direct Investment, NBFC-Non Banking Finance Companies, SARFAESI Act-Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, GST-Goods and Services Tax.

Data Source: Union Budget 2015 document and Kotak Research report