

**UNION BUDGET 2024-25
PROPOSALS FOR DIRECT AND INDIRECT TAXES**

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Proposals for Union Budget 2024-25

Introduction

Budgets are often the constructs of the context. Every context, however, has a short-term and long-term dimension. Hence, while it is imperative to give importance to issues of immediate concern, the chief architect of the budget, the Finance Minister, has to keep the building in mind while placing each brick. Thus viewed, the challenge of any Finance Minister is to strike the delicate balance between short-run and long-run issues. This rather tricky task is possible if and only if the Finance Minister is cognisant of the state of the economy in general and the fiscal position in particular. Hence, in what follows, we shall make direct and indirect tax proposals, against the background of emerging economic and fiscal trends.

While reflecting on tax proposals, our objective is to ensure that adequate resources are mobilised in a manner that hurts neither the economy nor the people, especially the less privileged.

In what follows, we shall articulate the context for each proposal, while annexures are provided for elaborating why we propose what we propose.

Indian Economy: Which Way Now?

Within the above perspective, we shall paint the positives and perils as regards the present state of the Indian economy.

The Green Shoots:

India is on the cusp of a major leap forward, with a target of becoming a \$5 trillion economy by 2025. Recent IMF's estimate suggests that India has emerged as the fifth largest economy in the world, overtaking the United Kingdom. This is exactly what was predicted by Goldman Sachs (2003) in their much-quoted study "Dreaming with BRICs".

Subsequently, estimates by the State Bank of India indicated that India is all set to emerge as the third-largest economy in the world by 2029 by overtaking Germany in 2027 and Japan in 2029. These estimates indicate that India's growth trajectory is ahead of what was projected by Goldman Sachs. It is important to note that in 2014 with a share of 2.6% of the global GDP, India was in the 10th position, and today India's share is 3.5% of the global GDP. With a GDP growth rate of 13.5% recorded during the first quarter of this year, India also emerged as one of the fastest-growing economies in the world. This has been further reinforced by the IMF forecast that India is going to be the fastest-growing economy in the world till 2027, surpassing China.

The Red Lines:

At the same time, the budget 2023-24 cannot afford to ignore some of the not-so-desirable emerging trends in short run. There is an imperative to reverse these trends for which the direct and indirect tax proposals could be effective.

Decelerating Growth: After galloping at a growth rate of 8.3% during 2016-17, the GDP growth started decelerating with a recorded growth rate of 6.8% and 6.5%, respectively, in 2017-18 and 2018-19, before reaching the lowest growth rate of 3.7% during 2019-20 attributed to a host of factors.

Subsequently, the economy was hit hard by the once-in-a-century pandemic that brought down the growth rate to -6.6 % in 2020-21 and 8.7% in 2021-22. *Albeit* our faster recovery, the estimated loss during the COVID-19 is estimated to be recouped only by 2025. Sadly enough, even before the recovery from the pandemic, the Russia-Ukraine war inflicted yet another fatal injury to the global economy, and the Indian economy has not been spared.

Rising Unemployment: In sync with the deceleration of GDP growth, our performance in generating employment has not been encouraging. The unemployment rate has remained high and crossed even at 8% in certain months. If the data provided by International Labour Organization (ILO) is any indication, India's youth unemployment (for those in the age group of 15 to 24 years), who are looking for work, is as high as 28%. According to Kaushik Basu, former Economic Advisor to the Government of India, this places India in the cluster of troubled West Asian nations such as Iran (27.2%), Egypt (24.3%) and Syria (26.2%), and in a much worse state than most Asian countries such as Indonesia (16%), Malaysia (15.6%), and Bangladesh (14.7%). Needless to say, it raises much concern among the young generation about their future and our failure to reap the demographic dividend.

Declining Savings and Investment: The output and employment scene cannot be delinked from the investment trends. Investment, as indicated by the rate of gross capital formation, has been in the southward direction. According to RBI's *Handbook of Statistics on Indian Economy*, gross capital formation as percent of GDP has declined from 33.9% in 2017-18 to 27.3% in 2020-21. The observed decline was from a rate as high as 39.8% in 2010-11. Investment does not come out of heaven. It is the progeny of people's propensity to save which is governed mainly by their disposable income and the incentive for saving. With the plausible decline in income, the saving rate declined 32.1% in 2017-18 to 28.2% in 2020-21. It was as high as 36.9% in 2010-11. There is hardly any evidence to suggest that FDI will come to our rescue when our economy is sluggish.

