



Budget 2020: Key Points

Jyotivardhan Jaipuria

jyoti.jaipuria@valentisadvisors.com



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Budget 2020 - Non-event for market

Our long standing view is that budgets in India are no longer market moving events given that lot of reforms happen outside the budget and the tax changes are relatively minor compared to a decade ago. This budget too was no different and we think it is unlikely to be a major market moving event. The adverse market reaction was partly led by weakness in the USA markets and a sharp rally in markets ahead of the budget presentation.

Markets in India have been moving in line with global trends. A more positive budget may have helped us withstand any negative global trends. Given the budget was more of a non event, we think any decoupling of our markets with global trends will have to wait for more signs of revival in the economy. We of course see some signs that the economy is bottoming out and expect a gradual recovery in FY21.

Some key points on the budget:

1. Fiscal stimulus vs fiscal consolidation: We were firm believers that fiscal policy has to be counter cyclical and to that extent welcome the higher fiscal deficit. The good thing is that the budget has provided for a sharp 18% increase in capital expenditure in the budget. This would help the economy. Secondly given we are in a slow-down, revenue forecasts are not very aggressive and hence there is greater probability of meeting the forecasts.

2. Income tax cuts given the removal of exemptions are probably no cuts: One criticism of the budget was that it did not seem to even address that we are in a slow down which needs to be reversed except from going in for a higher fiscal deficit. The cut in income tax is not like a cut since we see very few individuals opting for the next regime (see Table 5). Secondly, contrary to the intention of simplifying the tax laws, there are too many tweaks to the tax laws. Also, the number of tax slabs now are too high and does not help the simplification process.

3. Dividend distribution tax will probably lead to higher taxes for most individuals. While the market had been pushing for abolition of DDT, we had been very sceptical about the benefit of this. The DDT removal helps the very small investor and foreign investors who do not get a tax credit of DDT in their home country. However, for larger investors it will mean more taxation (see Table 6).

4. Big onus on disinvestment: The budget has put a large onus on disinvestment of Rs2.1 lakh crores to meet its fiscal deficit target. The Government will need to be aggressive in its strategic sake of PSUs. If this is the case, it would be positive. The Government is also banking on an IPO of LIC.



5. Life insurance companies, real estate to feel heat of new income tax regime: We support the Government's move to simplify the income tax policy by removing exemptions and lowering tax rates. However, in this phase where real estate is under stress, the Government has hurt the sector which needed maximum relief. The other sector which will get hurt is the life insurance sector. Mutual fund ELSS schemes will also get hurt. Of course our view is that very few investors will opt for the new tax regime immediately. So the hit may be low. But we believe in a few years we will move mandatorily move to the new system.

6. Tax concession for Sovereign wealth fund for infrastructure is a positive: 100% tax exemption on interest, dividend and capital gains income for Sovereign Wealth Funds in respect of investment made in infrastructure and other notified sectors before 31st March, 2024 and with a minimum lock-in period of 3 years



Table 1: Budget at a Glance (Rs. Crore)

