


Budget 2018: Rural All The Way

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There was a general consensus in all commentary before the budget that in the light of the agrarian distress, and the last full budget before the next election, that there will be a big focus on rural India. But the sheer scale and magnitude of the focus on rural India has blown minds away.

In 2018-19, eight crore more poor women will get new LPG connections, four crore more poor people will get power connections, two crore more toilets will be constructed under Swachh Bharat Mission, one crore houses will be built under Pradhan Mantri Awas Yojana in rural areas, a health insurance of Rs. 5 lacs for 100 million families will be rolled out, and Rs. 1 lac crore will be spent for education. In terms of direct investments, the government plans to spend Rs 14.34 lac crores for creation of livelihood in rural areas, make capital investment in railways of Rs. 1,47,000 crores, invest Rs. 6 lac crores into infrastructure for building roads and airports, 2 lac crores for smart cities. Further, spending Rs.10,000 crores for rolling out 5 lakh Wi-Fi hotspots to boost broadband connectivity which will help bridge the digital divide in rural India.

My first thoughts when the FM was reading out the budget, and had not yet come to the tax proposals was "but how's he going to fund this? What are the new taxes coming up? As it turned out there no big stings. The one that caught the attention was the 10% tax on long term capital gains on equities, but this too will be digested and forgotten over time. As compared to all other asset classes, only equities enjoyed a zero LTCG.

The markets reacted the next day by 800 points, but markets react to many factors- it's difficult to pin it down. It's more probable that markets are worried about fiscal deficit and government borrowing turning out higher than budgeted-but that will solve itself out as the year rolls by if the numbers stay the course. It is important to note that credit rating agency Moodys commented after the budget that India's fiscal consolidation is on track. What the markets are probably not factoring is that, such investments and government spends will lead to a huge kick-off of consumption and demand, power up a long list of supplementary industries, and build an India with modern infrastructure with roads ports and highways.

No matter what industry leaders expected, I had no expectation on corporate tax cuts this year, considering the agrarian stress and this being an election year. At best the expectation was that the threshold for 25% tax rate will move to turnover of Rs. 100 crores. The increase of threshold for SMEs to avail the reduced tax rate being revised to Rs. 250 crores was a positive surprise. It is quite obvious by now that the FM is delivering on the promise of 25% corporate tax, but in phases, starting with the most deserving.