Summary of Yojana

March 2022

Theme: Union Budget 2022-23

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Strengthening Federalism

Introduction:

- Cooperation and Competition are the two sides of the same coin – 'Federalism'. Both are essential to take the 'New India' march forward economically and socially.
- While on the one hand the States need to be assisted with resources and sound policy advice, on the other they need to be encouraged to improve their performance.

Cooperative Federalism:

- Cooperative federalism means a flexible relationship between the federal and state governments where powers are used jointly by the Centre and the states.
- The 17 goals and 169 targets under the SDGs are interdependent and inter-connected and require concerted and coordinated action within various departments.
- This inherent nature of the goals has forced States to dissolve silo-based functioning prevalent in government institutions.
- Such collaborations paves the way for convergence of developmental schemes with programmatic or beneficiary overlapping, better utilization of resources and greater achievement of outcomes.
- Thus, new structures are laid for novel and goal-driven partnerships at state and sub-state levels.

Competitive Federalism

- In a federal political system, "competitive federalism" refers to the existence and desirability of rivalry among governments and jurisdictions.
- Competition among governments can be defined as rivalry whereby each government attempts to obtain some scarce benefit or resource or to avoid a certain cost.

- NITI Aayog attempts to promote competitive federalism by means of facilitating improved performance of States/UTs.
    - It stimulates healthy competition among States through developing indicator frameworks and transparent rankings n various sectors, review mechanisms and capacity building with a hand-holding approach.
    - States are ranked through various indices measuring ease of doing business to SDGs.
    - NITI Aayog also releases rankings in the monthly changes in the performance of Aspirationala Districts.
    - Some of the indices launced by NITI Aayog are:
        - Composite Water Management Index
        - India Innovation Index
        - Export Competitiveness Index
        - School Education Quality Index
        - State Health Index

Fostering Localisation of SDGs

- Localization of the Sustainable Development Goals refers to how the SDGs can serve as a framework for local development policy, as well as how local and regional governments can assist the SDGs' attainment through bottom-up action, and how the SDGs can serve as a framework for local development policy.
- Local and regional governments are essential for promoting inclusive sustainable development within their territories and, therefore, are necessary partners in the implementation of the SDGs.
- Effective local governance can ensure the inclusion of a diversity of local stakeholders, thereby creating broad-based ownership, commitment and accountability.
- An integrated multi-level and multistakeholder approach is needed to promote transformative agendas at the local level.
- Strong national commitment to provide adequate legal frameworks and institutional and financial capacity is required.

Strengthening Fiscal Federalism

- Fiscal Federalism is concerned with determining which functions and tools should be centralized and which should be delegated to lower levels of government. This principle is applicable to all types of government, including unitary, federal, and confederal.
- In recent years, India's fiscal connections between the union and state governments have changed dramatically.
  - The dismantling of the Planning Commission in January 2015 and the subsequent formation of the NITI Aayog were three watershed moments in union-state budgetary relations.
  - The Goods and Services Tax (GST) was introduced into the Constitution, and the GST Council was established for the national and state governments to deliberate and make joint decisions.
- Fiscal Federalism should not only be a race to gather more resources but a creative attempt to raise India's growth rate closer to the goal of double-digit growth.
- It is critical to rethink the design and structure of a meaningful fiscal partnership.
- Economic slowdowns must be seen anecdotally because they are transient in nature and cannot distort India's vision, both in terms of its potential and historical responsibilities.
- Only by recasting the ideology in a more current context will practice become more visible, and India will profit from the alignment of its precepts and practices.
- The Union Budget stated that in 2022-23, in accordance with the recommendations of the 15th Finance Commission, States will be allowed a fiscal deficit of 4.0% of GSDP of which 0.5% will be tied to power sector reforms.
- The Budget seeks to provide an equal treatment to Central and State Government employees with an increased tax deduction limit from 10% to 14% on the employer's contribution to the National Pension System account of the State Government employees.
- The Central Government's financial support for mass transit project and AMRUT scheme will be leveraged for formulation of action plans and their implementation of facilitating TOD and TPS by the states.

- A new scheme, the Prime Minister’s Development Initiative for North East (PM-DevINE) was announced to be launched with an initial allocation of Rs. 1500 crore. This scheme will fund infrastructure, in the spirit of PM GatiShakti and social development projects based on felt needs of the northeast.

