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# India Budget 2022: Progressive Measures Proposed

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## Summary

*The Indian budget for financial year 2022-23 has been presented. The budget is devoid of populism and bets big on increased capital expenditure on infrastructure. For what appears to be a first, the government has proposed a central bank-backed digital currency to be issued by the Reserve Bank of India. This digital rupee will be exchangeable with any other paper money. The budget has also proposed a 30 per cent tax on gains through the transfer of virtual digital assets.*

India's Finance Minister presented the Annual Budget for financial year (FY) 2022-23. It must be said to the credit of the minister that despite important state elections around the corner, the budget is devoid of populism and political largesse. The signal emerging from the exercise is that it bets big on infrastructure spending and growth. There is a 25 per cent increase in the budget for capital expenditure (capex) on roads, national highways and metro. Each of these is a sizeable employment-intensive activity and will generate much-needed jobs. There is an underlying belief in the budget formulation that the economy is not out of pandemic related problems yet and hence continues to need some stimulus. The Indian wholesale price inflation is in double digits and is expected to soon drive up consumer inflation, which is currently at 5.4 per cent. The government has thus taken a cautious gamble in trying to boost capex to accelerate growth to create jobs and put disposable income in the hands of lower-income groups.

The budget is also realistic in its revenue receipt projections. Earlier years have shown large provisions of receipt from disinvestment of public enterprises only to barely achieve 15 per cent of the target. Compared to a target of ₹1.75 trillion (S$31.5 billion) in the current year, the target for next year has been pegged to a humble ₹650 billion (S$11.7 billion). At the same time, the government seems to have succeeded, despite a challenging environment, in keeping a lid on revenue expenditure and thereby limiting the fiscal deficit to 6.9 per cent of gross domestic profit (GDP) in FY2021-22.

This paper focuses on progressive or reform-oriented issues contained in the budget announcement.

A major budget announcement was that the RBI will issue a central bank-backed digital currency known as the digital rupee. This will be a legal tender issued by the central bank in a digital form. It is expected to be the same as fiat currency and is exchangeable with fiat currency on a one-on-one ratio. Crypto currency has no issuer and hence is decentralised and does not represent anyone's debt or liability. The digital rupee will be a substitute for private digital currencies. It will be useful in high cash usage economies and would even be cheaper than the paper currency, which have costs associated with printing, storing, transporting and distributing. How the digital rupee will impact banks is yet to be ascertained, but it would certainly disrupt transaction demand for bank deposits and hence limit the capacity of banks to provide credit. To enable the RBI to issue digital currency, a cryptocurrency law will have to be passed by parliament seeking an amendment to the RBI, Coinage, Foreign Exchange Management Act and Information Technology Acts.

To broaden the tax base, the government had announced a new income tax regime in the FY2020-21 budget. The new regime has fewer and lower tax slabs but withdraws exemptions available under the old regime. Taxpayers had the liberty to choose between the old and new regime; those choosing the latter had to forgo deductions and exemptions such as standard deduction, leave travel allowance and house rent allowance. The government has not tinkered with any of the rates in the current budget, intending to have a simpler regime with flat and low rates and fewer exemptions. Such a move will also shift the burden of taxation onto the rich. The salaried class was bearing a larger share as, on average, the non-salaried pays ₹31,500 (roughly S$567) per return, and the salaried pays ₹90,000 (roughly S$1,620) per return as the reliefs offered in the earlier tax regime accrued mainly to the higher income groups.

The government has also introduced a 30 per cent tax on returns from the transfer of virtual digital assets. This is with a host of other regulations to plug taxation loopholes and remove ambiguity. It could even be devised to discourage investment in cryptocurrencies. This tax will not be allowed to be set off against other expenses, increasing the tax burden on cryptocurrency investors. 'Gifts' of crypto assets will also be taxed, with the recipient paying 30 per cent. Virtual digital assets have been defined in the Finance Bill to cover a wide range of emerging digital assets. In the earlier regime, crypto gains were either treated as regular income and taxed at the marginal rate or as capital gains or business income. Since these new rates will be applicable from 1 April 2022, crypto-asset owners have the option of selling their assets and being taxed at the present lower regime.

The government appears to have stayed on the fiscal correction path and relied on the capex push to generate growth and higher incomes. The fiscal deficit has been estimated at 6.4 per cent of GDP, which is generally along the broad path estimated last year. This is with the intent to drive the deficit to 4.5 per cent by FY2025-26 and nurture sustainable growth through public investment. The revenue targets projected by the government appear to be modest and hence credible.

While the economy is staging a gradual recovery, the domestic and global environment remains challenging, with the pandemic still a challenge and global crude prices rising. It is hoped that infrastructure creation will pave the path to attract higher private investment. Real GDP is expected to grow at 7.8 per cent with nominal GDP growing at 12-13 per cent, implying a potential upside in tax collections. The budget does not overpromise and yet portends sustained growth.

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