Rising Inflation: Inflation, despite the concerted efforts by the Central Bank, seems to be out of control remaining at over 7% for the last six months. Although it is global and much of it could be imported, the bearing of the supply-side factors in the domestic economy cannot be ignored.

To reverse the trend in GDP, employment, and prices through enhanced Saving and Investment, we propose the following changes with respect to income tax after due consideration of price rise since the existing rates were introduced. (see tables 1 & 2)

- The standard deduction may be enhanced from the present level of Rs 50,000 to Rs 1,00,000 which is expected to enhance savings
- House loan interest deduction may be enhanced to Rs 3 lakhs from Rs 2 lakhs, which we consider could be instrumental in inducing investment in the housing sector
- Section 80C for saving may be increased to Rs 3 lakhs from Rs 1.5 lakhs which could serve as a means of reversing the downward trend in the rate of saving
- Interest income exemption may be increased to Rs.1.5 lakh from Rs 50000, which is the major source of income for the pensioners
- In the Old tax regime, the income slab between Rs 5 lakhs to Rs 10 lakhs is taxed at 20%. Keeping inflation and rising per capita income in mind, this slab may be increased from Rs 5 lakhs to Rs 15 lakhs. This is also expected to help savings and boost demand
- A tax rate of 25 per cent may be considered without changing the maximum rate

Tax Base (in lakhs)	Tax rate (in percent)	Amount of tax (in Rs)
Upto Rs 2.5	Nil	0
2.5 lakh to 5 lakh	5	12500
5 lakh to 10 lakh	20	100000
Above 10 lakhs	30	

Tax base (in lakhs)	Tax rate (%)	Amount of tax (Rs)
Up to Rs 3	Nil	0
3 lakh to 5 lakh	5	10000
5 lakh to 15 lakh	20	200000

15 lakh to 30 lakh	25	375000
Above 30 lakh	30	

Increasing Inequality: Inequality, at different levels, which we are committed to keep under control, seems to be crossing limits. What is more, interregional inequality is also on its upward direction. Inflation, which hits the poor hard, would have made the poor poorer, adding fuel to inequality.

In this context, we propose the following: (see Annexure 2 for Details)

- **The income tax rate may be marginally reduced for the lower bracket, and the loss of revenue on account of this may be recouped by marginally increasing the tax rate of the upper-income bracket.**
- **The proposals that we make with respect to corporate income tax and wealth tax, in the next section, would also help arrest the growing inequality (see below).**
- **It is also suggested that urgent steps for the enhancement of the profession tax maximum ceiling to Rs 18,000 from the existing ceiling Rs 2500. This could be much helpful in decentralised and balanced regional development**

Corporate Tax Poor Government and Rich Corporates

In the world over, governments in developing countries, after globalisation, have become poorer as their Tax GDP ratio has been declining or stagnant. This has been mainly on account of the cut in customs duties. While the cut in customs is not necessarily bad, the countries became poorer as there has been neither any international financial support nor a corresponding rise in corporate taxes (Piketty 2022). In India, prior to the implementation of GST, the customs duty contributed around 15% to the Union Government's Gross Tax Revenue. After the implementation of GST, customs duty contributed only around 6-7% of the gross tax revenue.

Corporates were the beneficiaries through the double bonanza; when customs cut helped boost their international competitiveness and profitability through greater integration with the Global Value Chain, corporate taxes were also slashed.

The combined net profit of the listed companies was up 57.6 per cent to Rs 5.31 trillion in FY21. As a result, the corporate profit share in India's gross domestic product (GDP) hit a 10-year high of 2.63 per cent in the last financial year. The ratio was at a record low of 1.6 per cent in FY20, while it was the highest in FY11 at 3.2 per cent.

The Union Government reduced corporate tax rates from 30% to 22% for domestic companies and 18% to 15% for new domestic manufacturing companies on September 20, 2019. The effective tax rate is 25.17% inclusive of cess & surcharges. While European/OECD countries currently levy, on average, a corporate income tax rate of 21.7 percent, the worldwide average across 177 jurisdictions stood at 23.9% in 2020. More importantly, India's corporate tax rate is only 25.2%, while the average rate for the BRICS, excluding Russia, is as high as 29%. India's corporate tax revenues as a percentage of GDP are below the global average of 3.2% in 2018.

In this context, we propose the following: We make a case for increasing corporate tax at least by 2%, apart from mobilising government revenue, such a measure will also be effective in reducing inequality.

