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Interim Budget 2024-25 Applauded for Infrastructure Focus and Fiscal Discipline

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Economists and tax experts lauded the central government for presenting Interim Budget 2024-25 with a thrust on infrastructure investment, while managing to bring down fiscal deficit below the earlier estimated target. India is one of the few countries in the world where tax-to-GDP ratio has grown after the pandemic and this growth in tax collection has aided the government to reduce fiscal deficit. At the same time, experts expect the government to unleash further reforms in direct tax and GST to maintain the buoyancy in tax collection in the coming years as well.

Speaking at an interactive session on Interim Budget 2024-25, Dr. Soumya Kanti Ghosh, Group Chief Economic Advisor, Economic Research Department, State Bank of India pointed out, "The interim budget estimates fiscal deficit for next financial year to decline to 5.1%, which we feel can be still lower by 10 basis points when the full year budget is presented later in the year. We expect fiscal deficit in FY25 to be 5.0%, instead of the estimated 5.1% and for the current year, the fiscal deficit may be 5.7% against the revised estimate of 5.8%. Traditionally, in the full year budgets of 2014 and 2019, the government revised down the fiscal deficit by around 10 basis points from their original estimates in the interim budget. The decline in fiscal deficit may be aided by strong tax revenue collections. The government has estimated tax buoyance of 1.1 times for FY25, which is conservative, given that we have had 1.5 times tax buoyancy in the recent past." The event was organised by MVIRDC World Trade Center Mumbai and All India Association of Industries (AIAI).

Dr. Ghosh further pointed out that the tax to GDP ratio has grown to a 16-year high of 11.6% this year, which may grow further to 12.1% if the tax collection is buoyant. "There is strong tax buoyancy in GST, which is a testimony to the smooth functioning of this indirect tax system."

The government may reform the GST regime to compensate for the loss of revenue from the discontinuation of the compensation cess from FY26, he said. "Currently, the amount raised from GST compensation cess is being used to repay the Rs. 2.7 lakh crore debt raised from the RBI to support state governments. This cess will be discontinued from FY26, which may prompt the government to reform the GST system to compensate for this revenue," he added.

Dr. Ghosh also highlighted the importance of non-tax revenue such as dividends and disinvestment proceeds in plugging fiscal deficit. He said, "The current rally in the stock market and the resultant rise in market capitalization of PSU stocks may prompt government to monetise its stake in public sector undertakings (PSUs). One of the reasons for the current rally in the stock market is the increasing shift in household savings from banks to stocks. I feel this changing investment trend will have a transformative impact on investment and economic growth in the next five years."

Dr. Ghosh also pointed out to the strong growth in infrastructure investment and bank credit growth. He said, “Incremental bank credit this year is 1.7 times higher than the corresponding figure last year. Overall bank credit is growing at close to 20%, while agriculture and MSME credit is expanding by 18% and 16% respectively. We are seeing strong uptick in credit for data centers, electric vehicle, renewable energy, healthcare, hospitality, aviation and metals, to name a few. Infrastructure investment in the country has grown 3.5 times during FY15-FY24 compared to the preceding decade.”

Speaking on this occasion, Mr. M.S. Mani, Partner-GST, Deloitte India informed that the government may introduce the next wave of GST reform in the later part of next financial year. “In the interim budget, the government has not made major amendments in GST, except the provision on input service distributor and the new section 122A imposing penalty for non-registration of machineries in some regulated sectors. In future, the government may rationalize GST rates by reducing multiplicity of slabs, bringing petroleum products under the GST regime gradually starting with natural gas, aviation turbine fuel and then petrol and diesel.”

Mr. Mani expects the government to introduce a slew of customs duty amendments in the forthcoming union budgets to align the customs duty regime with the proposed free trade agreements (FTAs) with Oman, UK and other countries, once these agreements are implemented.

Speaking on this occasion, Mr. Firoze Andhyarujina, Senior Counsel, Supreme Court of India pointed out that the government has introduced an innovative scheme to reduce litigation by withdrawing the outstanding direct tax demand of small taxpayers. Mr. Andhyarujina informed, “This withdrawal provision should be interpreted as a waiver of outstanding tax demand, rather than as an amnesty scheme. The government may waive outstanding tax demand raised during the original demand notice on the date of issuance of this notice under section 156 of the IT Act.

Mr. Andhyarujina also clarified that the waiver will be applicable on year-wise tax demand, rather than on the cumulative tax demand. He further clarified that taxpayers facing demand notice under various sections, such as section 143 (1) intimation, 143 (3) scrutiny and section 147 - section 148 reassessments can benefit from this provision provided the outstanding tax demand is less than the threshold limit of Rs. 25,000 upto 2009-10 and Rs. 10,000 from 2010-11 to 2014-15.

Earlier in her welcome remarks, Ms. Rupa Naik, Executive Director, MVIRDC World Trade Center Mumbai mentioned that the Hon'ble Finance Minister has delivered a development-oriented budget without resorting to populist schemes. Within the available resources, the Minister tried to support all sections of the society, whether it is farmers, women, youth, start-ups, MSMEs, small taxpayers and large corporates, she added. Ms. Naik raised hope that the budget measures will promote investment in sustainable manufacturing, green energy, real estate and infrastructure sectors.