Particulars	2018-19	2019-20	2019-20	2020-21	BEFY20	REFY20	BE21
	Actuals	Budget Estimates	Revised Estimates	Budget Estimates	vs Actuals	vs Actuals	vs RE20
1. Revenue Receipts	1552916	1962761	1850100	2020926	26.4%	19.1%	9.2%
2. Tax Revenue (Net to Centre)	1317211	1649582	1504587	1635909	25.2%	14.2%	8.7%
3. Non Tax Revenue	235705	313179	345513	385017	32.9%	46.6%	11.4%
4. Capital Receipts ¹	762197	823588	848450	1021304	8.1%	11.3%	20.4%
5. Recovery of Loans	18052	14828	16604	14967	-17.9%	-8.0%	-9.9%
6. Other Receipts	94727	105000	65000	210000	10.8%	-31.4%	223.1%
7. Borrowings and Other Liabilities ²	649418	703761	766846	796337	8.4%	18.1%	3.8%
8. Total Receipts (1+4)	2315113	2786349	2698551	3042230	20.4%	16.6%	12.7%
9. Total Expenditure (10+13)	2315113	2786349	2698552	3042230	20.4%	16.6%	12.7%
10. On Revenue Account of which	2007399	2447780	2349645	2630145	21.9%	17.0%	11.9%
11. Interest Payments	582648	660471	625105	708203	13.4%	7.3%	13.3%
12. Grants in Aid for creation of capital assets	191781	207333	191737	206500	8.1%	0.0%	7.7%
13. On Capital Account	307714	338569	348907	412085	10.0%	13.4%	18.1%
14. Revenue Deficit (10-1)	454483	485019	499545	609219	6.7%	9.9%	22.0%
	-2.4	-2.3	-2.4	-2.7	(10)bps	0 bps	30 bps
15. Effective Revenue Deficit (14-12)	262702	277686	307808	402719	5.7%	17.2%	30.8%
	-1.4	-1.3	-1.5	-1.8	(10)bps	10 bps	30 bps
16. Fiscal Deficit [9-(1+5+6)]	649418	703760	766848	796337	8.4%	18.1%	3.8%
	-3.4	-3.3	-3.8	-3.5	(10)bps	40 bps	(30)bps
17. Primary Deficit (16-11)	66770	43289	141743	88134	-35.2%	112.3%	-37.8%
	-0.4	-0.2	-0.7	-0.4	(20)bps	30 bps	(30)bps

¹ Excluding receipts under Market Stabilisation Scheme

² Includes drawdown of Cash Balance

Notes:

(i) GDP for BE 2020-2021 has been projected at Rs.22489420 crore assuming 10% growth over the estimated GDP of Rs.20442233 crore for 2019-20 (RE).

(ii) Individual items in this document may not sum up to the totals due to rounding off

(iii) Figures in parenthesis are as a percentage of GDP



Table 2: Receipts (Rs. Crore)

	2018-19	2019-20	2019-20	2020-21	BEFY20	REFY20	BE21 vs
	Actuals	Budget Estimates	Revised Estimates	Budget Estimates	vs Actuals	vs Actuals	RE20
REVENUE RECEIPTS							
1. Tax Revenue							
Gross Tax Revenue	2080465	2461195	2163423	2423020	18.3%	4.0%	12.0%
a. Corporation Tax	663572	766000	610500	681000	15.4%	-8.0%	11.5%
b. Taxes on Income	473003	569000	559500	638000	20.3%	18.3%	14.0%
c. Wealth Tax	41			
d. Customs	117813	155904	125000	138000	32.3%	6.1%	10.4%
e. Union Excise Duties	231982	300000	248012	267000	29.3%	6.9%	7.7%
f. Service Tax	6904	..	1200	1020		-82.6%	-15.0%
g. GST	581560	663343	612327	690500	14.1%	5.3%	12.8%
-CGST	457535	526000	514000	580000	15.0%	12.3%	12.8%
-IGST	28945	28000	-3.3%		
-GST Compensation Cess	95081	109343	98327	110500	15.0%	3.4%	12.4%
h. Taxes of Union Territories	5592	6948	6884	7500	24.2%	23.1%	8.9%
Less - NCCD transferred to the NCCF/NDRF	1800	2480	2790	2930	37.8%	55.0%	5.0%
Less - State's share	761455	809133	656046	784181	6.3%	-13.8%	19.5%
1a Centre's Net Tax Revenue	1317211	1649582	1504587	1635909	25.2%	14.2%	8.7%
2. Non-Tax Revenue							
Interest receipts	12145	13711	11027	11042	12.9%	-9.2%	0.1%
Dividends and Profits	113420	163529	199893	155395	44.2%	76.2%	-22.3%
External Grants	1063	1006	974	812	-5.4%	-8.4%	-16.6%
Other Non Tax Revenue	107187	132784	131525	215465	23.9%	22.7%	63.8%
Receipts of Union Territories	1890	2149	2094	2303	13.7%	10.8%	10.0%
Total- Revenue Receipts (1a+2)	1552916	1962761	1850100	2020926	26.4%	19.1%	9.2%
3. CAPITAL RECEIPTS							
A. Non-debt Receipts							
(i) Recoveries of loans and advances@	18052	14828	16604	14967	-17.9%	-8.0%	-9.9%
(ii) Miscellaneous Capital Receipts	94727	105000	65000	210000	10.8%	-31.4%	223.1%
B. Debt Receipts*	650739	652702	766846	849340	0.3%	17.8%	10.8%
Total Capital Receipts (A+B)	763518	772529	848450	1074306	1.2%	11.1%	26.6%
4. Draw-Down of Cash							
Balance	-1321	51059		-53003		-100.0%	
Total Receipts (1a+2+3)	2316434	2735290	2698551	3095233	18.1%	16.5%	14.7%

