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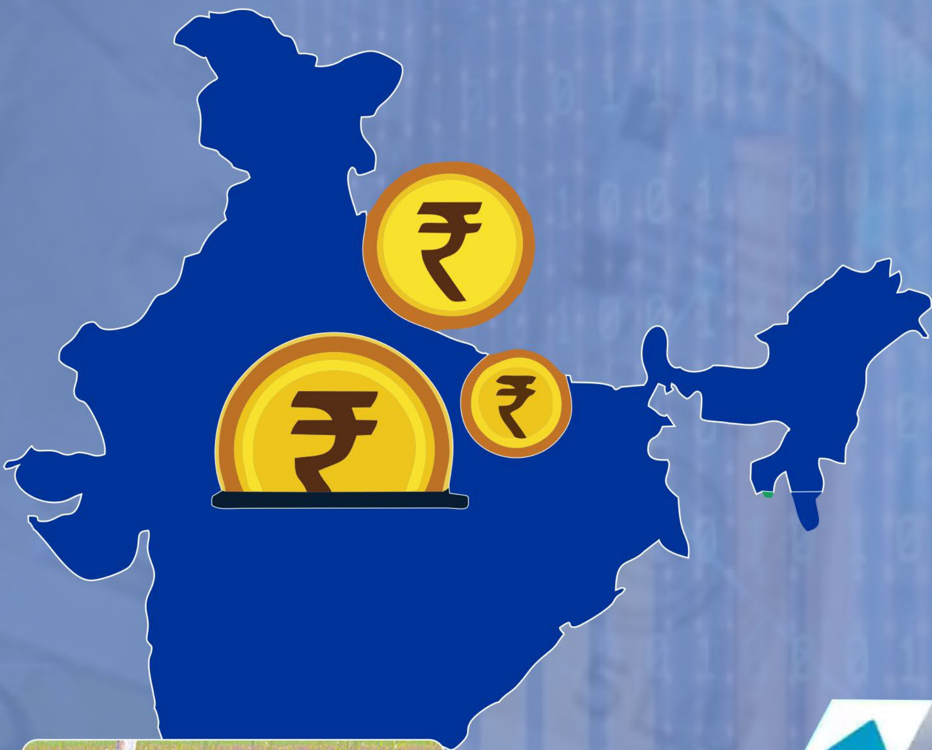
Union Budget 2024-25 Preview



The final Union Budget for 2024-25 will be presented by the newly elected NDA Government on July 23, 2024. The interim budget had already been presented in February 2024 before the general elections. While almost every stakeholder in the economy expects specific measures for their sector or group, we believe that the upcoming budget will largely continue the economic policies pursued over the last decade, with some tweaks to keep India on the path to becoming a developed nation by 2047.

The government intends to maintain its current policies, focusing on stability and predictability in economic governance. Key priorities include continuing capital spending to stimulate growth, ensuring prudent financial management, and creating jobs. Industry and financial institutions, during pre-budget consultations with the finance minister, recommended increased capital expenditure, improved ease of doing business, and a stable long-term tax regime.

Crucial elements of the budget will include discussions around capital expenditure, the 'Make in India' initiative, and a push for green energy. These areas are likely to be highlighted to showcase the government's commitment to fostering economic growth while simultaneously addressing environmental concerns. By emphasizing these aspects, the government aims to generate positive sentiment among the public and investors.

Despite the inclination towards policy continuity, there is an acknowledgment of the need to stimulate demand in both rural and urban areas. As a result, the budget might unveil certain incentives or modifications in tax slabs. These measures are intended to revitalize economic activity, especially in rural sectors. The government is likely to strike a balance between maintaining fiscal discipline and implementing measures to boost economic growth.

Key Focus areas to watch out in Union Budget 2024-25

- We expect the government to strike a good balance between fiscal consolidation, growth and rural welfare schemes.
- Given the Indian economy's resilience, the focus would remain on quality spending by increasing the outlay for capex to sustain healthy growth. The government may increase capital expenditure outlay which proposed in interim budget of Rs.11,11,111 crore for 2024-25.
- Continuation of existing policy framework through PLI schemes, promotion of green Energy, digital push, fiscal discipline along with extension of capex programs would be seen as encouraging in the current investment environment.
- Strengthen Indian agriculture through policy measures that will facilitate crop diversity, mitigate climate risks, reduce high food inflation and importantly, raise farm incomes
- Expedite the development of a robust Indian manufacturing ecosystem particularly in the emerging sectors that will substitute imports and generate exports apart from also contributing to employment.
- Emphasis on infrastructure development through targeted capital expenditure programs for investments in railways, roads, ports, and logistics projects.

