SBI Research

PRELUDE TO UNION BUDGET 2025-26

FY26 budget could be built on the edifice of: Social Security, Financial Stability, Health Care and Consumption …We envisage the pareto optimal solution of Rationalizing Direct taxes across various options with least revenue loss / Rs 50,000 crores / a meagre 0.14% of GDP and maximum gains to consumer as following (a) Remove all exemptions and bring all under new tax regime, but retain and enhance the NPS limit from Rs 50,000 to Rs 1 lakh and enhance medical insurance exemption to Rs 50,000 from Rs 25,000 (b) Tax rates to be rationalised at 15% from 20% at Rs 10-15 lakhs income bucket (c) 15% tax on deposits and across all maturities and such tax treatment should be same like other asset classes, i.e. clubbing it in other income and taxing it at redemption and not accrual basis and increasing Savings Bank tax exemption limit to Rs 20,000..India INC should match up Government efforts and efficiency without much further ado

Issue # 29, FY25 24-January-2025

Executive Summary….1/3

- A progressive Tax regime, coupled with reforms in taxation system, has ensured that tax mop up has grown handsomely over time…
- We estimate GoI can ensure better tax compliance and bolster consumption through enhancing **disposable income**, **by moving all and one under the New Tax regime, at a nominal loss(es) by foregoing certain amount of tax collection as under cases 1, 2 and 3**
  - Assumptions: (i) All exemptions under old tax regime are removed (~Rs 4.5 lakh per person) - except Health and NPS of ~1.5 crore taxpayers (at present which are tweaked upwards under two scenarios from Rs 25k to Rs 50 k and NPS from Rs 50,000 to Rs 75,000 and Rs 1 lakh (*Refer slide 12 for detailed table and break-ups*)
  - ***Likely loss to GoI under different Tax Adjustments are envisaged***
    - **Case-1**: Peak rate reduced to 25% for income above 15L and all exemptions are removed but healthcare and NPS are retained at the same level of Rs 25k and Rs 50 k and increased to Rs 50k and Rs 75 k in scenario 1 and Rs 50k and Rs 1 lakh in scenario 2. The revenue losses of the Government stands at Rs 74000 crores to Rs 1.08 lakh crores. Additionally, a flat 15% tax is imposed on bank deposits that is added to other income and delinked from highest income bucket, with an increase in limit to Rs 20,000 tax exemption for savings bank (SA) deposits
    - **Case-2:** Peak rate retained at 30% for income above 15L. However, tax rates are reduced to 15% from Rs 10 lakhs-Rs 15 lakhs and all exemptions are removed but healthcare and NPS are retained at the same level of Rs 25k and Rs 50 k and increased to Rs 50k and Rs 75 k in scenario 12 and Rs 50k and Rs 1lakh in scenario 2. The revenue losses of the Government stands at Rs 16,000 crores to Rs 50,000 crores. Additionally, a flat 15% tax is imposed on bank deposits that is added to other income and delinked from highest income bucket, with an increase in limit to Rs 20,000 tax exemption for SA deposits . **We propose this option for the Government and Consumers with the revenue loss at Rs 50,000 crores / 0.14% of GDP**
    - **Case3:** Peak rate cut to 25% for income above 15L Tax rates are reduced to 15% from Rs 10 lakhs-Rs 15 lakhs and all exemptions are removed but healthcare and NPS are retained at the same level of Rs 25k and Rs 50 k and increased to Rs 50k and Rs 75 k in scenario 12 and Rs 50k and Rs 1lakh in scenario 2. The revenue losses of the Government stands at Rs 85,000 crores to Rs 1.19 lakh crores . Additionally, a flat 15% tax is imposed on bank deposits that is added to other income and delinked from highest income bucket, with an increase in limit to Rs 20,000 tax exemption for SA deposits
- **We believe that sensitivity of consumption demand is more responsive to indirect taxes vis-à-vis direct taxes… this thus calls for further rationalization of indirect tax structure to smoothen consumption activity in economy**
- **India Inc. should match the pace/intent of the GoI in terms of visualizing for the next 50 years, that has frontloaded building robust infra across physical-technical-social space that have ensured traction amongst various income groups…with good profitability post pandemic, and viable financing options through a mix of sources (a resilient, deep and vibrant capital markets in harmony with a strong banking system that has got its mojo back) augurs well for the investments that harness India's strategic pitching for becoming the manufacturer of the new world order**

