BYJU'S The Learning App

02 Feb 2020: Comprehensive News Analysis

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A. GS 1 Related

Nothing here for today!!!

B. GS 2 Related

Category: INTERNATIONAL RELATIONS

1. Palestinians have cut security ties with U.S. and Israel: Abbas

Context:

U.S. President's West Asia peace plan.

Details:

- The Peace plan calls for U.S. **recognition of Israeli settlements on occupied West Bank** land and of **Jerusalem as Israel's indivisible capital.**
- Palestinian authority claims that it will only help create a demilitarized Palestinian state with borders drawn to meet Israeli security needs.
- The Arab Foreign Ministers was organized in Cairo to discuss the plan, where the Palestinian president has rejected the peace plan and has called for cutting all ties with the U.S. and Israel, including **security relations.**

- Notably, **Israel and the Palestinian Authority's security forces have long cooperated in policing areas of the occupied West Bank that are under Palestinian control**. The PA also has **intelligence cooperation agreements with the CIA**. This might help the extremist forces operating in the region.

For more information on this issue refer:

1. Trump unveils West Asia plan, Palestinians protest

2. Will Trump's peace plan help resolve Israel-Palestine crisis?

2. After over three years, Maldives rejoins Commonwealth

Context:

Background:

- Maldivian President Mohamed Nasheed's controversial ouster in 2012 and the country's lack of progress in resolving **the political crisis** during former President Abdulla Yameen's presidency, whose authoritarian slant sparked concern domestically and internationally had seen the Commonwealth group warning Maldives.
- **In 2016, the Maldives pulled out of the Commonwealth.**
- President Ibrahim Mohamed Solih's victory in the 2018 presidential elections and efforts to restore democracy, followed by the letter to the Commonwealth, requesting to re-join the bloc have culminated in the Maldives rejoining the bloc.

Details:

- **The Maldives re-joined the Commonwealth**, more than three years after the Indian Ocean island nation quit amid mounting criticism of its human rights.
- Maldives has been formally **reinstated into the Commonwealth as its 54th member state**.
- The Government of India has welcomed the development. India has vowed to work closely with Maldives on **shared Commonwealth goals like development, democracy and peace**.

C. GS 3 Related

Category: ECONOMY

1. Booster Short

Context:

The article deals with important highlights of the Union Budget 2020-2021.

Taxation:

Opt-in Income tax scheme:

- The budget proposes a new income tax structure for individuals willing to **forego exemptions and deductions**. It would be an **opt-in income tax scheme**. There has been a restructuring of tax slabs, with a personal income tax regime with **reduced rates for those earning up to ₹15 lakh and income up to ₹5 lakh remaining exempt from tax.**
- This is aimed at **spurring consumption demand** and offering relief to taxpayers, especially those from the middle class.
- Taxpayers can, however, opt for the new rates only if they give up almost all tax exemptions and deductions they enjoy under the current regime. Most exemptions used by salaried employees on account of **leave travel allowance, house rent allowance, housing loan repayments, savings instruments such as PPF and LIC**, as well as the standard deduction will cease to be available.
- Those opting for the lower rates will **retain tax benefits on payouts at the time of retirement** such as gratuity, employees' PF and NPS accumulations, employers' contributions to EPFO, the National Pension System or superannuation payments (up to ₹7.5 lakh), and amounts received on VRS (up to ₹5 lakh).
- The Finance Minister has claimed that the new opt-in tax schemes could result in savings of ₹78,000 for a person earning ₹15 lakh.
- Certain tax practitioners have noted that the new regime would only be attractive for non-salaried taxpayers or those who don't avail of any exemptions as of now.
- There are concerns that the **removal of tax exemptions that spur financial savings could further decrease the already falling savings rate.**

<u>Abolishing the Dividend Distribution Tax:</u>

- The budget announced the abolishing of the Dividend Distribution Tax **payable by the companies**. This will **avoid double taxation applicable to dividends**.
- Currently, companies are required to pay a 15% tax plus applicable surcharge and cess on the dividends. Further, investors who receive more than ₹10 lakh as a dividend in a financial year have to pay a 10% tax on such income.
- Centre has removed 15% tax plus applicable surcharge and cess on dividends, currently paid by companies. **The dividend will now be taxed only in the hands of the investors.**
- This would come as a relief for companies and capital market participants. This will help **increase the attractiveness of the Indian equity market.**
- The removal of DDT would lead to an estimated annual revenue forgone of Rs.25,000 crore.