Conclusion

- The Budget 2022-23 is a continuation of a series of reforms, policies and measures that have strengthened India’s federal system.
- The increased capital expenditure on infrastructure will enhance economic activity across the nation.
- Fiscal federalism, combined with cooperative and competitive federalism will lead India into the post-pandemic era of rapid and equitable growth, improvement in the people’s ease of living and environmental sustainability.

Tax Proposals

Direct Tax Proposals:

- Updated Returns:
    - The budget proposes a new provision permitting taxpayers to file an Updated Return on payment of additional tax.
    - This updated return can be filed within two years from the end of the relevant assessment year.
- Startups and New Manufacturing Units:
    - The government has extended the required time period for the establishment of their businesses to enable them to avail these benefits.
    - The tax regime for such entities is extremely friendly and provides a rate of 15% corporate tax.
- Concessions to IFSC:
    - Measures have been proposed in the budget to allow the income of a non-resident from offshore derivative instruments or over the counter derivatives issued by an offshore banking unit, income from royalty, and interest on account of lease of ship and income received from portfolio

management services in International Financial Services Centre (IFSC) to be exempt from tax subject to specified conditions.

- Taxation of Virtual Digital Assets:
  - For the taxation of virtual digital assets, the budget provides that any income from the transfer of any virtual digital asset shall be taxed at the rate of 30 per cent.
  - Further, loss from the transfer of virtual digital assets cannot be set off against any other income.
  - A Tax Deducted at Source (TDS) at the rate of 1% on the payment made in relation to the sale of a virtual digital asset above a prescribed monetary threshold has also been provided.
- Provisions to avoid repeated litigation:
  - It has been provided in the Budget that if an issue in the case of a taxpayer involves a certain question of interpretation of the laws which is identical to any other similar issue, which is pending in appeal before the jurisdictional High Court or the Supreme Court in the case of any other assesse, the filing of further appeal in the case of that taxpayer shall be deferred till such issue is decided by the jurisdictional High Court or the Supreme Court.
- Classification of Cess
  - It has been clarified that any surcharge or cess on income and profits is not allowable as business expenditure and should be included in the income to be taxed.
- Expansion of Bonus and Dividend Stripping Provisions
  - Bonus stripping refers to a scenario where a taxpayer purchases securities prior to the record date, i.e., the date on which the company announced to a lot bonus securities.
  - Dividend stripping refers to a similar situation where a person buys securities shortly before the record date fixed for declaration of dividends and sells the same shortly after the record date.
  - Provisions already exist to prevent bonus and dividend stripping in the case of units of mutual funds. This is now proposed to be amended by the Budget 2022 to include a broader variety of units namely, units of Infrastructure Investment Trust (InvIT) or Real Estate Investment Trust (REIT) or Alternative Investment Funds (AIFs) apart from securities.
- Provisions relating to Charitable Trusts
  - Amendments have been proposed the Budget to bring certainty and clarity to the relevant provisions.
- Benefits being given in the course of business

    - A new provision of TDS on payment of such benefits/prerequisites above the value of Rs. 20,000/0 has been introduced.

Indirect Taxes proposals

- Review of Customs Duty Exemptions
    - Exemptions are being withdrawn for items for which sufficient domestic capacity exists; which required omission on merit, eg.- no or very few imports have been made in certain products in the past few years; which have outlived their utility; and that have become redundant like floppy disks, pagers, etc.
- Simple Customs Tariff Regime
    - To simplify the Customs Tariff structure, a number of entries operating through stand-alone notifications would now be operated from the tariff w.e.f. 1 May 2022.
- Customs Duty Rate Changes
    - The Basic Customs Duty has been reduced in respect of some goods to decrease input costs, simplify the rate structure, correct the inverted duty structure, and promote ease of doing business.
    - BCD has been increased in respect of some goods in order to promote domestic value addition and create a level playing field for the benefit of the farmers, MSME sector, Renewable Energy Sector, and the Electronics sector.
- Changes related to capital goods sector
    - Around 350 custom duty exemptions withdrawn and 40 exemptions relating to capital goods and project imports to be gradually phased out

Sectoral Highlights

- Electronics Sector
    - A graded import duty structure has been prescribed under Phased Manufacturing Programme
    - Custom duty rates on key sub-parts of electronic items such as camera lenses, transformers, etc. has been reduced
- Textile sector

  - Duty rates in textiles shall now completely operate through customs tariff.
  - Effective tariff on upholstery and other than upholstery fabrics has been made equal.
  - The customs duty structure in textile apparel has been simplified with specific rate being eliminated in a number of items.
- Excise Duty Rate Change
  - To promote blending of petrol with ethanol and diesel with biodiesel, an additional excise duty of Rs. 2 per liter on unblended petrol and diesel is being levied with effect form 1 October 2022.