Executive Summary….2/3

- Adherence to fiscal prudence is a sine qua non for the government while continuing the fiscal consolidation path. The Fiscal deficit as % of GDP may come at 4.5% in FY26 (Rs 15.9 lakh crore) that looks like the new normal in a world of uncertainties, offering flexibility in tinkering the glide path a little to romp up inclusive growth
- With smart usage of switch and buyback Gross market borrowing (Rs 14.4 lakh crore) can be expected in FY26 due to an increase in redemptions, when part of the COVID-19 pandemic borrowings are due for repayment, resulting in a net borrowing of Rs 11.2 lakh crore (Rs 4.05 lakh crore redemption in FY26 and expected switch of Rs ~75000 to 100000 crore)
- Direct taxes contribution to total tax revenue rose to ~58% in 2023-24, the highest in 14 years and in lockstep with trends seen in DMs like the US. Personal income tax (PIT) collections (7%) are surging higher than corporate tax collections (4%) in 5 years since FY21
- **Of late, there is a Tsunami of women centric schemes unleashed by multiple states offering direct benefit transfers (some badly guised as pure electoral realpolitik, we believe) that can bleed select states' finances going forward as the wedge between revenue receipts and such expenditures may vault to 3-11% of the states revenue receipts…With income transfer to women likely to be promised competitively by states in future, even the Union may be tempted to follow suit.. It would be worth taking course to adopt a universal income transfer scheme (matching grant from center to states) towards substantially reducing several market disturbing subsidies**

Executive Summary….3/3

- In line with MF/direct equity investments, we understand that the Government should consider lowering tax on accrued interest rate on deposits, in alignment with capital gains to give a level playing field between Bank deposits and capital markets
- The present dispensation for Equity/MF holdings stipulates taxing STCGs at a flat rate of 15% while the LTCGs are taxed at a moderate 10%, with exemption allowed till income of LTCG up to one lakh during a given FY…also, the setting-off of loss against profits and carrying over the loss up to next eight years makes the opportunity cost of such alternate investments quite lucrative for investors up the wealth ladder
- The threshold for tax exemptions on Savings deposit at Rs 10,000 may be reconsidered and raised to Rs 20,000- the revenue foregone using Pareto Principle comes around ~Rs 1,531 crore (*flat RoI at 4%),* leading to multiple benefits viz. Stability in core deposit base, financial stability, better visibility of system liquidity against growing digital payments and most important allowing banks to pass on the benefits accruing through low-cost deposits to fund the humongous social commitments (FI 2.0) / sunrise sectors led demand in continuum
- Term deposits, that have witnessed greater favor with savers with elevated rates attracting higher proportions, may witness a revenue foregone figure of Rs 10,500 crore if current tax treatment across maturity ladder is to be replaced by a simple flat 15%rate across all maturity. **Combined revenue foregone including both saving deposits and terms deposit comes around ~Rs 12,000 crore**
- The National Health Policy 2017 has set a target of increasing healthcare spending to 2.5% of GDP. However, a more aggressive target of 5% could be required to address the growing needs of India's ageing and expanding population… Allocate proceeds from healthcare cess and a proposed higher GST slab on tobacco and sugar products can strengthen public health programme

Key issues in Fiscal

Fiscal Deficit may be budgeted ~4.5% of GDP in FY26

- India continues to remain the bright spot supported by its strong macro fundamentals
- Nominal GDP growth for FY26 is expected at 10.2%, assuming a real GDP growth of 6.2 to 6.4% and inflation of 4 to 3.8%. So, the Nominal GDP would be Rs 357.2 Lakh crore
- The Government should focus on adherence to fiscal prudence and continue the fiscal consolidation path. The Fiscal deficit as % of GDP may come at 4.5% in FY26 (Rs 15.9 lakh crore). However, we must also appreciate that in a world of uncertainties mostly for the external sector, there is no harm the glide path being tinkered a bit to give growth a leg up

Budget at a glance

Rs lakh crore	FY24	FY25 BE	FY25 (P)	FY26 (P)	FY26 (P) / FY25 (P) (% yoy)
Tax Revenue	23.3	25.8	25.8	29.0	12.3
Non-tax Revenue	4.0	5.5	5.4	4.2	-21.5
Recoveries of Loans	0.3	0.3	0.2	0.3	50.0
Other Receipts	0.3	0.5	0.4	0.6	50.0
Total Receipts	**27.9**	**32.1**	**31.8**	**34.1**	**7.3**
Total Expenditure	**44.4**	**48.2**	**47.7**	**50.0**	**4.8**
Fiscal deficit	16.5	16.1	16.0	15.9	-0.1
Fiscal Deficit (% of GDP)	**5.6**	**4.9**	**4.9**	**4.5**	**-**
Memo item:					
GDP	295.4	326.4	324.1	357.2	10.2