<u>Taxpayer's Charter:</u>

- The Finance Minister proposed a **new 'taxpayer's charter'** aimed at boosting trust between citizens and authorities, in order to **improve the efficiency of tax administration.**
- Taking a step in this direction, there is a proposal to **amend the provisions of the Income Tax Act** to mandate the Central Board of Direct Taxes to adopt a Taxpayers' Charter, wherein the taxpayer's rights are clearly laid out.
- This will help reassure taxpayers that the tax administration remains committed to taking measures to ensure that citizens are free from harassment.
- The Budget also proposed several other steps to **smoothen the administration of the IT regime, including enhancing the use of technology.**
- **A provision for e-appeal** has also been included as part of the drive to impart greater efficiency, transparency, and accountability to the assessment process.

<u>Tax relief:</u>

- The Budget **deferred tax payment on income earned from Employee Stock Option Plans (ESOPs).** This will allow the employees to own shares in the employer without having to worry about organizing cash to pay taxes.

- Notably, the proposal **applies only to start-ups set up post-April 2016**.
- Considering the fact that ESOP is a significant component of compensation and during formative years, start-ups take this route to attract and retain talent, the move will give a boost to the start-up ecosystem in India.

<u>Preventing Tax abuse:</u>

- The Finance Bill also proposed major changes to **prevent tax abuse** by citizens who don't pay taxes anywhere in the world.
    - There has been a reduction in the number of days that an Indian citizen can be granted non-resident status for tax purposes from 182 to 120.
    - **Citizens who don't pay taxes anywhere will be deemed to be a resident of India.**
    - The definition of 'not ordinary resident' has been tightened.
- The budget also proposes tax being imposed on Indian citizens abroad if they are not taxable in their home country.
- There are some **challenges in implementing** the above changes. For example in the case of UAE, where people are technically taxed but the tax rate is zero, it is still not clear if these Indian ex-pats working in the UAE would be taxed.

<u>Customs Duty:</u>

- Customs duty on a range of articles like household goods, electrical appliances, auto parts, footwear, furniture, and some mobile phone parts has been raised in the Union Budget.
- The move is aimed to **keep uncontrolled dumping in check.** This will help uphold the interests of the MSME segment.

<u>Tax on e-commerce transactions:</u>

- The budget proposed a **new tax levy on e-commerce transactions as part of measures to widen the tax base.**
- E-com platforms will have to **deduct TDS** on all payments or credits to e-commerce participants at the rate of 1% in PAN/Aadhaar cases and 5% in non-PAN/Aadhaar cases.
- The scheme, however, provides an exemption to small businessmen, individuals and HUF who receive less than ₹5 lakh and furnish PAN/Aadhaar.

Fiscal management:

- The slow growth rate in India poses challenges to fiscal consolidation.
- Given the government intends to provide stimulus to the slowing economy through tax cuts, it will further affect fiscal deficit management.
- The central government has proposed, **taking a 0.5% deviation from fiscal deficit targets under the Fiscal Responsibility and Budget Management law** to end 2019-20 with a 3.8% deficit. It has proposed to attain a 3.5% deficit in the 2020-21 fiscal year.
- **Section 4 (2) of the Fiscal Responsibility and Budget Management (FRBM) Act** provides for a trigger mechanism for a deviation from the estimated fiscal deficit on account of structural reforms in the economy "with unanticipated fiscal implications".
- **The scope for an interest rate reduction is now ruled out** with a higher fiscal deficit number.
- An increase in the fiscal deficit will put further pressure on inflation, which is on the rise. The scope for interest rate reduction by the RBI will not have much scope.

