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FINZETTE

Financial Gazette

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Budget 2022 Analysis

The Union budget for the financial year beginning April 2022 was presented by Finance Minister Nirmala Sitharaman on Tuesday.



5th february 2022

Some Major Policies

A main focus on infrastructure :

The focus was on infrastructure as expected, with **an increase of 35% in Capex allocation** by the government, taking it to Rs. 7.5 lakh crores. This translates to roughly 3% of the GDP making it the highest ever in wake of a mission towards speedy and sustained economic revival. The sector also boasts a high multiplier which will be crucial in creating employment opportunities, inducing enhanced demand for manufactured inputs from large industries and MSMEs, services from professionals, and helping farmers through better agri-infrastructure.










Personal tax front

The basic tax slabs remain the same with a **new provision** to file an **updated return** in case of incorrect estimation of tax payments. This will be possible **within 2 years** from the assessment year.

Digital assets:

These are set to be **taxed at 30% on any gains** made after years of being completely unregulated, including a lack of even a description for how the government perceived cryptocurrencies like Bitcoin or Ether. This declaration represents a definitive direction on such trading and further changes to the framework are also in the works.

Ministry-wise allocation (In rupees)

Defence 	525.2K
Consumer Affairs, Food & Public Distribution 	217.7K
Road Transport & Highways 	199.1K
Home Affairs 	185.8K
Railways 	140.4K
Rural Development 	138.2K
Agriculture 	132.5K
Chemicals & Fertilisers 	107.7K
Communications 	105.4K

5G Spectrum auction:

A 5G auction will be carried out by the government this year to facilitate a 5G rollout by operators in the FY 2022-23. The goal is also to promote the telecom sector's growth and provide increased job opportunities in the country. A Project to layout optic fiber cables will also be undertaken by the government to boost rural connectivity under the BharatNet Project.

Key Pointers Missed In The Budget

PM Gati Shakti:

The PM Gati Shakti National Master plan is a transformative approach for economic growth with 7 fronts - roads, railways, airports, ports, mass transport, waterways, and logistics infrastructure - all of which will aid in pulling forward the economy in unison.

Under this plan, **100 cargo terminals** are scheduled to be built in the next 3 years to facilitate an integrated and seamless connectivity for the movement of people, goods, and services from one point to another. This multi-modal connectivity will also reduce travel time for people and is based on 6 Key pillars - Comprehensiveness, Prioritization, Optimization, Synchronisation, Analytical, and Dynamism to achieve such goals.

The Budget made no attempt to put additional money in the hands of the poor and middle class, who are suffering from the economic and other repercussions of the epidemic - for example, by providing tax breaks to the middle class or direct income support to the poor. The vulnerable populace in informal employment and the middle-income group, who have borne the brunt of the epidemic, require direct and indirect assistance from the government and banking in the shape of a social safety net and income support.

There were talks about an urban version of the MGNREGS but nothing of that sort was proposed this time. Additionally, with the surging tax revenues, the government could also have cut the high excise duty on petrol and diesel to provide relief to the common people.

On a Fast Track

Budget adds **400** more Vande Bharat **trains**

100
PM Gati
Shakti cargo
terminals in
three years

2,000 km
of network to be brought
under Kavach

Multi-modal
connectivity to
be prioritised

One Station-One Product
concept to boost local economy



Allocation up
27.5% to
₹140,367.13 crore

Operating ratio pegged at
96.98%

Benefits For Corporates

Capex push to boost Growth:

The **35 percent rise** in capital expenditure, combined with the Rs. 1 trillion in Capex investment support offered to states, is likely to boost growth significantly. This will improve revenue development potential, particularly for companies that deal largely with infrastructure.

Ease of Doing business:

The government has made a major effort in recent years to increase the simplicity with which a corporation can be conducted, eliminating 1,486 rules and requiring over 25,000 compliances. This phase will see the **digitization of processes and interventions**, as well as the integration of central and state-level systems **via IT bridges**, as well as the standardization and elimination of overlapping compliances.

Sustainable development:

Increased allocation for local **solar module manufacture**, encouraging private sectors to build sustainable and innovative business models, and mobilizing funds through sovereign green bonds are among the initiatives proposed by the finance minister. This is expected to enhance the renewable energy and electric car sectors, in keeping with India's COP26 pledges.

Liquidity support to MSMEs:

As we know, MSMEs were hardest hit by COVID and the lockdowns. Perceiving the current situation, The Emergency Credit Line Guarantee Scheme (ECLGS), under which more than 13 million MSMEs have availed extra credit, will be extended up to March 2023, and its guarantee cover will be expanded by Rs.50,000 crore, to a total cover of Rs.5 trillion. The additional liquidity support will provide a **much-needed boost** to corporate India's growth ambitions, considering the fact that MSMEs play a significant role in the economy and corporate supply chains.



Benefits For Common People

Constant Tax Rates:

The latest issue of the budget made **no changes in tax slabs** or taxes on investment income, despite the widespread fears about the imposition of wealth tax or inheritance tax. Also, neither the long-term nor the short-term capital gains tax have been changed. However, the budget has capped the surcharge on long-term capital gains tax on unlisted shares at 15%, matching the tax on listed shares.

NPS Relief:

The center increased the tax exemption on employer contribution to the National Pension System (NPS) for state government employees **from 10% to 14%** of basic salary plus dearness allowance which brings uniformity between central and state government employees. However, for private-sector employees, the deduction is still restricted to 10%.

Crypto Clarity:

All "virtual digital assets" would be **taxed at 30%** on trading and investment gains, thus legalizing the trading of private cryptocurrencies and non-fungible tokens, according to the budget. On the transfer of such assets, it has additionally levied a 1% tax deduction at source (TDS). This is in keeping with the Centre's intentions for a fiat digital currency that prohibits the use of private virtual coins as legal money.



Analysing The Situation

The Union Budget 2022-23, dubbed "**growth-oriented**," infused optimism into Dalal Street, and stock market trading concluded on a high note after the budget was tabled. The promise of a 35 percent increase in capital spending was the budget's distinguishing element. Recovery from the epidemic necessitated a significant commitment to growth, which appears to have been made in the budget. With **a rise to infrastructure expenditures**, increased capital expenditure is projected to **address India's delayed structural transformation** and the real risk of a middle-income trap, driving out private investment.

Direct tax breaks, which may encourage consumption, were also not included in the budget. Given India's stagflationary economy, the budget might have taxed the wealthy while offering some assistance to the middle class. The budget has failed to do so. While the taxation of digital assets has helped to tax wealth, it is still a small step forward.

To compensate for the revenue loss from the tax relief offered to the middle class, the budget might have reinstated the wealth tax or modified the surcharge on the super-rich.

The government has also made several efforts to improve logistics, increase digitalization, and improve ease of doing business through the promotion of the "Gati Shakti", all of which will pave the path for structural transformation by increasing the productive efficiency of physical and human capital in manufacturing. These steps will be in addition to the capital spending pledged in the budget.

Finally, while the budget gives the impression that it has addressed the most pressing economic issues, there are concerns about the magnitude of budget commitments and the kind of remedies offered to address these issues. Finally, the proof of the pudding is in the budget's effective execution and the results that such implementation will provide.