Source: CGA, Budget documents, SBI Research

With lower fiscal deficit, Government net borrowing likely to reduce moderately to Rs 11.2 lakh crore in FY26

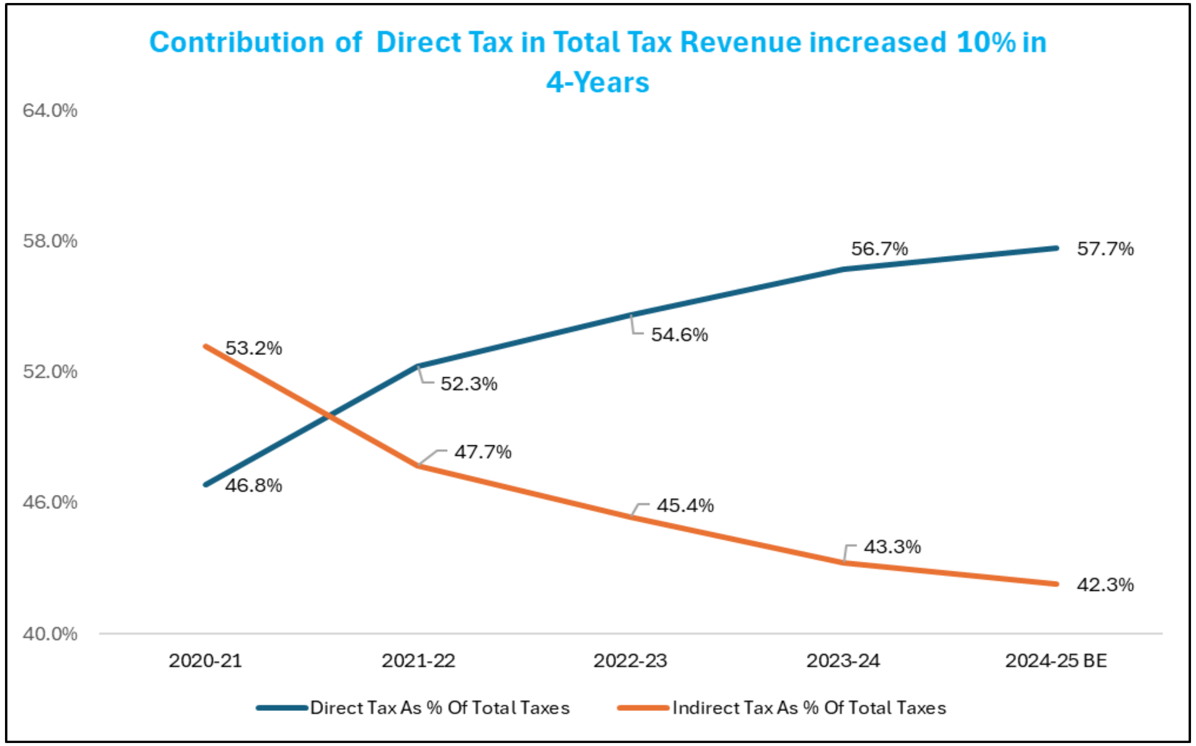
- Gross market borrowing (~Rs 14.4 lakh crore) can be expected in FY26 due to an increase in redemptions, when part of the COVID-19 pandemic borrowings are due for repayment, resulting in a net borrowing of Rs 11.2 lakh crore (Rs 4.05 lakh crore redemption in FY26 and expected switch of Rs ~75000 to 100000 crore)
- Government has already conducted Rs 1.1 lakh crore buyback and Rs 1.46 lakh crore switches so far in FY 25. Communication from policy makers as also the regulators needs to be crystal clear, and front loaded in market participants expectations
- Schemes like JIT that may have an effect on systemic liquidity need careful recalibration, keeping in mind the first order, as also the second order impacts