Deposit Insurance scheme:

- The budget has proposed to increase the deposit insurance coverage for bank deposits to **₹5 lakh from ₹1 lakh.**
- This move will give a big comfort to depositors amid the ongoing crisis in the financial system of India and specifically in the NBFCs.
- The Deposit Insurance and Credit Guarantee Corporation (DICGC) had proposed to increase the deposit insurance limit to the ₹3-5 lakh range following the crisis at PMC Bank.
- The DICGC Act will have to be amended to increase the deposit cover.
- Notably, **the increase in deposit cover will increase the cost for the banks.**

Disinvestment:

- The budget proposes a **massive target of ₹2.1 lakh crore for the financial year 2020-21**, as compared to a target of ₹1.5 lakh crore in the current financial year.
- The plan is to raise ₹90,000 crores by selling a stake in public sector banks and financial institutions, and the remaining by selling a stake in central public sector enterprises.
- As part of the disinvestment process, the government is planning to **sell a part of its stake in the Life Insurance Corporation of India through an initial public offering.**
- This would require the government to amend the LIC Act since the act states that the capital of the LIC will be wholly subscribed by the Government of India.

Infrastructure:

- ₹1.7 lakh crore had been provided for transport infrastructure in 2020-21.

Digital connectivity:

- The budget has allocated ₹6,000 crores under **the BharatNet program** to enhance broadband connectivity in rural areas. There is also the proposal for a new policy to allow **private players to set up data parks** in the country.

Air transport:

- **100 more airports will be developed by 2025 to support the UDAN scheme**, aimed at better regional connectivity.

Roadways:

- The Road Transport and Highways Ministry saw an increase of 10% in its budgetary allocation, but a large chunk of it is through **monetization of national highways by the NHAI.**

Shipping:

- The government proposes to make seaports more efficient through the use of technology.
- The budget announces that at least **one major port would be corporatized** and then listed on the stock exchanges. The allocation for the Ministry of Shipping has seen an increase of 18%.

Railways:

- The budget emphasizes **increasing private participation in Indian railways**. As part of this, it proposes **150 trains under the public-private partnership (PPP) mode** and the redevelopment of four stations with the help of the private sector.

Power and Renewable energy:

- The Union Budget has allocated ₹22,000 crores to the power and renewable energy sector in 2020-21, aiming to improve the financial health of power distribution firms.
- The proposals for **prepaid smart metering and freedom to choose power suppliers** will lay the ground to bring competition in the sector and give consumers a choice. This will increase the efficiency of the whole system.
- The Budget provisions have given impetus to **clean energy and power.**
    - The budget proposes **expansion of the national gas grid** from the present 16,200 km to 27,000 km. Reforms would be undertaken to facilitate transparent price discovery and ease of transaction for natural gas.
    - The proposal for the building of **solar power capacity along railway tracks** in railway-owned land and support to farmers to set up solar power facilities connected to the grid will help boost solar power production in India.
    - The budget announces a **concessional income tax rate of 15% for new power companies**. This will help new investments in renewable power.

Social Sector:

Healthcare:

- The government has announced an outlay of about ₹69,000 crores for the health sector in the 2020-2021 Budget with ₹6,400 crores earmarked for the **Centre's flagship health insurance scheme, Prime Minister Jan Arogya Yojana (PMJAY).**
- Centre will provide **viability gap funding to set up hospitals in PPP mode under Ayushman Bharat.**
- The budget also proposes the **expansion of the Jan Aushadhi Kendra Scheme to all districts**.
- The government has proposed setting up of **medical colleges in existing district hospitals under the Public-Private Partnership (PPP) model** to address the shortage of qualified doctors.

Education:

- The budget proposes **enabling external commercial borrowings and FDI in higher education.**

For more information on the Union Budget 2020-21: Click Here

D. GS 4 Related

Nothing here for today!!!

E. Editorials

Will be updated shortly!!!

F. Tidbits

Category:ECONOMY

BYJU'S The Learning App

1. An exercise bereft of macroeconomic vision

Context:

Union Budget 2020-21.

The article provides a critique of the budget.

Background:

- It is a critical time for the Indian economy,
    - Growth has been decelerating sharply
    - Substantial stress in the financial system and particularly the NBFCs have affected the credit creation in the economy.
    - The unemployment rate has been at a record high.
    - Agricultural growth has been poor.
    - Poor investment climate
    - Declining consumption demand
    - Stagnant exports.