* The receipts are net of payment.

@ Excludes recoveries of short term loans and advances from States, loans to Government servants, etc..



Table 3: Deficit Statistics (Rs. Crore)

	2018-19	2019-20	2019-20	2020-21
	Actuals	Budget Estimates	Revised Estimates	Budget Estimates
1. Fiscal Deficit	649418	703760	766846	796337
	-3.4	-3.3	-3.8	-3.5
2. Revenue Deficit	454483	485019	499544	609219
	-2.4	-2.3	-2.4	-2.7
3. Effective Revenue Deficit	262702	277686	307807	402719
	-1.4	-1.3	-1.5	-1.8
4. Primary Deficit	66770	43289	141741	88134
	-0.4	-0.2	-0.7	-0.4

Note: Figures in parenthesis are as a percentage of GDP

Table 4: Sources of Financing Fiscal Deficit (Rs. Crore)

	2018-19	2019-20	2019-20	2020-21
	Actuals	Budget Estimates	Revised Estimates	Budget Estimates
1. Debt Receipts (Net)				
2. Market Borrowings (G-Sec + T Bills)	430164	448122	498972	535870
3. Securities Against Small Savings	125000	130000	240000	240000
4. State Provident Funds	16059	18000	18000	18000
5. Other Receipts (Internal Debt and Public Account)	73997	59532	4941	50849
6. External Debt	5519	(-)2952	4933	4622
7. Draw Down of Cash Balance	(-)1321	51059	...	(-)53003
8. Grand Total	649418	703760	766846	796337



Table 5: Break even of old and new Income tax regime

Description	Old tax regime		New tax regime	
Gross Income	1,000,000	1,500,000	1,000,000	1,500,000
Deduction				
80C	150,000	150,000	No Deduction	No Deduction
80D	50,000	50,000		
Housing Loan Interest/ Other deductions	50,000	91,667		
Break even total deduction	250,000	291,667		
Net Income	750,000	1,208,333	1,000,000	1,500,000
Tax Payable (excluding Health & Edu. cess)	62,500	175,000	62,500	175,000

Note: The above 80C, 80D and Int. on housing loan are just example for calculation purpose and can be replaced by any other deduction also.

Table 6: Dividend tax old and new regime

Description	DDT Regime			No DDT Regime		
	Income between Rs.7.5 Lakh - Rs.10 Lakh	Income between Rs.10lakh - 50 Lakh	Income more than 5 cr.	Income between Rs.7.5 Lakh - Rs.10 Lakh	Income between Rs.10lakh - 50 Lakh	Income more than 5 cr.
Dividend Distributable per share	100.00	100.00	100.00	100.00	100.00	100.00
DDT @ 20.56%	17.05	17.05	17.05	0.00	0.00	0.00
Dividend distributed to shareholder	82.95	82.95	82.95	100.00	100.00	100.00
Income tax paid by shareholder	0.00	8.63	11.82	15.60	31.20	42.74
Dividend received net of tax	82.95	74.32	71.13	84.40	68.80	57.26

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Valentis Advisors Private Limited

+91-22-67470251

pms@valentisadvisors.com