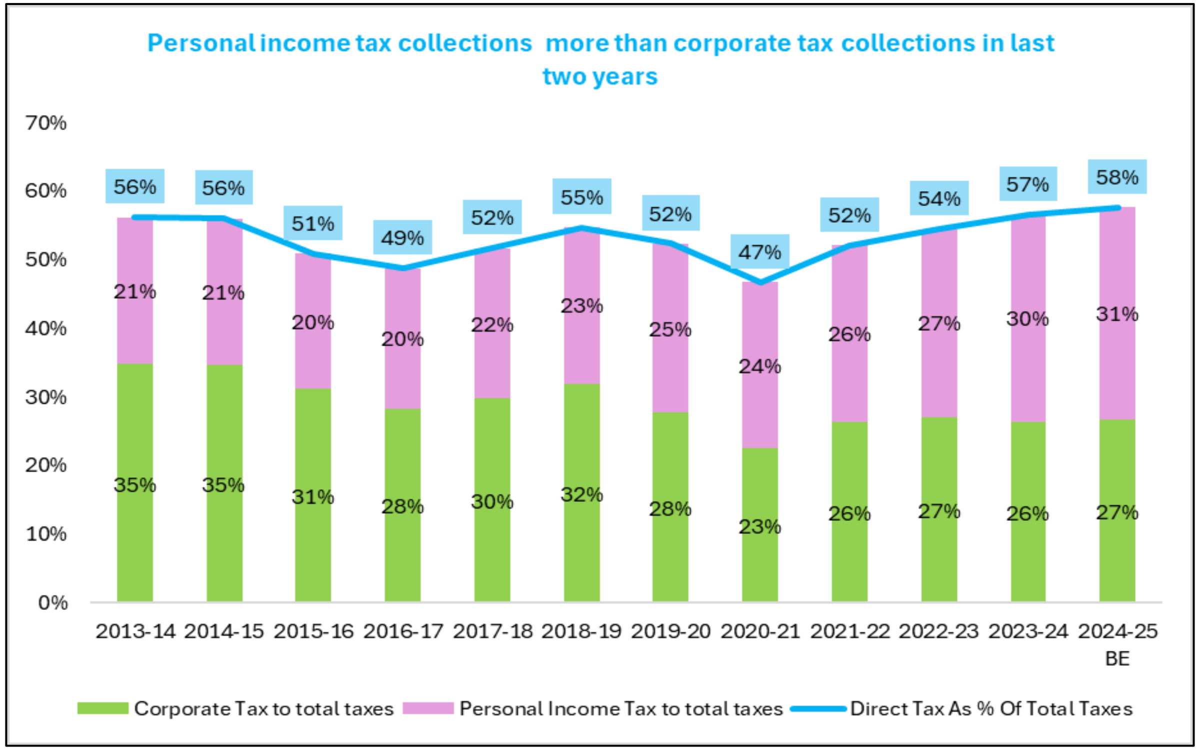
Market Borrowings (Rs lakh crore)				
	FY 24	FY25 BE	FY25 (P)	FY26 (P)
Centre				
Gross Borrowing	15.43	14.01	14.01	14.4
Repayments*	3.63	2.38	2.38	3.20
Net Borrowing	11.80	11.6	11.6	11.2
State				
Gross Borrowing	10.1	10.0	10.4	10.9
Repayments	2.8	3.2	3.2	3.7
Net Borrowing	7.3	6.9	7.2	7.1
Central+ States				
Gross Borrowing	25.5	24.1	24.4	25.2
Net Borrowing	19.1	18.5	18.8	18.3

Source: SBI Research,*FY25 Repayment is expected to adjust with Rs 0.87 Lakh cr buyback amount and Rs 1.97 Lakh cr from GST compensation fund, FY26 repayment is based on the expectation of ~ RS 75000 crore switch of RBI holding securites. Else the gross borrowing may go beyond Rs 15 Lakch crore

Direct taxes to total tax revenue stands at 58% in FY25

- The contribution of direct taxes to total tax revenue budgeted at 58% in 2024-25, the highest in 14 years. While, the share of indirect taxes to total tax revenue may decline to 42.3 per cent
- Personal income tax (PIT) collections surging higher than corporate tax collections since FY21
- PIT share has been increased by 7%, while corporate tax share has increased by 4% in 5 years





Direct Benefit Transfer Schemes for women across states has now crossed Rs 1.5 trillion…

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- In a bid to woo women voters in the elections, all the parties have announced state's the women-centric schemes, which give direct cash transfer ranging from Rs 1000-2000 per month. The total cost of 8 states amounts Rs ~1.5 lakh crore, which varies 3-11% of the state's revenue receipts.. There is a need to have a holistic view on schemes