Details:

- As against the expectations, there was no stimulus package to revive the economy, in terms of increased public spending or additional boost for investment.
- **Constraints** for the government to announce a **major fiscal stimulus to the economy**:
    - Tax revenues are required to finance a fiscal stimulus. **Tax revenues have fallen short** of the estimates and it could not be expected to rise sharply in the coming financial year when growth is projected to remain sluggish.
    - The stated deviation of the **fiscal deficit from the medium-term target of 3% of GDP, limits debt-financed spending.**
    - Government efforts to raise resources through **disinvestment proceeds have not been successful**, which seems to suggest that not too much could be garnered from disinvestment when the economy is not doing well.

Concerns:

Lack of focus on urgent issues:

- The restructuring of income tax slabs and reduction in rates meant to benefit the tax-paying middle class has received popular attention.
- The government seems to be shifting attention by **deviating from the biggest issues facing the Indian economy**. There was very little in the budget speech regarding the government plans to address the bad situation.

Government expenditure:

- Departing from past practice, allocations made in different areas such as agriculture, sanitation, and nutrition were reported as absolute figures with no comparison either to the previous year's Budget or revised estimates. A comparison of these figures with the previous year's Budget estimates indicates that **there has been no major step up in expenditure.**

- The ratio of total expenditure to GDP that was budgeted at 13.6% of GDP in 2019-20, is projected at 13.5% for 2020-21.
- There has been **no major increase in expenditure limits** despite the fact that the government has overrun the 3.3% target on the fiscal deficit by as much as 0.5 %.

Policy mistakes:

- The abolishing of the dividend distribution tax currently levied on corporates and leaving dividend income to be taxed as income of the recipient would not help increase the savings as envisaged. It entails a **revenue loss of ₹65,000 crores**.

Fiscal deficit:

- **The revenue losses** through the lowering of tax rates and the removal of DDT would **make it difficult for the government to stay close to the fiscal deficit target.**
- Despite significant shortfalls in revenue in 2019-20, the fiscal deficit was 3.8% rather than the targeted 3.3%, and in 2020-21, it is projected at 3.5% as compared with the medium-term target of 3.0%.
- The **concern with the above estimates** is that they are based on the following assumptions:
    - There would be significant tax buoyancy in a period of depressed growth. This is unlikely.
    - The government would receive an estimated ₹74,000 crore following the Supreme Court's judgment on the **computation of license fees and spectrum charges**, which would help increase the government's non-tax revenues. This seems unlikely given the telecom players are seeking exemption from payment or have demanded a longer payment period.
    - There would be **restrained expenditure estimates and off-budget transactions**. The budget's revised estimate for food subsidy is placed at 40% lower than the Budget estimate for the previous fiscal. This seems a gross underestimate given the fact that the year witnessed the highest procurement and stocking.
- The **increase in the fiscal deficit targets seems targeted more to compensate for the less-than-expected growth in revenues** and not for the fiscal stimulus.

Falling allocations:

- Despite the government's claims of ensuring development for all and of creating a caring society**, the allocations for the social sector has been low.**
- The Mahatma Gandhi National Rural Employment Guarantee Act program and the scheme for the development of Scheduled Castes have seen reduced allocations.
- The **compression in spending** is a reflection of the extent of the revenue shortfall.

Unrealistic targets:

Disinvestment:

- The government has not been able to meet its disinvestment targets for 2019-20 fiscal.
- **The "revised estimates" for 2019-20 for receipts from disinvestment presented in the Budget papers for 2020-21 are placed very high as against the actual numbers**. These estimates are based on the hopes for a big push on the disinvestment front in February and March 2020. Such assumptions explain the marginal deviation from the fiscal deficit target in the current year.
- **The budget relies on ambitious targets for receipts from disinvestment**. The Budget provides for disinvestment receipts of ₹2,10,000 crore in 2020-21.
- The disinvestment proceeds would come from disinvestment of non-financial public sector enterprises and disinvestment of equity in public sector banks and financial institutions. This would lead to a situation where the **government's share in equity could well reach levels where it loses control.**

- The government's plan to divest a part of its holding in the Life Insurance Corporation of India **has faced opposition from the employees** and certain sections.
- Notably, LIC performs a useful role in shoring up the stock market when required and it is also an important investor in the capital of public sector banks. If institutional and retail investors are given a stake, the larger public role performed by LIC may be called into question.