- **Various studies have observed a positive association between size and profitability. In light of this finding, we make a case for revisiting the present slabs of below Rs 400 Crore and above Rs 400 Crore. It is desirable to have a third slab for companies exceeding annual turnover Rs 1000 Crore with a marginally higher rate.**
- **There is a case for reducing the surcharge and cess** and correspondingly raising the corporate tax such that total revenue is not affected. This would also benefit the states because of the rise in the divisible pool.
- **As part of ease of doing business, in the case of MSMEs certain proportion of tax (1-2%) could be levied on turnover. This can be collected easily GSTR filing information is available.**

Wealth tax and estate duty

India abolished wealth tax in 2015-16 and estate duty in 1985, considering the high cost-of collection. But today with the effective use of information technology, the collection and monitoring could be a lot more easier. It needs to be noted that at this juncture, very few countries impose a wealth tax.

But the World Inequality Report (2022) proposes several policy options to redistribute wealth to invest in the challenges of the 21st century. The report presents revenue gains from different wealth tax scenarios on global multimillionaires. It has been argued that given the large concentration of wealth, a modest progressive wealth tax can generate significant revenues for governments. The report finds that with a modest progressive tax rate scenario, 1.6% of global incomes could be generated and reinvested in education, health and the ecological transition. The report also comes with an online simulator so that everybody can design their preferred wealth tax at the level of the world or in their region.

Against this background, we recommend the following:

- **The union budget 2024-25 may consider reinstating both the Wealth Tax and Estate Duty**

➤ **Introduction of an inheritance tax for non-agricultural high net-worth individuals through the modification of existing tax law**

In 2015-16, the wealth tax was abolished and replaced it with *an additional surcharge of 2% on the super-rich with a taxable income of over ₹1 crore. This led to a loss of ₹1,008 crore by way of wealth tax while the surcharge added ₹9000 crore. In the whole process, the union gained but the states lost, since the surcharge is not shared with states.*

In this context, we propose the following:

- **Instead of additional cess and surcharges, the budget 2024-25 shall explore the avenues to increase the tax revenue base, which would enhance the size of the divisible pool.**
- **The budget doesn't clearly indicate the net proceeds and therefore the net proceeds shall be stated in the budget.**
- **Basic Customs duty on petroleum should be increased while reducing the other components such as CVD (Rs 1.4/Ltr), SAD (Rs. 11/Ltr), AIDC (Rs 2.5/Ltr) and ADC (Rs 13/Ltr).**
- **Currently, the basic customs duty on imported petroleum and diesel is only 2.5%. Similarly, basic customs duty on Diesel should be increased. Currently, basic excise duty on imported diesel is only 2.5%, whereas there are other components such as CVD (Rs 1.8/Ltr), SAD (Rs. 8/Ltr), AIDC (Rs 4/Ltr) and ADC (Rs 8/Ltr).**
- **It is suggested increase basic customs duty by reducing the other excise related duties so that the divisible pool kitty will increase and corresponding increase will be in the shared taxes to states.**
- ***Explore the possibility of increasing custom duties specially to ensure that the inverted duty structure, that many companies complain about, is effectively addressed in the budget***
- **Amendment of the CSR rules is suggested to make CMDRF eligible for CSR donations like PMDRF and PM-CARES.**

a. Profession tax

Profession tax is a tax on profession and callings and an important source of revenue of Local Governments (LGs). Profession tax is determined by Article 276(2) of the Constitution at a maximum of Rs 2500 per annum which was fixed in 1988 only. The Fifteenth Finance Commission suggested to increase the upper limit from Rs 2500 to Rs 18000. A change in the profession tax rate is possible only with a constitutional amendment. Tax revenue collection depends mainly on the rate of tax and base of tax. Rate of tax revision of profession tax is not possible due to the constitutional barriers. Immediate intervention is required from State Governments for the constitutional amendment of increasing profession tax from the maximum range of Rs. 2500. This legal hurdle in increasing profession tax has to be removed so that the rate can be increased to a minimum of Rs.10000 in a year. Sixth State Finance commission of Kerala recommended the increase of profession tax to the tune of Rs 12000 per year (SSFC First Report, 2020).

Expansion of the tax base, by all types of professionals and skilled workers needs to be brought under the profession tax net.