Harnessing Multiplier Effect

Introduction

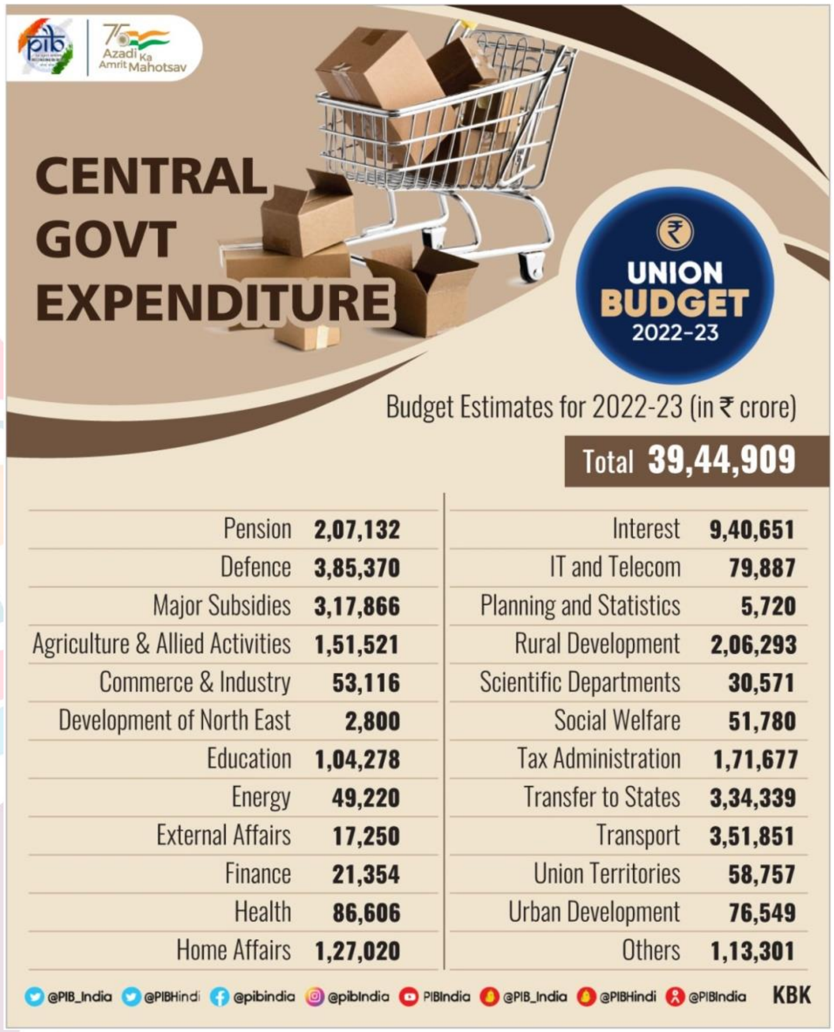
- When the government spends a rupee, overall income rises by a multiple (more than a rupee).
- Government spending will also encourage private investment and consumer spending. This is referred to as the multiplier effect.
- A massive capex support of Rs. 1 lakh crore to States through the scheme of special assistance to States for capital investment is one of the key highlights of the Finance Minister's Budget Speech 2022-23.

Capex by government and its relevance

- The money spent by the government on the acquisition and/or development of machinery, buildings, health facilities, education, and so on is known as capital expenditure.
- By adding or enhancing industrial facilities and increasing operational efficiency, capital spending creates long-term assets and helps the economy to earn money for many years.

Scheme for Special Assistance to States for Capital Expenditure, Version 1.0:

- The 'Special Assistance to States for Capital Expenditure for 2021-22' scheme was established in 2021 in anticipation of a greater multiplier effect from capital spending.
- It intends to supply the state with much-needed resources in the aftermath of the COVID-19 pandemic's second wave.
- During the financial year 2021-22, state governments will receive special assistance in the shape of a 50-year interest-free loan of up to Rs 15,000 crore under the plan.