The government will retain disinvestment targets for FY25 as proposed in the interim budget. Additionally, they may retain the fiscal deficit targets at 5.1% and 4.5% of GDP for FY25 and FY26, respectively, as proposed in the interim budget. This will be supported by robust tax collection, PSU dividends, and dividend transfers from the RBI. Given the anticipation of a surge in economic growth, the Union budget may estimate higher direct tax collections in FY25. Overall, the upcoming budget for 2024-25 is expected to navigate a path that supports economic growth while ensuring stability and fiscal prudence.

Industry bodies sought reforms in land, agriculture, capital, power and labour markets, launching an outcome-based employment policy, rolling out incentive schemes linked to jobs, and extending the March 2024 sunset date for low corporate tax on new manufacturing units. Other suggestions include the need to roll out a new industrial policy, cut costs of doing business, further lowering of companies' compliance burden and pursuing privatisation of state-run firms. Economists made a case for reducing import tariffs on intermediate goods to support local manufacturing. They Urge Centre to sign more free trade deals, reduce logistics costs to lift exports.

The government may consider doubling the beneficiary base under its flagship Ayushman Bharat health insurance scheme over the next three years, with all those aged above 70 years to be brought under its ambit to begin with, and also increase the Insurance coverage to ₹10 lakh per year. If implemented, will cover more than two-third population of the country with health cover.

Interim budget presented in February had pegged disinvestment and asset monetisation target at ₹50,000 crore and dividend receipt at ₹48,000 crore .The government is unlikely to alter, in the full budget, its revenue mop-up target of close to ₹1 lakh crore for FY25 from disinvestment & asset monetisation, and dividends from nonfinancial central public sector enterprises (CPSEs).

Industry expectations from the Union Budget 2024-25

Textile Sector	The textile sector expects higher fund allocation to MSMEs, which comprise 80% of the textile market. Additionally, there are calls to extend the PLI scheme to the garment sector and to lower import duties on cotton.
Automobile Sector	The government may provide extension of subsidy schemes for EVs and incentivize alternative fuel segment including CNG, hydrogen and hybrid segment. An indication for a rationalization of the GST slabs for entry level two-wheelers is a continuing demand. In Budget, the government may roll out FAME 3 Scheme to encourage the sale of electric vehicles. Electric two, three, and four-wheelers are expected to be supported under the Faster Adoption & Manufacturing of Electric Vehicles (FAME) scheme, which could receive a budgetary allocation of about ₹10,000 crore. The companies certifying vehicles for subsidy under FAME 3 policy will have to undergo a techno-commercial audit twice a year to ascertain they are meeting localisation guidelines.
Real Estate Sector	Real estate developers are seeking a slew of measures, including the rationalization of taxes, further allocation to the Special Window for Affordable and Mid-Income Housing (SWAMIH) fund, and continued government support for affordable housing in the upcoming Union Budget to help the sector sustain growth by supporting demand creation. Developers are also suggesting several other tax-related amendments, including removal of the ₹2 lakh limit of interest deduction under Section 24 of Income Tax Act 1961 for housing loans, in a bid to boost housing demand.
Healthcare Sector	For the healthcare sector, in the interim Budget for FY25 in February, the government had pegged the outlay for the Ministry of Health and Family Welfare at ₹90,659 crore, up marginally from the FY24 budget estimate of ₹89,155 crore. This outlay also includes spending on health research. In pre-Budget consultation meeting experts suggested raising the budgetary spending on these critical social sectors
Agriculture Sector	In the Agriculture Sector, Industry sought a new agriculture policy with focus on investment on Agriculture infrastructure, rationalisation of subsidy, increased investment in allied agri-based food processing Industry and a substantial hike in allocation for agriculture research and innovation. The stakeholders asked to boost farm exports and create district hubs to support agriculture exports.
Pharma Sector	Pharma sector need to incentivise R&D investments, offer corporate tax concessions and establish an effective intellectual property rights regime in order to push the growth of domestic pharma industry. This would significantly boost the sector's ability to undertake essential research and development, including clinical trials and patent registration.