Sl No	Half Yearly Income	Half Yearly tax (Rs)
1	From Rs 12000 to Rs 17999	12
2	From Rs 18000 to Rs 29999	180
3	From Rs 30000 to Rs 44999	300
4	From Rs 45000 to Rs 59999	450
5	From Rs 60000 to Rs 74999	600
6	From Rs 75000 to Rs 99999	750
7	From Rs 100000 to Rs 124999	1000
8	Over Rs 124999	1250

If the rate of profession tax raised to Rs.10000, the revenue from profession tax would increase in fourfold in Kerala and the profession tax collection would become Rs 1000 crore. This could be due to the hike in salary of government employees and public sector undertakings due to implementation pay revisions. Hike in salaries seen in the private sector due to higher economic activity and also due to inflation. Increase in the number of commercial activities also will contribute to the high collection of profession tax. Hence it is requested to initiate urgent steps for the enhancement of profession tax maximum ceiling.

- **It is suggested that urgent steps for the enhancement of profession tax maximum ceiling to Rs 18000 from the existing ceiling Rs 2500 may be considered in the budget 2024-25**

Estate Duty

Estate duty was introduced in India in 1953 when the Estate Duty Act of that year imposed a duty on the capital value of all properties passing on the death of any person on or after October 15, 1953. The rationale for the tax was to curb the perpetuation of income and wealth inequalities through inheritance. One of the objectives of imposition of Estate duty was to increase central revenue. This tax was levied to prevent accumulation and prevention of wealth in the hands of a few and reduce the glaring economic disparity between the rich and poor. However, the estate duty was abolished in 1985 on the ground that it had failed in both its objectives, viz., to reduce the accumulation of dynastic wealth and raise resources for the Government.

The estate duty was abolished in 1985 due to administrative hurdles such as difficulty in valuing different kinds of property of the deceased person. The complexities in law and valuation procedures resulted in large number of litigations relating to determination of valuation of property. However, in the modern world with IT enabled platforms, valuation

can be made easy. It is known that there exists a large number of inherited properties of the deceased remain unnoticed. With simple legislation and implementation steps, it is advisable to reinstate estate duty so as to reduce social inequality and to facilitate economic redistribution of wealth.

Suggestion

- Reinstatement of estate duty in union budget 2024-25

GST Compensation

Government of India has been collection compensation cess even after the expiry of GST Compensation to states. Since the compensation cess is intended to meet the shortage of GST collection of states. Presently the total collection from GST compensation cess is being appropriated by the Union government for meeting the loan liability of the Union which they have made for meeting the GST loss of states during the COVID 19 period. Considering the present financial crisis of the states, 50% of the collection from GST cess (Table) shall be shared with states, which comes to around Rs 75000 crore. A decision regarding this will be taken in this budget.

Table 4

GST Compensation Cess (in crore)

Year	GST Compensation cess (in crore)
2017-18	62612
2018-19	95081
2019-20	95553
2020-21	85192
2021-22	104769
2022-23(A)	125862
2023-24(RE)	145000
2024-25(BE)	150000

Empowering Local Governments - Proposals for Union Budget 2024

As India completes three decades of local governance, local governments still require emphasis from the Union governments for its effective performance. To impart seriousness

about local governance, 2024 may be declared the year of local governance. However, in order to empower local governments, it is also essential that the various Union government departments associated directly with local bodies are also financially assisted in a liberal manner to meet the increasing requirements of local governments in the current milieu of increasing urbanisation, climate change and need for transparency in local governance.

1. It is essential that all local bodies should have their accounts audited and available in the online domain. In order to develop an online platform that is common for local governments across India and impart training, funds may be allotted to the Ministry of Panchayat Raj (MoPR) towards the same. This is to modernise the local bodies and enable real time data entry. Towards this 10,000 crore may be allocated.
2. Local bodies may be encouraged to implement SDGs with respect to climate change and special assistance may be provided to the local bodies by the Ministry of Environment, Forests and Climate Change. Towards this 10,000 crores may be allocated to the Ministry of Environment, Forests and Climate Change for initiating SDG projects in local bodies.
3. For developing solid and liquid waste management infrastructure in urban agglomerations, the Ministry and Housing and Urban Affairs may be allocated 10,000 crores for assisting local governments on a 50:50 basis.
4. Similarly, the Ministry of Women and Child Development may be appointed as the agency for initiating SDG schemes at a local body level. Towards this 10,000 crore may be allocated.
5. Considering the rising prominence of urbanisation, it is imperative that more funds should be allocated to the Ministry and Housing and Urban Affairs to meet the rising housing and transport requirements of the urban local bodies. One million cities may be encouraged to develop modern metro (surface as well as water) transit systems with 50 percent financial support from the Ministry of Housing and Urban Affairs. Towards this One lakh crores may be allocated.
6. The Ministry of Jal Shakti may be allocated funds to empower local bodies for water preservation, desalination and conserving water bodies. Local governments are to be allocated 50 percent financial support through the Ministry of Jal Shakti for developing projects in this aspect.
7. Gulati Institute of Finance and taxation may be allocated 5 crores for the dissemination of good practices regarding local body finances across the states and training local bodies in Kerala.