Growth estimates:

- The Budget has been built on the **assumption of a nominal GDP growth rate of 10% in 2020-21,** which appears optimistic given the state of the economy now.
- The nominal growth rate for fiscal 2019-20 as per government estimates is 7.5%. The recovery from here has to be sharp to justify next year's projection.

Tax revenue growth estimates:

- The gross tax revenue growth projection of 11.99% appears very optimistic given the fact that it is based on the assumption of an 11.54% rise in corporate tax collections.
- Given the **slowdown in profit growth and the lower corporate tax rate now**, it is very doubtful if this projection can be met.

<u>The new scheme of taxation:</u>

- The new scheme may **not be as attractive as it appears for the taxpayers.** It may benefit those who do not claim deductions on housing loan repayments and who do not pay a large insurance premium.
- Most of **the popular exemptions and deductions** like housing loan repayments, house rent allowance, leave travel concession and the concessions under Section 80C such as on life insurance premium, public provident fund contribution and under Section 80D on medical insurance premium **will not be available to those who opt for the new scheme**.
- The reforms deviate from the best practice approach to tax reform like broadening the tax base, reducing the rates and reducing the number of brackets to make it simpler. The new scheme is **adding to the complexity of the system.**

<u>Lack of structural reforms:</u>

- The budget **falls short of market expectations** of the announcement of sweeping **structural reforms**. The Budget also fails to provide clear policy signals.
- The Economic Survey had listed a number of items that could be considered for reforms, like **the Essential Commodities Act, drug price controls, food grains markets, etc**. Worryingly, these issues find no mention in the Budget.

<u>The big picture:</u>

- On the whole, the Budget **fails to provide any kind of stimulus for the revival of consumer or investment demand**. It has not been able to contain the deficits and leaves **very little room for further cuts in repo rates by the monetary policy committee.**

2. A budget for the middle class

Context:

Union Budget 2020-21.

Details:

- In times of economic slowdown, **two ideas** are often discussed:
  - The **government resorting to heavy expenditure on infrastructure and the social sector** in line with the **Keynesian concept of pump priming.**
  - The government tries to put **more money in the pockets of the individual** so that it can increase consumer demand.
- The present budget focusses on both the above aspects:
  - The budget proposes increasing expenditure to build on **basic infrastructure.**
  - The **new income tax scheme** envisages lowering the income tax rates to ensure higher disposable income in the hands of the people.

Positives:

Pro-middle class:

- Higher personal tax rates and slabs have been modified to the benefit of the middle class. This will help **push up consumer demand.** The concessions offered in the Budget will entail revenue foregone of ₹40,000 crores per year.
- The tax reform retains the tax rates for the rich. Given the fact that India's richest 1% have more wealth than 70% of the poorest, they have not been provided relief under the income tax reforms.

Dividend distribution tax:

- The move to abolish the dividend distribution tax is a welcome step, as it **amounted to double taxation.** The classical system of taxing dividends in the hands of individual shareholders is now accepted.
- The ill-conceived dividend distribution tax has been abolished and with this, the **reforms on the corporate tax** front have taken another big step forward.

Tax administration:

- Taking note of complaints of tax harassment**, a tax payer's charter has been proposed**.
- The government has **removed around 70 out of 100 exemptions and deductions provided in the Income Tax Act** and promised a review and rationalization of the law in order to **simplify the tax system and lowering the tax rate.**

Deposit insurance coverage:

- The insurance cover on bank deposits has been increased to ₹5 lakh from ₹1 lakh now. This would help **provide a sense of security to the depositors in these uncertain times** when bank frauds and defaults are becoming more frequent.

Custom duty:

- The government has also **raised import duties on a number of items.** Notably, this list is largely made up of products where India has the manufacturing capability but has been a victim of cheap imports, sometimes riding on advantages from free trade agreements.
- This step will help **support the domestic MSMEs against the dumping from other countries**.

Tax revenues:

- Despite the revenue foregone by the reduction in corporate tax, the lower than expected disinvestment receipts, the receipts for 2019-20 are not as alarming as was predicted by the skeptics.

Revenue expenditure:

- There has been a **drastic reduction in revenue expenditure of ₹98,000 crores**, mainly on account of a reduction in food subsidy.