Scheme	Description	State	Allocation (Rs crores)	Revenue receipts	% of Revenue Receipts
Gruha Lakshmi	Provision of Rs.2000/- per month to the female head of the family	Karnataka	28,608	2,63,178	11%
Mukhyamantri Ladli Behna Yojana	Provision of Rs 1250 to all eligible women to promote self reliance	Madhya Pradesh	18,984	2,63,344	7%
Mahtari Vandan Yojana	To provide married women with annual assistance of Rs 12,000	Chattisgarh	3,000	1,25,900	2%
Namo Shri Scheme	Pregnant women belonging to specified categories (such as SC, ST, and BPL) will be provided a one-time financial assistance of Rs 12,000.	Gujarat	12,000	2,29,653	5%
Mukhya Mantri Mazhi Ladki Bahin Yojana	Provision of Rs 1,500 per month to eligible women aged between 21 and 60 years.	Maharashtra	46,000	4,99,463	9%
Mukhyamantri Mahila Samman Yojana	Rs 1,000 per month will be provided to every adult woman excluding those paying income tax, covered under existing pension schemes, and government employees.	Delhi	2,000	64,142	3%
Lakshmir Bhandar	Provision of a one-time grant of Rs. 1000 to women from economically weaker sections of society.	West Bengal	14,400	2,36,251	6%
Subhadra Yojana	Provision of Rs 50000 over 5 years to all eligible women aged 21-60yrs	Odisha	10,000	2,11,000	4%

….However States' fiscal position should be examined simultaneously

- Some states have the capacity to pay for such schemes, for instance Odisha has higher non-tax revenue thus no borrowing
- However, at a broader level, the welfare expenditure should be looked at vis-à-vis their respective fiscal situation and borrowing pattern

State wise Gross market borrowing (Rs Lakh Cr)

States	FY14	FY24	FY25 Till 22 Jan 25	FY24 X times as FY14
Andhra Pradesh	0.28	0.69	0.63	2.5
Bihar	0.08	0.48	0.38	5.9
Chhattisgarh	0.03	0.32	0.07	9.6
Goa	0.01	0.03	0.01	2.1
Gujarat	0.22	0.31	0.19	1.4
Haryana	0.12	0.48	0.31	4.1
Jharkhand	0.05	0.01	0.00	0.2
Karnataka	0.16	0.81	0.55	5.2
Kerala	0.11	0.42	0.36	3.8
Madhya Pradesh	0.11	0.39	0.35	3.6
Maharashtra	0.24	1.10	0.81	4.6
Odisha	0.05	0.00	0.01	0.0
Punjab	0.10	0.42	0.35	4.3
Rajasthan	0.12	0.74	0.53	6.0
Tamil Nadu	0.23	1.13	0.84	4.8
Telangana	–	0.50	0.44	-
Uttar Pradesh	0.19	0.98	0.26	5.0
Uttarakhand	0.03	0.06	0.04	1.9
West Bengal	0.26	0.70	0.43	2.7
All States and UTs	2.51	10.07	6.94	4.0

State wise Surplus (+)/Deficit (-) on Revenue Account (% of GSDP)

States	FY14	FY24(RE)	FY25(BE)	Change in bps (FY24/FY14)
Andhra Pradesh	0.0	-2.7	-2.1	-270
Bihar	1.9	-4.2	0.1	-610
Chhattisgarh	-0.4	-3.1	0.2	-270
Goa	-0.7	0.9	1.6	160
Gujarat	0.6	0.8	0.4	20
Haryana	-1.0	-1.2	-1.5	-20
Jharkhand	1.6	1.5	3.7	-10
Karnataka	0.1	-0.6	-1.0	-70
Kerala	-2.9	-2.1	-2.2	80
Madhya Pradesh	1.4	0.0	0.1	-140
Maharashtra	-0.3	-0.5	-0.5	-20
Odisha	1.2	2.6	2.9	140
Punjab	-2.1	-3.2	-2.9	-110
Rajasthan	-0.2	-2.0	-1.4	-180
Tamil Nadu	-0.2	-1.7	-1.6	-150
Telangana	-	0.1	0.0	-
Uttar Pradesh	1.2	2.8	2.7	160
Uttarakhand	0.9	0.9	1.2	0
West Bengal	-2.7	-1.7	-1.7	100
All States and UTs	-0.1	-0.5	-0.2	-40

