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Sops for urban middle class in Pranab’s budget

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Massive fiscal stimulus and rural spending programme envisaged

NEW DELHI: Taking off from where he left off in his interim budgetary exercise for 2009-10, Finance Minister Pranab Mukherjee on Monday sought to inject an adequate dose of sops for the urban middle class and blend it with a massive fiscal stimulus and rural spending programme to spur the country’s economic growth on to a higher trajectory.

Presenting the UPA government’s first full budget in the Lok Sabha after the elections, Mr. Mukherjee chose to please the salaried middle class, farmers and others in rural areas by providing incentives — even at the expense of foregone revenue and a higher fiscal deficit at 6.8 per cent — as a trade-off to combat the slowdown in the wake of the global financial crisis.

While raising the basic personal tax exemption limit marginally by Rs. 10,000, abolishing the 10 per cent surcharge on higher income and abolishing the Fringe Benefit Tax (FBT), he left the corporate taxes untouched. For the rural package, he proposed massive spending on various programmes in keeping the Congress’ poll promises by way of providing cheaper food for the poor, a guaranteed minimum Rs. 100 a day for rural employment, massive allocations for infrastructure, farm and social sector schemes aimed at achieving a GDP growth of at least 9 per cent.

Even as the Finance Minister raised the personal tax exemption by Rs. 10,000 and by Rs. 15,000 for senior citizens (above 65 years), he sought to raise the Minimum Alternate Tax (MAT) on corporates from 10 per cent to 15 per cent. He also did away with the Commodities

Transaction Tax which was introduced last year but not notified. Alongside, he promised to simplify tax returns by coming out with a direct taxes code within 45 days for discussion to introduce a bill in the winter session of Parliament. Changes in direct taxes are revenue neutral.

Break from the past

While tinkering with certain customs and excise duties, Mr. Mukherjee, in a break from the past, brought legal consultancy services under the service tax net although there is no change in the basic customs, excise and service tax rates. Changes in indirect taxes are estimated to fetch Rs. 2,000 crore as additional revenue while the direct tax changes would be revenue neutral.

Mr. Mukherjee also announced a string of measures — both short term and medium term — to spur the economy and at the same time bring the fiscal deficit in line with the FRBM Act at the earliest. Without mentioning any specific targets for public sector disinvestment, Mr. Mukherjee has estimated a mop-up of over Rs 1,100 crore during the current fiscal.

As per the budget provisions, the government is set to retain control in its banks and insurance entities while not allowing its stake to go below 51 per cent in other entities and set in motion a mechanism to bring petro-fuel prices in line with global level.

Though concerned that the fiscal deficit would shoot up to 6.8 per cent this year from 2.7 per cent last year on account of three stimulus packages, Mr. Mukherjee said efforts would be made to set it right immediately after the effects of the global slowdown are taken care of.

The implementation of the Sixth Pay Commission recommendations, a massive interest outgo of over Rs. three lakh crore, a huge outlay of Rs 1.41 lakh crore and subsdies of Rs. 1.11 lakh crore would take the non-plan expenditure to Rs. 6.97 lakh crore, reflecting a growth of about 37 per cent.

The budget provides for a total expenditure of Rs. 10,20,838 crore, including Rs. 3,25,149 crore towards plan expenditure, reflecting an overall growth of 36 per cent over the previous year. This is for the first time that the total expenditure has crossed the Rs. 10 lakh crore mark.

The budget figures show gross tax receipts estimated at Rs 6.41 lakh crore, compared to Rs. 6.87 lakh crore. Despite the possibility of a continued economic downturn during the year, Mr. Mukherjee maintained that the two worst quarters for the economy due to global crisis were behind.

Market borrowings

Owing to revenue gaps, the government will have to rely heavily on market borrowings estimated at Rs. 4 lakh crore, a figure that is substantially more than the allocation for planned investment. Consequently, the fiscal deficit would be three times higher at Rs. 4.09 lakh crore compared to Rs. 1.33 lakh crore in the revised estimates for 2008-09.

While providing a massive outlay for social sector and rural development to the tune of over Rs. 71,000 crore including Rs. 39,100 crore for flagship employment scheme NREGA, Mr. Mukherjee said farmers, who have paid their overdues, will get loans at a subsidised 6 per cent interest rate for which he made an additional provision of over Rs. 440 crore.