Fiscal Deficit Projection: Expert Analysis on Interim Budget 2024-25

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February 5, 2024: Economists and tax experts have commended the central government's Interim Budget 2024-25 for prioritizing infrastructure investment while surpassing earlier fiscal deficit projection. Dr. Soumya Kanti Ghosh, Group Chief Economic Advisor at the State Bank of India, anticipates a fiscal deficit of 5.0% for FY25, a 10-basis point improvement from the estimated 5.1%. He underscores the role of robust tax revenue in driving this reduction and predicts further tax reforms to sustain this momentum.

Tax-to-GDP Ratio Hits 16-Year High, GST Buoyancy Remains Strong

Dr. Ghosh highlights the tax-to-GDP ratio reaching a 16-year peak of 11.6%, with potential growth to 12.1% driven by buoyant tax collection. He emphasizes the resilience of GST, signaling its efficiency in revenue generation, and suggests potential reforms to mitigate revenue loss post the cessation of the compensation cess in FY26.

Utilizing Dividends and Disinvestment to Offset Fiscal Deficit Projection

Non-tax revenues, including dividends and disinvestment proceeds, are touted as pivotal in bridging fiscal gaps. Dr. Ghosh suggests leveraging the current stock market rally and increasing PSU stock market capitalization to drive disinvestment. This strategy, he believes, could revolutionize investment patterns and spur economic growth in the near future.

Strong Bank Credit Expansion and Infrastructure Investment Surge

Dr. Ghosh underscores the substantial growth in bank credit, particularly in sectors like agriculture, MSMEs, and emerging industries such as data centers, renewable energy, and healthcare. He said, "Incremental bank credit this year is 1.7 times higher than the corresponding figure last year. Overall bank credit is growing at close to 20%, while agriculture and MSME credit is expanding by 18% and 16% respectively. We are seeing strong uptick in credit for data centers, electric vehicle, renewable energy, healthcare, hospitality, aviation and metals, to name a few. Infrastructure investment in the country has grown 3.5 times during FY15-FY24 compared to the preceding decade."

Dr. Soumya Kanti Ghosh, Group Chief Economic Advisor, Economic Research Department, State Bank of India (right) being felicitated by Ms. Sangeeta Jain, Senior Director, All India Association of Industries (AIAI)

Anticipated GST and Customs Duty Overhaul

Speaking on this occasion, Mr. M.S. Mani, Partner-GST, Deloitte India informed that the government may introduce the next wave of GST reform in the later part of next financial year. “In the interim budget, the government has not made major amendments in GST, except the provision on input service distributor and the new section 122A imposing penalty for non-registration of machineries in some regulated sectors. In future, the government may rationalize GST rates by reducing multiplicity of slabs, bringing petroleum products under the GST regime gradually starting with natural gas, aviation turbine fuel and then petrol and diesel.”

Experts foresee forthcoming GST reforms, including rationalizing GST rates and gradual inclusion of petroleum products into the GST regime. Additionally, customs duty amendments are expected to align with future free trade agreements, particularly with Oman, the UK, and other nations.

Innovative Scheme to Alleviate Direct Tax Litigation

An innovative scheme aimed at reducing direct tax litigation by withdrawing outstanding tax demands of small taxpayers is introduced. Legal expert Mr. Firoze Andhyarujina elucidates the scheme, clarifying its applicability and benefits for eligible taxpayers facing various tax notices.

Mr. Andhyarujina informed, “This withdrawal provision should be interpreted as a waiver of outstanding tax demand, rather than as an amnesty scheme. The government may waive outstanding tax demand raised during the original demand notice on the date of issuance of this notice under section 156 of the IT Act.

Mr. Andhyarujina also clarified that the waiver will be applicable on year-wise tax demand, rather than on the cumulative tax demand. He further clarified that taxpayers facing demand notice under various sections, such as section 143 (1) intimation, 143 (3) scrutiny and section 147 – section 148 reassessments can benefit from this provision provided the outstanding tax demand is less than the threshold limit of Rs. 25,000 upto 2009-10 and Rs. 10,000 from 2010-11 to 2014-15.

Development-Oriented Budget Overview

Ms. Rupa Naik, Executive Director of MVIRDC World Trade Center Mumbai, lauds the development-oriented budget devoid of populist measures. She highlights the budget's inclusivity, aiming to support various sectors and foster investment in sustainable manufacturing, green energy, real estate, and infrastructure.

The discourse surrounding the Interim Budget 2024-25 reflects a collective optimism tempered with strategic foresight. Driven by expert analysis and informed predictions, the budget's emphasis on fiscal prudence, tax reforms, and infrastructure investment lays a sturdy foundation for economic resurgence. As the government navigates the intricate landscape of fiscal management and policy reform, the trajectory appears poised for sustained growth and resilience. With a keen eye on harnessing both traditional fiscal tools and innovative measures, India stands at the threshold of a transformative era, where prudent financial stewardship converges with a vision for inclusive development and prosperity.