Tax Related Suggestions

Tweaking the Income Tax Rate/Slab…… 1/2

- We estimate GoI can ensure better tax compliance and bolster consumption through enhancing **disposable income**, **by moving all and one under the New Tax regime, at a nominal loss(es) by foregoing certain amount of tax collection as under cases 1, 2 and 3**
  - Assumptions: (i) All exemptions under old tax regime are removed (~Rs 4.5 lakh per person) - except Health and NPS of ~1.5 crore taxpayers (at present which are tweaked upwards under two scenarios from Rs 25k to Rs 50 k and NPS from Rs 50,000 to Rs 75,000 and Rs 1 lakh (*Refer slide 12 for detailed table and break-ups*)
  - ***Likely loss to GoI under different Tax Adjustments are envisaged***
    - **Case-1**: Peak rate reduced to 25% for income above 15L and all exemptions are removed but healthcare and NPS are retained at the same level of Rs 25k and Rs 50 k and increased to Rs 50k and Rs 75 k in scenario 1 and Rs 50k and Rs 1 lakh in scenario 2. The revenue losses of the Government stands at Rs 74,000 crores to Rs 1.08 lakh crores. Additionally, a flat 15% tax is imposed on bank deposits that is added to other income and delinked from highest income bucket, with an increase in limit to Rs 20,000 tax exemption for SA deposits
    - **Case-2:** Peak rate retained at 30% for income above 15L. However, tax rates are reduced to 15% from Rs 10 lakhs-Rs 15 lakhs and all exemptions are removed but healthcare and NPS are retained at the same level of Rs 25k and Rs 50 k and increased to Rs 50k and Rs 75 k in scenario 12 and Rs 50k and Rs 1lakh in scenario 2. The revenue losses of the Government stands at Rs 16,000 crores to Rs 50,000 crores. Additionally, a flat 15% tax is imposed on bank deposits that is added to other income and delinked from highest income bucket, with an increase in limit to Rs 20,000 tax exemption for SA deposits . **We propose this option for the Government as also Public at large**
    - **Case3:** Peak rate cut to 25% for income above 15L Tax rates are reduced to 15% from Rs 10 lakhs-Rs 15 lakhs and all exemptions are removed but healthcare and NPS are retained at the same level of Rs 25k and Rs 50 k and increased to Rs 50k and Rs 75 k in scenario 12 and Rs 50k and Rs 1lakh in scenario 2. The revenue losses of the Government stands at Rs 85,000 crores to Rs 1.19 lakh crores . Additionally, a flat 15% tax is imposed on bank deposits that is added to other income and delinked from highest income bucket, with an increase in limit to Rs 20,000 tax exemption for SA deposits

*Out of all the scenarios estimated above, we are of the considered opinion that Case-2 optimizes the revenue foregone-incremental output scenario **the Best** by strengthening the four quadrants of Social Security, Financial Stability, Consumption boost and healthcare tweaking tax rates between the Rs 10-15 lakh bucket, removing the exemptions but bolstering the same on NPS (creating a handsome corpus for sunset years / other eventualities) and healthcare among those who can afford (that may accentuate government's schemes like Ayushman Bharat), keeping optimal CASA deposits level in the banking system, eventually boosting consumption and investments through higher ICOR (incremental capital output ratio)*

Tweaking the Income Tax Rate/Slab…… 2/2

Simulations in Income Tax (All numbers in Rs lakh crores)										
			Gain to Government	**Loss to Government under different Tax Adjustments**			**Revenue foregone**	**Net Gain/Loss to Government (Removing all exemptions with some tweaks is common theme across all 3 cases)**		
Exemptions Scenarios	Health	NPS	After removing all exemptions (~Rs 4.5 lakh per person) - except Health and NPS of 1.5 crore taxpayers	**Case-1**: Peak rate reduced to 25% for income above 15L	**Case-2**: Tax rates reduced from 20% to 15% in 12L-15L income bucket , thus moving all from Rs 10-15 lakhs in 15% bucket only	**Case3: Case1 + Case2**	**Flat 15% tax on bank deposits and increasing SA exemption limit to Rs 20,0000**	Case-1	Case-2	Case-3
Existing Exemptions	25K	50K	1.59	2.21	1.63	2.32	0.12	-0.74	-0.16	-0.85
Revised-Scenario 1	50K	75K	1.36					-0.97	-0.39	-1.08
Revised-Scenario 2	50K	100K	1.25					-1.08	-0.50	-1.19
Source: SBI Research										

Revenue implications for changing savings deposit threshold from Rs 10,000 to 20,000

- The threshold for savings deposit at Rs 10,000 may be reconsidered and raised to Rs 20,000
- Revenue foregone calculations under the Pareto principle
  - (85-15) pre-change and (86-14) post change was done for Amount
  - (99.5-0.5) pre-change and (99.6-0.4) post change for no. of accounts
- The revenue foregone is around Rs ~Rs 1,531 crore (RoI at 4%) using deposit base as of March 2024
- For this amount revenue neutrality can be achieved without much trouble
- **Benefits: Stability in core deposit base, financial stability, better visibility of system liquidity with growing digital payments**