Development of Scheduled Castes and Tribes

In light of the ambitious goal of achieving 'Vikasit Bharat' by 2047, it is crucial to ensure inclusive growth for all sections of society. Allocating sufficient budgetary resources for the Scheduled Castes (SC) and Scheduled Tribes (ST) is essential for their

upliftment and empowerment who constitute 16.6 % and 8.6 % respectively in the total population of India.

The Socio-Economic Caste Census (SECC) 2011 data paints a concerning picture of the socio-economic status of SC/ST communities in India, highlighting a significant development gap compared to the mainstream society. The data reveals that SC and ST households are disproportionately represented among deprived households, with only 18% SC and 11 % ST have own house. Furthermore, illiteracy rates are considerably higher within these communities. This limited access to education translates into limited economic opportunities. The highest earning member of 84 % SC and 87 % ST households earn below Rs. 5000 as monthly income. These indicators from the SECC 2011 demonstrate that SC and ST communities in India require significant targeted interventions to bridge the development gap and achieve a more equitable society.

Before the NITI Aayog replaced the Planning Commission, the core principle guided resource allocation was that the plan funds were allocated in proportion to the SC/ST population of the country. This ensured these communities received a designated share for targeted development initiatives. However, under the current system, new guidelines were issued by NITI Aayog on 1 April 2018 which describe the ministries/ departments and their obligated percentage of earmarking of funds for the Development Action Plan for SC (DAPSC earlier SCP) and Development Action Plan for ST (DAPST earlier TSP). Unfortunately, in practice, these guidelines are not properly followed in the allocation of funds. For example, in the current year 2024-25, the total expenditure (BE) was Rs. 51,08,750 crore. As per the NITI Aayog guidelines SC/ST were eligible to get Rs. 2,10,315 crore. But the actual allocation as per statement 10 A (DAPSC) is Rs.1,65,598 crore only, which means there is a gap of Rs. 44,717 crore. Moreover, the allocations which are directly beneficial to SC/ST are also comparatively less. From the total allocation for DAPSC and DAPST, the allocations for targeted schemes are Rs.44,282 crore and Rs.36212 crore only which constitutes 27 % and 30% respectively. In these circumstances and the light of the vision of the Vikasit Bharat 2047, the following points are submitted for consideration:

- In many cases, targeted schemes such as scholarships, skilling, employment etc have inadequate allocation and non-targeted schemes have huge allocation. Hence, the allocation to targeted and direct benefit schemes should be enhanced.
- The proposed percentage of earmarking of funds as per guidelines of NITI Aayog dated 1.4.2018 is not seen strictly followed by even the obligatory ministries/departments. Strict actions should be taken to ensure that the existing guidelines in the allocation of funds are followed properly.
- Special funding and flagship programmes /missions/ drives are needed to enhance the socio-economic levels of SC/ST in sectors such as education, employment, skilling, housing, infrastructure facilities, health care, land and asset ownership etc to bring them on par with the mainstream society by 2030.
- The recommendation of NITI Aayog to set up state-level institutes that can act as the think tank for the development of SC/ST needs to be implemented with high priority.

- A concurrent monitoring and evaluation system to assess the progress of the scheme implementation needs to be established.
- For meeting the above proposals, an additional allocation of Rs 50000 crore may be considered in the budget 2024-25

Achieving Vikasit Bharat, a developed India by 2047, hinges on the social and economic integration of all communities, particularly SC/ST. Their marginalisation represents a significant barrier to inclusive growth. An India that truly thrives requires the full participation and contribution of its entire population. Excluding SC/ST communities from the mainstream development narrative not only hinders their progress but also limits India's potential as a whole. Therefore, empowering these communities through targeted initiatives and ensuring their equal participation is not just a matter of social justice but also a strategic necessity for realising the Vikasit Bharat vision.

Contributory Pension enhancement

Presently CPF minimum pension is fixed at Rs 1000 without Dearness Allowance (DA) (some persons are getting even less than Rs 1000 per month). There is no periodic pension revision to around 23 lakh people by considering normal inflation. Hence the minimum PF pension should be increased to Rs 5000 per month with periodic increase in DA. In this budget, necessary steps have to be taken by allocating sufficient funds to address this grave issue.