PRE-BUDGET SPECIAL • LEAD STORY

RECIPE FOR GROWTH

Union Budget 2025-26 is expected to lay the blueprint for the Narendra Modi government's third term. But how will Finance Minister Nirmala Sitharaman deliver growth in the face of a slowing economy, global uncertainty, high inflation and tepid private investments? • BY **SURABHI**

TIGHTROPE WALK

- Union Budget 2025-26 comes amidst a slowing economy and high inflation that are posing a dual challenge to policymakers
- Expectations abound that the Finance Minister will announce measures to boost growth and domestic manufacturing, ease the burden on the middle class, and focus on jobs and skilling
- Concerns around global trade remain amidst two ongoing wars and the impact of higher import tariffs by US President Donald Trump
- It is expected to lay the blueprint for the third term of PM Modi's government and could spell out broad themes for the coming years
- Private investments are yet to recover and public investments are budgeted at a record ₹11.1 lakh crore in FY25

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Founder and Managing Partner, Nangia & Co

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₹11.87 lakh crore. (See graphic '*The rise and rise of non-corporate income tax*')

The trend has led to some criticism over the high tax burden on individual taxpayers. Consider their argument: The maximum marginal income tax rate under the new tax regime, inclusive of surcharge and cess, as per the Finance Act 2024, is 39%. While this is paid just by a select few, several individuals and experts point out that the highest slab of income tax of 30% starts at an annual income level of just ₹15 lakh. In contrast, domestic companies that opt for concessional rates under Section 115BAA of the Income Tax Act, inclusive of surcharge and cess, as per the Finance Act 2024, have

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these was seen to be only marginal. For taxpayers under the new regime, the Budget revised income tax slabs, increased the standard deduction to ₹75,000, and gave a higher deduction of ₹25,000 for family pension. Together, they can help save ₹17,500 annually for taxpayers under the new tax regime. Further, in 2023-24, the exemption limit for income tax was hiked to ₹7 lakh.

Officials point out that the percentage of income tax collection from taxpayers earning less than ₹10 lakh reduced to 6.22% of the total tax paid in 2024 from 10.17% in 2014. Even for those earning between ₹7 lakh and ₹10 lakh annually, the tax liability was ₹43,000 in FY24.

EXPANDING BASE

Personal or non-corporate income tax collections have also slowly overtaken the corporate tax mop-up over the last two years, and that trend is likely to continue in FY25 as well. According to the Budget Estimates for 2024-25, corporate taxes are expected to fetch ₹10.2 lakh crore, while taxes on income are estimated to yield ₹11.87 lakh crore. (See graphic '*The rise and rise of non-corporate income tax*')

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However, finance ministry officials and tax experts highlight that there are several reasons for the expanding personal income taxpayer base. Further, they contend that a higher contribution of individual taxpayers in direct taxes is a trend seen in most developed economies.

Rohinton Sidhwa, Partner at Deloitte India, points out that it is generally a good trend for PIT collections to outpace those from corporate tax. "There are economic reasons to tax business activities at a lower rate, as this is aimed to incentivise commercial activity. PIT tends to be taxed at a higher rate and goes up progressively," he adds.

In India, there are many reasons why personal income tax collections outpace corporate tax collections, Sidhwa explains, including higher capital gains tax as well as the recent move to tax dividends in the hands of individuals.

The Central Board of Direct Taxes in the finance ministry, in fact, recently chose to change the nomenclature of taxes, and PIT is now called non-corporate income tax, as it includes tax on dividends and securities transaction tax.

The government has also highlighted various steps that have led to an increase in the income taxpayer base. These include the new form 26AS that contains all information of deduction or collection of tax at source, specified financial transaction (SFT), and payment of taxes, demand and refund, pre-filled income tax returns (ITRs), the facility to update or correct ITRs, simplification of PIT with the new tax regime, as well as the expanded scope of tax deducted and collected at source.

Considering the progress made on the tax collection front, and in light of the challenges of slowing growth and high inflation, perhaps some relief to individual taxpayers could provide a boost to the economy. BT

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THE BUDGET WISHLIST

- Rationalisation of income tax slabs so that the maximum rate of 30% starts for income above ₹15 lakh
- Increase in standard deduction from the current ₹75,000 in the new income tax regime
- Respite from TDS on interest on fixed deposits to help savers
- Rationalisation of rates of goods and services tax, which is under consideration by the GST Council

