A look at the Unique Budget 2017

The current Budget is unique in many respects. It is the first time the presentation of budget is advanced to the first of February so that it is passed well in time to march well ahead of the commencement of the next financial year with all its attended benefits. The other unique feature of the Budget is that a separate rail budget for railways is dispensed with by integrating with the main budget so that Railways not only fall in line with other ministries but also could well concentrate on its main task of improving and upgrading the railways. The next one is that it is presented immediately after the Demonetization that was unleashed on 8th October amidst acrimonious reactions mainly from the political class but without any visible clue. For the first time, significant steps are announced in the Budget itself to clean up political funding but we may have to await reactions from the political class. It is a budget that may encourage digital economy that may help to arrest black money economy to the extent.

Tax Vis Duty:

Budget covers the allocations for various departments including Railways for the first time this year with necessary provisions of financing various projects with necessary earmarking to the states. In this article, income tax related issues are considered. Budget deals with both' taxes and duties' that are primary fund raisers for the government kitty. 'Tax' is normally taxing-burdensome, while on the other hand 'duty' is an obligation, task and responsibility. There are so many taxes like purchase tax, sales tax, presently, value added tax, wealth tax, service tax etc. Besides, it also covers customs duty - import duty and export duty; besides excise duty. One more duty named estate duty that is taken away from the statue book a long time before on the ground that it was neither viable nor economical to administer.

Though both taxes and duties for a simple look are various sources for revenue, they is a - subtle difference - unlike in the case of taxes where there are collected at the time of transfer of property, in the case of custom duty-import and export duties, they are primarily imposed rather levied to regulate and take care of the local industries and their interests - to promote exports and encourage local productions by properly leveraging the said duties rather than as taxing mechanism. In the case of excise duty, it is levied on the manufacture, though money spinning is an attended effect. In other words, the said levies are the duties cast on the government to take care of domestic industries interest from competition from across.

Direct Tax a different approach- industry:

Coming to the tax regime, it should have **'target'** to achieve and not tentative; should **'accelerate'** economic growth for public good and should have **'X'** factors to generate enthusiasm among the people at large to move forward.

Coming to the Direct tax, there should be a different approach - between individuals and business income. Industrial growth is the need of the hour. Any industrial development increases production level, employment benefits, exports, infrastructural and social developments multiply and as a consequent revenue collections increase. Therefore, there is a case to have lower level of taxation if the country has to compete with other nations more so in the various manufacturing sectors.

The Budget has moved in the correct direction but only in limited way- companies having a turnover less than Rs.50 crores will now pay effective tax rate of 28.84% as against existing 34.6%. This may facilitate additional liquidity for small and medium entities. It may also marginally increase employment potential but, what about exports? It is understandable, owing to constraint; it is not extended to all industries but there is a definite case, in fact, an urgent need to extend in the immediate future across companies so that our country can compete particularly in export front with China with eased cost.

Provisions of MAT are proposed to be rationalized in line with Ind. AS regime. Further, the extension of carry forward facilities to 15 years from 10 years for utilization of MAT credits is welcome move. The directors' fees is going to be outside the ambit of Domestic transfer pricing that will facilitate ease of doing business by putting full stop for avoidable litigations.

Provisions to ease the tax holiday regime may help start-ups.

But, there are needles that instead of stitching the tax regime, may prick- say in the case of unlisted shares purchased on or after 1/4/2004 but listed thereafter may end up in paying in certain situations that may be revisited for doing business with ease.

Direct Tax a different approach - Individuals:

Capacity to pay is the dictum in the tax regime for individuals. One cannot equate a person with an income of Rs. 10 lakhs with individuals earning in crores. The Present budget brought in a lowest rate of 5%for income up to Rs.5 lakhs. The initial exemption level is increased from Rs. 2.5 lakhs to Rs.3 Lakhs conferring a tax benefit of Rs. 12500 - a welcome step.

Again, a surcharge has been levied at 10% on income beyond Rs.50 lakhs to one crores and thereafter surcharge of 15% continues. To that extent, it is a welcome step Why not thereafter? A fear complex has set in for the government where ethics demand an accelerated surcharge especially when income level at the higher end - sky rocketing. This fear psychosis should end and people getting beyond Rs. 5 crores and more should be on a different footing. The surcharge can be increased progressively upto 50% (effective rate 45%) at least for people at higher end so that level playing is achieved or seemingly delivered. If the government cannot summon sufficient courage in this respect, it should go with a scheme that for individuals coming under 20% or more surcharge, the said individuals can be encouraged to donate for certain welfare schemes for the value of surcharge beyond 15% it will cut the ice properly

Another welcome feature in the context of computing Long term Capital Gain of Immovable property being land or building or both is as to the Period of holding that has been reduced from 36 months to 24 months. Base year for calculation of Indexed Cost of Acquisition has been changed to 1/4/2001 from 1/4/1981- a welcome step to bring near to the reality. If professionals, salaried employees and small businessman pay rent more than Rs. 50000 per month they will have to deduct TDS @5%.- a welcome step to pluck the loophole.

Dividend Tax:

Mr. Chidambaram in his earlier tenure as finance minister has made dividend in the hands of the receiver as tax-free making a mockery of level laying traits of direct taxation but, has substituted with a dividend tax under the guise of double taxation. Why the company is to bear for the shareholders? That money may help in paying more dividend or ploughed back to facilitate liquidity. What is the consequent? These rich shareholders, primarily promoters holding a lion’s share of shares are the undue beneficiaries. In the previous budget, it was addressed in a limited way-receivers of dividend beyond Rs. 10 lakhs are also taxed at 10%. In this year budget, promoters holding through a private trust are also brought under the net, if the dividend crosses Rs. 10 lakhs - A welcome move for level playing but we have to wait to see how they circumvent. What’s the way out? Revert back to the old regime. Remove the dividend tax in the hands of the company. Why company has to bear the dividend Tax? Give tax exemption for dividend in the hands of the receiver for a specified amount- say, a lakh or around and beyond that will be taxed at the applicable rate to the individuals. With Aadhar card and PAN card link, it would not be difficult to trace in today’s internet world. Though it may be difficult to go for this approach, the suggestion may be revisited for level playing.

Case for the revival of defunct Estate Duty:

But, estate duty is on a different trailer. The duties mentioned above cannot well fit in with defunct estate duty since the latter relates to’ personal domain’. Even though it is defunct, there is still an avid case for revival. A personal tax regime is more dictated by capacity to pay -a command of one of the primary cannons of taxation. It should not have been done away from the statue book only on administrative convenience. It is the value of estate bequeathed on the death of a person and therefore, ethics demand that it is the ordained ‘duty’ of the successors to share something to the public since devolved on them without their much of labour and therefore, estate duty may be construed as parting ‘Dhan’ in respect of departed soul and hence there is a case for revival of estate duty in the statute book. It is the dictate of justice delivery than a mechanism of revenue. If necessary, the exempt limit can be suitably fixed.

For senior citizens, there is nothing particular and special. Government should address this keeping in view the present day scenario.

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