Scheme for Special Assistance to States for Capital Expenditure, Version 2.0:

- The second version of the scheme also has three parts.
    - Part-I focuses on the North eastern and Hill States.
    - Part-III of the scheme focuses on providing incentives to the States for privatization/disinvestment of the State Public Sector Enterprises and monetization of government assets.
- The Schemes for Special Assistance to States for Capital Expenditure 2020-21 and 2021-22 have not only focused on enhancing the capacity of states to increase capital expenditure but have also stimulated reforms in the States in Identified Citizen Centric Areas.
    - One Nation One Ration Card System
    - Ease of Doing Business Reforms
    - Urban Local Body/Utility Reforms
    - Power Sector Reforms

- Reduction in AT&C Losses
- Reduction in ACS-ARR Gap
- DBT of power subsidy to farmers

Budget Provisions that have a multiplier effect

- Emphasis on public capital expenditure will have a multiplier effect on income augmentation, employment generation and, consequently, demand rejuvenation. So will credit demand. This will also “crowd in” private investment.
- The digital focus is seen from establishing a digital university to digital connectivity in the entire socio-economic fabric.
- The decision to introduce a digital version of the rupee during FY 22-23 is welcome.
- The tax on “virtual digital assets” will enable the government to earn revenue while empowering income tax authorities to break new ground in reopening closed cases.
- The expenditure programme shows a significant slide in subsidies: fertilizers by 25 per cent, food by 28 per cent and petroleum by 11 per cent, over the FY 22 revised estimates.

- The increased capex by the government is expected to increase the opportunities for the private sector to participate in myriad infrastructure initiatives.
- The real estate sector under the Pradhan Mantri Awas Yojana would see construction activities increasing under the affordable housing scheme.
- Further, multimodal logistics parks at four locations will be awarded in PPP mode and moreover, 100 cargo terminals are expected to be developed during the next three years.

Conclusion

- The Scheme has been successful not only in boosting capital investment and completion of capital projects, it has also stimulated reforms.
- 23 states carried out reforms in at least one of the identified areas.
- Two states, Kerala and Uttarakhand completed reforms in all the identified areas.
- Eleven states completed reforms in three or more areas.
- It is expected that with a massive allocation of Rs. 1 lakh crore, the third and drastically improved version of the Scheme for Special Assistance to States for Capital Expenditure 2022-23 will not only spur capital investment and economic growth but will also accelerate the movement of States on the reform path.

Bridging India Inc's Credit Gap

Introduction

- Apart from equity markets, commercial banks play an important role in ensuring the availability of adequate credit to Indian corporates.
- However, there has been a gradual shift towards market sources of debt like corporate bonds, debentures and commercial paper in recent years.
- Despite a number of enabling provisions, the corporate bond market accounts for a miniscule percentage of the entire Indian financial system.
    - The corporate debt market penetration in India is only 17% as compared to 123% in the United States, 74% in South Korea and 34% in Singapore.

Problems

- Around 98% of funds were mobilized through the private placement in 2019-20, while only a minuscule amout was raised through public placement.
- Banks are also reluctant to invest in corporate bonds as the latter are marked to market.
- Prudential norms restrict investment by financial institutions as their respective regulators mandate only a specific level of investment in corporate bonds.

Financing of investment

- Reflecting the true spirit of cooperative federalism, the Central Government enhanced the outlay for the ‘Scheme for Financial Assistance to States for Capital Investment’ from Rs 10,000 crore in the Budget Estimates to Rs 15,000 crore in the Revised Estimates for the current year.
- Moreover, for 2022-23, the allocation is Rs 1 lakh crore to assist the states in catalyzing overall investments in the economy.
- These fifty-year interest-free loans are over and above the normal borrowings allowed to the states.
- This allocation will be used for PM GatiShakti related and other productive capital investments of the states.
- Budget 2022-23 also announced that, in accordance with the recommendations of the 15th Finance Commission, the states will be allowed a fiscal deficit of 4 per cent of GSDP of which 0.5 per cent will be tied to power sector reforms, for which the conditions have already been communicated in 2021-22.