Total saving deposits (Rs crore)	53,87,584
Amount admisible for tax (@15%)	8,08,138
No of accounts (Crores, @0.5%)	1.11
Deposit rate	4.0%
Total interest paid (Rs Crores)	32,326
Exempted amount @ Rs 10,000	11,059
Tax Base (Rs Crores)	21,267
Assuming threshhold is raised to Rs 20,000	
Amount admisible for tax (@13.5%)	7,27,324
No of accounts (Crores, @0.35%)	0.774
Deposit rate	4.0%
Total interest paid	29,093
Exempted amount @ Rs 20,000	15,482
Tax Base	13,611
Change in tax base	-7,656
Revenure foregone @ 20%	-1,531.19

Nil Surge scenario

Revenue implications for changing savings deposit threshold from Rs 10,000 to 20,000 with surge

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- The estimated surge in savings deposit on account of change in tax rate is 4.01%
- The results are not much different from base line case
- However, there should be impetus for the average depositors to continue the pattern of demand and time deposits allocation, helping banks to pass on the benefits of low-cost deposits to meet commitment towards social attributes / sunrise sectors led demand in continuum

Total saving deposits (Rs crore)	56,03,637
Amount admisible for tax (@15%)	8,40,546
No of accounts (Crores, @0.5%)	1.11
Deposit rate	4.0%
Total interest paid (Rs Crores)	33,622
Exempted amount @ Rs 10,000	11,059
Tax Base (Rs Crores)	22,563
Assuming threshhold is raised to Rs 20,000	
Amount admisible for tax (@13.5%)	7,56,491
No of accounts (Crores, @0.35%)	0.774
Deposit rate	4.0%
Total interest paid	30,260
Exempted amount @ Rs 20,000	15,482
Tax Base	14,778
Change in tax base	-7,786
Revenure foregone @ 20%	-1,557.12

With Surge scenario

Tax implications of flat 15% tax rate across term deposit maturity

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- All calculation taking March 2024 deposit and rates as baseline (for individual depositors' contribution only excluding other segments)
- Current tax treatment across maturity ladder to be replaced by simple flat 15% rate across all maturity
- **As with savings account, surge in deposit was estimated using 1.1 tax buoyancy, reduction in tax rate by 25%, deposit GDP elasticity of 0.85%**
- **Based on this the revenue foregone is Rs 10,408 crores**
- **Combined revenue foregone including both saving deposits and terms deposit is Rs 11,965 crores**

	Upto 1 year*	1 year & above but less than 3 years	3 years & above but less than 5 years	5 years & above	
Deposit Amount	4,35,310	44,24,209	4,94,528	6,38,181	
Tenure	0.5	1	1	1	
Rate of Intt.	6.25%	7.10%	7.00%	6.85%	
Interest outgo	13,603	3,14,119	34,617	43,715	
Tax base (@93%)	12,651	2,92,131	32,194	40,655	
Current ax rate	20%	20%	20%	20%	
Tax	2,530	58,426	6,439	8,131	**75,526**
Proposed tax rate	15.00%	15.00%	15.00%	15.00%	
Deposit change due to tax	4,51,079	49,44,496	5,52,684	7,13,231	
Interest	28,192	3,51,059	38,688	48,856	
Tax base (@93%)	26,219	3,26,485	35,980	45,436	
Tax	3,932.85	48,972.76	5,396.96	6,815.46	**65,118**
Estimated Revenue foregone (With surge in deposit)					**-10,408**

Required Separate Deductions in the New Tax Regime for Social Security

- According to IRDAI, insurance penetration in India witnessed a drop to 3.7%, as compared to 4% in FY23 and 4.2% in FY22. Life insurance penetration declined to 2.8% while non-life insurance remained at 1%.
- So, the decline in penetration is mainly due to the decline in life insurance penetration, which has raised concern to the IRDAI's mission of 'Insurance for all by 2047'
- We expect Government will focus on the followings to revive the insurance sector:
  - No GST/Tax on Term/Pure Life Insurance and health insurance premiums
  - In line with NPS, a separate deduction for life/Health insurance in the new/Old tax Regime, say Rs 25,000/50,000
  - All the Government sponsored pension schemes, APY, PM-SYM, PM-KMY and NPS-Traders may be brought under one umbrella
  - An insurance program to cover the MSME employees and provide social security to them in terms of insurance benefits and income protection for their families by way of an insurance scheme for MSME Promoter to cover losses in business due to reasons beyond control of the promoter