Government expenditure:

- In the backdrop of the **government facing a shortfall in total receipts** being as high as between ₹1,50,000-₹3,00,000 crore, it was **expected that there would be a drastic reduction in government capital expenditure**. However still, the budget proposes to **increase expenditure.**
- Capital expenditure in 2019-2020 turned out to be higher than the Budget estimates. It also marked a rise in 13.4% over the actuals of 2018-2019.
- Capital expenditure as a percentage of GDP was 1.7% in 2019-2020 and is projected to rise to 1.8% in 2020-2021. The Finance Minister deserves credit for wanting to **maintain the momentum of capital expenditure at a time of faltering growth.**

Conclusion:

- The effectiveness of the budget proposals will become evident from how growth pans out in the economy in the coming fiscal year.

G. Prelims Facts

Nothing here for today!!!

H. UPSC Prelims Practice Questions

Q1. Which of the following statements are correct?

1. Article 110 of the Indian constitution, provides for the presentation of the annual financial statement in both houses of the parliament.
2. Though both the Houses of Parliament discuss the Budget, only the Lok Sabha's Concurrence is needed for the passage of the budget.

Options:

a. 1 only
b. 2 only
c. Both 1 and 2
d. Neither 1 nor 2

[su_dropcap]See[/su_dropcap][su_spoiler title="Answer"]

Answer: b

Explanation:

Article 112 of the Indian constitution, provides for the presentation of the annual financial statement in both houses of the parliament.

[/su_spoiler]

Q2. Which of the following statements are correct?

1. The Current Account Deficit as a percentage of the Forex reserves of India has continuously decreased over the past five years.
2. Self-employed labour constitute the highest proportion of the Labour work force in India.

Options:

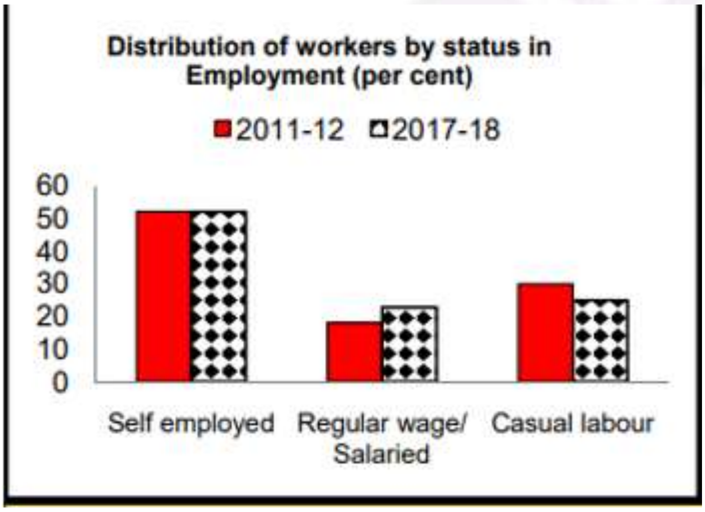
a. 1 only
b. 2 only
c. Both 1 and 2
d. Neither 1 nor 2

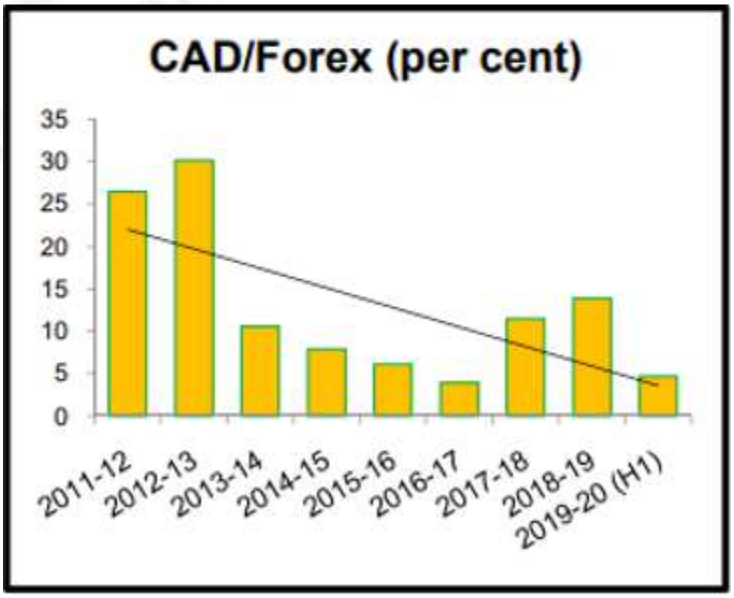
[su_dropcap]See[/su_dropcap][su_spoiler title="Answer"]

Answer: b

Explanation:

Data from budget document.