Way Forward

- Robust bond markets can fill the much needed investment gap for the infrastructure sector and reduce the burden on the banking system.
- It is crucial that a number of policy measures are taken to develop a full-fledged corporate bond market in India.
- Attempts should be made to reduce time and cost for public issuance of debt.
- A well functioning credit default swap market is also one of the pre-requisites for a vibrant corporate bond market

- Capital gains tax on debt products should be reduced and brought at par with equity products to increase retail investments.
- Tax incentives may also be extended to Foreign Portfolio Investors as only 20% of the existing investment limit has been utilized by them.
- Regulatory restrictions on investment by pension funds and insurance companies in corporate bonds should also be eased.
- Attempts may also be made to develop a market for securitized bonds and interest rate derivatives to boost liquidity in corporate bond markets.

Conclusion

- Against this backdrop, efforts to develop the Indian corporate bond market should be stepped up, especially in the wake of the pandemic when the production and supply chains across the world have been disrupted.
- This is an opportune moment for Indian companies to increase their manufacturing capabilities and enhance their scale of investment provided cheaper and adequate credit is made available.
- Efficient bond markets can effectively fulfill this objective.

Banking and Digital Currency

- Digital currency is any currency that's available exclusively in electronic form. Electronic versions of currency already predominate most countries' financial systems.

The Finance Minister made five major announcements in the General Budget for the FY 2022-23

- **Continuous financial support to digital payments**
    - The financial support for the digital payment ecosystem announced in the previous Budget continues in 2022-23, encouraging the adoption of digital payments.

- Promoting the digital economy, fintech and technology-enabled development is one of the primary goals of the government to attain the "Amrit Kaal" vision of India@100.

- **Digital Banking Unit**
  - Digital banking units would push ahead financial inclusion, and the banks might see improved access to liabilities pools from newer consumer sources in those geographies.

- **Core Banking Unit in Post Offices**
  - All the 1.5 lakh post offices in India are set to be connected to the core banking unit in the FY 2022-23.
  - This will enable financial inclusion and access to post office accounts through net banking, mobile banking, ATMs, and also provide online transfer of funds between post office accounts and bank accounts.

- **New Taxation System for Virtual Digital Assets**
  - Budget 2022 has provided for taxing rights by defining comprehensively the term Virtual Digital Assets (VDA) under the Income tax Act under a Chapter dealing with Tax on Special Cases, providing for a flat rate of 30 percent.
  - To ring fence the compliance circle, a withholding tax of 1 percent has been prescribed under section 194S to also enforce a tax on VDAs which are gifted.

- **Central Bank Digital Currency**
  - The budget proposal mentions that the digital rupee will be introduced by the Reserve Bank of India (RBI) in FY 2022-23.

- A central bank digital currency (CBDC) is a digital currency that would be issued and overseen by a country's central bank.
- Digital Rupee can have many uses, such as in programmable payments for subsidies and by financial institutions for quicker lending and payments.

Demographic Dividend

- The demographic dividend is the economic growth potential that results from a shifting population age structure, with a substantial portion of the population in the working-age group of 15 to 64 years, as opposed to the non-working-age population of 14 to 65 years.

Challenges to India's Demographic Dividend:

- **High unemployment rates:** India's stellar growth got derailed due to the Covid-19 pandemic which has cut jobs in the market. In recent years several employment-oriented programs run by the government have been subjected to budget cuts and halted temporarily.
- **Education system:** A mix of poor quality instructors, outdated curricula, inadequate infrastructure and time-consuming certification processes have impacted India's education system.
- **Gender and caste:** The size and diversity of India mean there are barriers ranging from language to geographical immobility. One key hurdle is social mobility, especially for women and those belonging to the oppressed castes. In both urban and rural pockets, cultural barriers and safety concerns hinder women's educational and professional development.
- **Fewer jobs:** There is a lot of information asymmetry – between job-seekers and employers, between educational institutes and job providers, between public and private sector stakeholders.