Health Sector – Need of the hour

- With the Government support, the diagnostic services in the country have been upscaled up significantly
- Ensuring continuity in the availability of a minimum set of diagnostics appropriate to the level of care is imperative for improving the overall quality of healthcare and patient experience. This will help to reduce the high Out of Pocket Expenditure (OOPE) incurred by patients on diagnostics
- In FY24, India’s domestic medical devices market was valued at around ₹75,000 crore, and the medical devices segment is expected to grow at a CAGR of 12-15% over the next five years. Extending the PLI scheme would allow manufacturers to scale up production, reduce reliance on imports, and contribute to the country’s “Make in India” initiative
- Tax incentives for R&D and value-added activities in Global Capability Centres (GCCs) could foster innovation and generate employment
- A uniform GST rate of 5%/12% on medical devices, from the current GST rates range from 5% to 18%, which is creating complications for manufacturers and distributors. This uniform tax structure could simplify compliance, improve operational efficiency, and lower costs in the sector
- The National Health Policy 2017 has set a target of increasing healthcare spending to 2.5% of GDP in 2025 (1.27% in FY16, 1.95% in FY24). However, a more aggressive target of 5% could be required to address the growing needs of India’s ageing and expanding population
- Allocate proceeds from healthcare cess and the proposed 35% GST slab on tobacco and sugar products to strengthen public health programme

Indirect Tax (GST)

1. **Roadmap of GST 2.0:** Need for second round of reforms in GST (GST 2.0) with the rationalization of tax rates and inclusion of electricity tariff → then Aviation turbine fuel → and finally Petrol/Diesel. Exempting / Lowering health insurance products from GST at least for all retail and health focused products
2. **Definition of Input Service Distributor** may be amended to bring better clarity and reduce litigation in future due to interpretational issues.
   - (Section 2 (61) and Section 20 (1) of GST Act 2017) words "for or on behalf of distinct persons" be replaced with "for the benefit of distinct persons".
   - Section 20 (2) of GST Act, 2017, words "paid by a distinct person registered in the same State" may be deleted.
   - Section 20 (3) of GST Act, 2017 – explanation may be added to accept ISD distributed by the Bank without challenging the valuation]
3. **GST TDS on payment**: - Interchange fees paid through settlement agencies like NPCI, Master and VISA. Transaction charges are settled on real-time basis and the invoice wise details are received subsequently. Banks are required to pay the GST TDS and subsequently claim refund of the same from the member Banks. Considering practical difficulties faced in complying with TDS provisions, GST TDS should not apply on banking services

Sector-Specific Suggestions

Specific Suggestions

1. **Infra Financing:** Government may introduce alternate sources of funding to Infrastructure Projects, which are generally cheaper than loan markets for better rated borrowers like Tax Free Bonds, Tax Paid Bonds, etc.
2. **Agriculture:** (a) Forming a comprehensive omnibus Credit Guarantee Fund Trust-Agri & Allied Sectors (CGFT-AAS) which will act as a credit accelerator and ensure coverage of all fresh Agri loans including AVCF (Agri Value Chain Financing), (b) Implement the 2021 report on agri value chain.
3. **Housing:** The definition of PSL may be aligned with definition for affordable housing, wherein, projects with a cost of ₹ 65 lakh (in 6 Metros) are covered and projects with a cost of ₹ 50 lakh at other centres are eligible (last revised in 2018).
4. **MSME:** (a) Sectors such as Textile, Garments, Handicraft, Food Processing, Leather, Electronics, Auto Components, Bulk Drugs etc. can be considered for separate PLIs for MSME, (b) Increase budgetary allocation to expand the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) and incentivize banks to cover more MSME loans under this scheme.
5. **Green Taxonomy:** Budget may announce a suitable green taxonomy for India so that fund can be channelized towards targets set under NDC of India submitted to UNFCCC
6. **Disaster Pool:** In line with the existing Nuclear Pool, Terrorism Pool in India, we should create a public-private solution / Disaster Pool for natural disaster risk involving the insurance sector could offer many benefits
7. **Education: Skill development and professional education in collaboration with global institutes of repute across a broad spectrum that revamps bringing marquee universities in traditional as also emerging technology areas, giving collaboration a thrust as we aspire to become a knowledge economy as also opening more overseas centers of select al India institutes to attract the global diaspora**

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