Q3. Which of the following statements are correct with respect to the Union budget of 2020-21?

1. Corporation Tax constitutes the highest share of the incoming money for the government.
2. Interest payments constitutes the highest share of the outgoing money for the government.

Options:

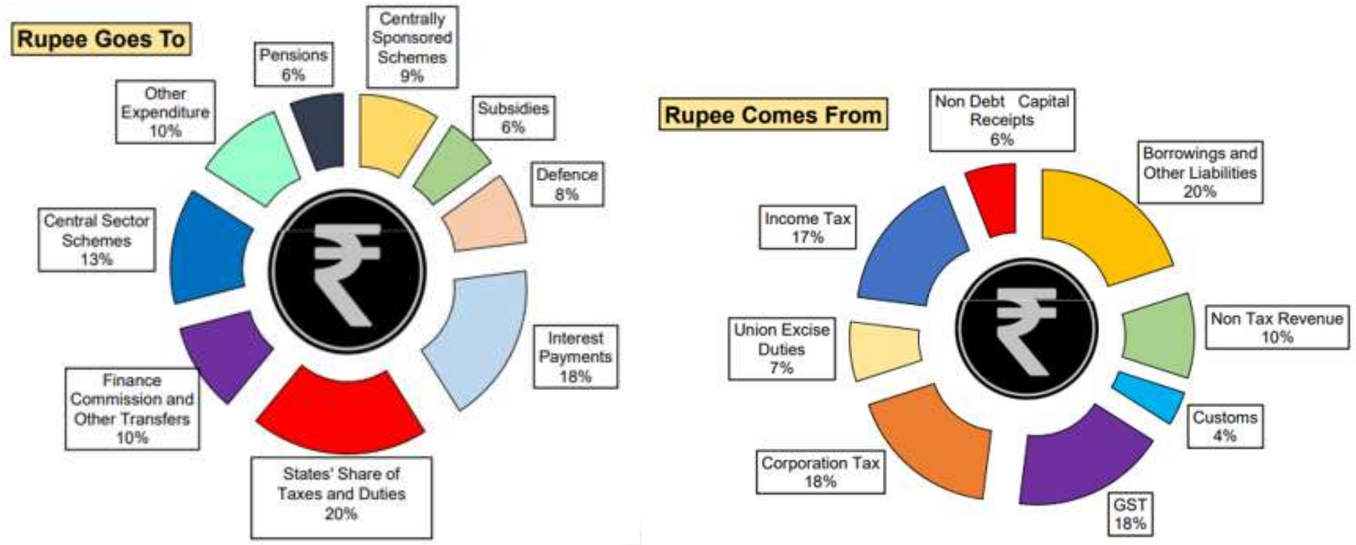
a. 1 only
b. 2 only

c. Both 1 and 2
d. Neither 1 nor 2

Answer: d

Explanation:

Data from the Budget document.



Q4. which of the following statements are correct?

1. "Kisan Rail" scheme envisages the creation of a seamless national cold supply chain for perishables.
2. The NIRVIK Scheme deals with the export sector.

Options:

a. 1 only
b. 2 only
c. Both 1 and 2
d. Neither 1 nor 2

Answer: c

Explanation:

- The Indian Railways will set up Kisan Rail through Public Private Partnership (PPP). The Kisan Rail would ensure that perishable goods are transported quickly.
- NIRVIK (Niryat Rin Vikas Yojana) scheme strives to provide enhanced insurance cover and reduced premium for small exporters and simplified procedures for claim settlements.

I. UPSC Mains Practice Questions

1. The budget proposals with respect to the power sector and the renewable energy sector will not only help fulfill India’s commitment towards global climate action but will also serve as a stimulus to the economy. Comment. (10 marks, 150 words)
2. As against the market expectations, there was no big stimulus package in terms of increased public spending or additional boost for investment, to revive the slowing economy. Discuss the Constraints for the government to announce such a major fiscal stimulus. (10 marks, 150 words)