Budgetary Outlay

- **Clear directives on fund management to reach the last mile:** To truly democratize education, which the online ed and EdTech sectors can play a huge role in, streamlining investments in technology infrastructure and access to technology with a lucid framework and plan of action is utmost important.
- **Incentives and Support Infrastructure:** The Government can find the perfect allies for reaching its digital education and learning goals while accelerating and smoothening the process of policy implementation including the revamped National Education Policy (NEP). It is also suggested that the funds from the CSR initiatives can be deployed in these efforts through transparent mechanisms.
- **Investments in employability and end-to-end skilling ecosystem:** Increased investments in creating an end-to-end skilling ecosystem are much needed. It is important to build career management and self-development initiatives that drive the students in the right education and career direction to optimize their potential and improve employability in the workplace.
- **Favourable Taxation Policies**: Significantly lowering the GST for EdTech services from the existing 18 percent will mean ease of access to quality tech-based education to a larger cohort of students who will form our future workforce. They should build for the country to create a generation of students well equipped with new-age life and technical skills.
- **A sustainable framework for Teachers:** The budget has the potential to open up tremendous opportunities for students and young professionals through higher investments and a supportive policy framework that will help EdTech startups create optimal value and push the envelope for a re-invented Indian education system ready for the world.

Way Forward

- First is to undertake an updated National Transfer Accounts (NTA) assessment.
- Second is to invest more in children and adolescents, particularly in nutrition and learning during early childhood.
- Third is to make health investments. Health spending has not kept pace with India’s economic growth.

- Fourth is to make reproductive healthcare services accessible on a rights-based approach. We need to provide universal access to high-quality primary education and basic healthcare.
- Fifth, education is an enabler to bridge gender differentials. The gender inequality of education is a concern.
- Sixth, India needs to increase female workforce participation in the economy.
- Seventh, India needs to address the diversity between States. While India is a young country, the status and pace of population ageing vary among States.

Conclusion

- Swami Vivekananda said, "Arise, awake and stop not till the goal is achieved."
- This is a wakeup call for all the stakeholders to create an enabling ecosystem paving way for ample of opportunities for our youth to innovate, create and transcend the shores of their power for economic and social well-being of our country.

Modern and Profitable Agriculture

Introduction:

- Post pandemic, agriculture has emerged as the lead player in the recovery process of the national economy.
- In the Union Budget (2022-23), the agriculture sector has been given a major boost to make it more profitable, sustainable and modern with the welfare of farmers at the core.

Stepping up Allocations

- Budget 2022 seeks to envision doubling the farmers' income through a multi-pronged approach centred around access to finance, access to the marketplace and access to new-age technology and better farming practices related to organic farming, drone technology, outlined as under:

- Chemical-free Natural Farming will be promoted throughout the country, with a focus on farmers' lands in 5-km wide corridors along river Ganga, at the first stage.
- Deployment of 'Kisan Drones' to promote crop assessment, digitization of land records, spraying of insecticides, and nutrients will greatly benefit the farmers.
- Financial inclusion has been enabled through multiple levers including Rs 2.37 lakh cr direct payment of MSP value to farmers.
- A new NABARD fund to finance start-ups for agri and rural enterprises.
- Financial support to promote agroforestry, Rs 45,000 cr allocation for promoting scientific organic farming in north-east states.
- Access to the latest farming best practices to be enabled by encouraging States to revise the syllabi of agricultural universities to include organic farming and modern-day farming.
- Reduction in AMT for co-operatives will propel organized farming.

The Budget has three significant things that can prove to be beneficial for the sector:

- Firstly, unlike the department of agriculture, the allied sectors have witnessed an increase in their allocations.
- Second, oilseed production is given a significant emphasis with an aim to reduce the dependency on oil import, which currently accounts for 52 per cent of consumption.

Problems with the Allocations

- Firstly, the expenditure on agricultural research has been kept unchanged implying a decline in real terms.
    - Its share in agriculture GDP is much higher in Brazil (1.8 per cent), Mexico (1.05 per cent), Malaysia (0.99 per cent), China (0.62 per cent) and in the high-income countries at 3.01 per cent.
- Second, the zeal with which the Finance Minister pushed for Farmer Producer Organizations (FPOs) in her last two Budget speeches seems to be waning.

- Third, the over-emphasis on chemical-free and zero-budget agriculture can pose a challenge to ensure the long-term food and nutrition security of the country.
- Fourth, the Budget is silent on agricultural marketing-related reforms and broader agriculture reforms have taken a back seat, probably owing to the farmer protests.
- Fifth, climate change is also posing a serious challenge to sustainable agricultural growth and massive investments are required to make our farm sector climate-resilient.