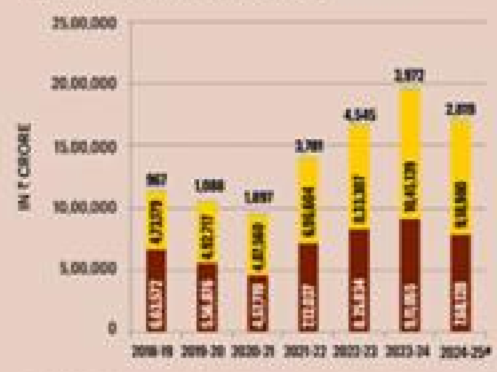
WHAT THE TAXMAN SAYS

- Rise in non-corporate tax due to several measures including anti-evasion initiatives and move to ease taxpayer compliance
- Non-corporate tax mop-up has overtaken corporate tax collection as the former includes dividend tax, securities transaction tax
- Tax burden remains low as income up to ₹7 lakh per annum exempt from income tax
- Budget 2024-25 revised income tax slabs, increased standard deduction and gave a higher deduction for family pension in new tax regime

THE RISE AND RISE OF NON-CORPORATE INCOME TAX

DIRECT TAX COLLECTIONS

• Personal income tax collections have overtaken corporate tax collections since 2022-23



■ CORPORATE TAX ■ PERSONAL INCOME TAX* ■ OTHER DIRECT TAXES

APR 1, 2024, TO JAN 12, 2025 * FIGURES FOR PERSONAL INCOME TAX INCLUDE SECURITY TRANSACTION TAX

SOURCE CBDT

NUMBER OF INDIVIDUAL TAXPAYERS

• Number of individual taxpayers has increased by 18.9% between AY19 and AY23 to 99.1 million

NOTE A "TAXPAYER" IS A PERSON WHO EITHER HAS FILED A RETURN OF INCOME FOR THE ASSESSMENT YEAR OR IN WHOSE CASE TAX HAS BEEN DEDUCTED AT SOURCE IN THE RELEVANT FINANCIAL YEAR

mate of ₹11.87 lakh crore this fiscal. In the same period, net corporate tax collections came in at a lower ₹7.68 lakh crore.

Amid such buoyant direct tax collections, with the mop-up from non-corporate or PIT outshining that from corporate tax, the cry for a substantial rationalisation in tax rates has only grown. In fact, it was also an issue in the run-up to the General Elections in 2024 and the Union Budget for 2024-25. This was also discussed at a recent meeting of PM Modi with economists.

ON THE WISHLIST

A review of income tax slabs, especially the 30% slab that kicks in for annual incomes of ₹15 lakh and above, under both the new and old income tax regimes, could provide substantial relief to millions of taxpayers, especially those who live in cities and have been facing high inflation and poor salary hikes.

A higher standard deduction and some relief on savings, such as interest on fixed deposits, are other key asks, along with rationalisation of rates in the GST. While the latter can only be decided by the GST Council, taxpayers are hoping that Finance Minister Nirmala Sitharaman will announce some goodies for them in the upcoming Budget.

Sacchidananda Mukherjee, Professor at the economic think tank National Institute of Public Finance and Policy (NIPFP), points out that personal income tax is paid largely by professionals and salaried individuals. "There is a need to review the income tax slabs, and the 30% slab should come into effect from an income of ₹25 lakh. There is a need to reduce personal income tax rates as the middle class is highly impacted," he underlines.

The upcoming Budget could be a game changer if the government prioritises the middle class' needs and rationalises both PIT as well as the GST, Mukherjee says. Private corporate investment remains stagnant at 11% of gross value added (GVA) since 2017-18 and 12% since 2011-12. Clearly, the corporate tax rate is just one factor that influences investment decisions by companies.

Rakesh Nangia, Founder and Managing Partner of tax advisory firm Nangia & Co, points out that India's rising PIT collections indicate an expanding taxpayer base and improved compliance, which alleviate immediate pressure for significant rate cuts. This underlines the importance of a cautious approach to PIT reforms to avoid a potential revenue shortfall.

"At the same time, India's economic landscape presents additional challenges, with retail inflation rising to 6.2% in October, well above the Reserve Bank of India's target of 4%. Inflationary pressures driven by global conflicts like the Russia-Ukraine war and elevated oil and gas prices have strained household budgets," Nangia says. He adds that higher food prices and borrowing costs have weakened urban consumption, a critical component of private consumption that accounts for roughly 60% of the GDP.

Nangia says targeted measures providing relief to middle- and lower-income taxpayers to boost consumption are the need of the hour. "Periodic adjustments to income tax slabs to account for inflation would preserve real income levels and enhance disposable income. Similarly, an increase in the standard deduction could directly benefit the salaried taxpayers, aligning with the government's emphasis on financial inclusion and demand-led growth," he says.

As a means to stimulate demand and alleviate inflationary pressures alongside targeted reforms on PIT, Nangia suggests that the Budget can consider complementary measures such as increased rural employment spending through the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), agricultural income support, and rationalised GST rates on essentials. These initiatives, alongside targeted PIT reforms, can stimulate demand, alleviate inflationary pressures, and foster equitable economic growth while safeguarding fiscal stability.

To be fair, Budget 2024-25 did announce a few sops for individual taxpayers, but the cumulative impact of