Hotels & Hospitality Sector	The hospitality industry is hoping that more hotels receive infrastructure-linked benefits this year and that their long-awaited demand for granting infrastructure status to the sector is met. The Hotel Association of India (HAI) said that infrastructure status would enable hospitality projects to access finance at better interest rates with longer repayment periods, thereby attracting investment.
Power Sector	The power sector anticipates incentives for energy transmission technologies, along with a push for investment in transmission and distribution. Additionally, there is a call for incentives for coal gasification and carbon capture and utilization. Reducing GST rates for renewable energy components and providing capital subsidies and tax breaks for setting up manufacturing units are also key expectations. Furthermore, promoting public-private partnerships (PPPs) in the execution of solar projects is seen as essential for advancing the sector.
Education Sector	In Interim Budget for FY25, Education sector raised the allocation to Rs 1,20,628 crore, up almost 7% from the budget estimate for the previous year. In pre-Budget consultation meeting Experts suggested raising the budgetary spending on these critical social sectors.
Telecom Sector	India's top mobile carriers are seeking a customs duty waiver on 4G and 5G network gear in the upcoming Union Budget to lower high network rollout costs and accelerate expansion of telecom connectivity across the country. Cut license fees to 1% of AGR, Allow business loss set-offs for 16 assessment years instead of 8. Operators also want the government to back deployment of USOF corpus for building network/connectivity infrastructure in underserved regions across urban, semi-urban and rural market.
The Electronic Manufacturing Sector	The Electronic Manufacturing Industry has recommended reducing number of Tariff lines and streamlining duty structure for sub-assemblies and input parts, along with removing nuisance tariffs of 2.5% on some parts. Electronics Industries Associations of India seeks extend 15% concessional Incomes tax for the manufacturing companies. Industry arguing that high tariffs on inputs and barriers to entry for leading firms in global value chains have kept India from increasing its share in exports with help of production-linked incentive (PLI) scheme.
Manufacturing Sector	The Government take steps to correct the inverted duty structure on a number of goods by rationalising levies on several products that are inputs for electronics, copper tubes and pipes, ferro alloys, textile staple fibres and certain chemical preparations to lift local manufacturing. The government has drawn up a list of finished products that are subject to lower import duty than the materials needed to make them, or an inverted duty structure. It's undertaken a cross-sectoral study to rationalise such inverted duty structures to improve India's manufacturing competitiveness and aid domestic manufacture of value added products.
Agro-Chemical Sector	The country's agrochemical sector has sought an increase in import duties, flagging dumping of chemicals from China. The Agro-Chemical Sector seeks hike in import duties to counter dumping of chemicals from china. Key players in the agrochemical sector wants increase of up to 7.5% in tariffs to ensure level playing field for local players.
Infrastructure Sector	The budget may enhance capital expenditure for infrastructure creation and open up avenues for alternative financing. Additionally, it might incentivize the private sector to participate in infrastructure projects and subsidize green technology to reduce dependence on fossil fuels.

Taxation Expectation:

- Expectations for an increase in the tax exemption limits, including the one for income tax for individuals. Such a move, would leave more disposable income with people by lowering tax liabilities, especially for the middle class, and help lift the subdued increase in private consumption expenditure. This, in turn, would aid the overall economic growth.

- On Tax Incentives front, The Indian government's considerations to enhance domestic manufacturing through measures like reinstating a 15% concessional corporate tax rate, expanding the production-linked incentive (PLI) program, and adjusting tax incentives for job creation. These steps aim to attract investment and stimulate growth in sectors, aligning with India's strategy to become a preferred manufacturing hub amidst global supply chain

- The Government may consider a change in the holding period for computing capital gains tax on immovable assets such as real estate to bring about uniformity. Currently, any capital gain from the sale of real estate held for 24 months or less is treated as a short-term capital gain. In contrast, the holding period threshold for listed equities and equity mutual funds is 12 months. The proposal suggests that property held for more than 12 months be considered long-term assets, bringing this in line with equities and equity mutual funds. The LTCG on property is 20% with Indexation benefits to adjust for Inflation.

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