Budget 2013: 10 reasons why this could be a dream budget

Finance Minister P Chidambaram's seventh Budget comes amid tough challenges - slowing growth, wary markets, fiscal challenges, threats of a ratings downgrade, and a general election in 2014. Despite the hurdles, the finance minister may deliver another balanced Budget. Research firm Ambit expects a dream Budget -- one that will deliver the promised fiscal consolidation measures as well as include progressive tax reforms.

Here's why 2013 could see a dream Budget:

1. **Fiscal deficit:** The finance minister is likely to limit FY14 fiscal deficit to 4.8 per cent of the gross domestic product (GDP), thereby offering fiscal consolidation of 50 basis points as compared to the 5.3 per cent fiscal slippage expected in FY13.
2. **Indirect taxes:** Headline service tax and excise duty revenues are likely to be left unchanged at 12 per cent with a focus on easing out exemption provisions and concessional rates to prepare for the implementation of goods and services tax, or GST. Keeping rates unchanged is also important to engineer an economic turnaround.
3. **Relaxation in income tax:** An upward shift in personal income tax slabs is likely ahead of the elections.
4. **Higher taxes on super-rich:** To augment its tax collection, the government may impose a 10 per cent surcharge on the super-rich (i.e., individuals earning an income of over Rs. 20 lakh), who account for 1 per cent of tax payers, but pay 63 per cent of total income taxes. This will likely translate into a 17 per cent year-on-year increase in total personal income tax collections, assuming a 10 per cent year-on-year increase in personal incomes of all tax payers.
5. **Dividend tax:** Imposition of a temporary 10 per cent tax on annual dividend income exceeding Rs. 15 lakh may be announced. Currently, dividend is not taxable in the hands of shareholders.
6. **Hike in customs duty on crude:** The basic customs duty on crude may be hiked from 0 per cent currently to 5 per cent because global crude prices are not as volatile as last year. Oil imports account for a third of India's overall imports and are the most volatile component of India's import bill. Historically, the basic customs duty rate has been hiked when crude prices are poised for a limited rise.
7. **Corporate tax:** While the rate for the minimum alternate tax (MAT) has been systematically increased, the surcharge rate has been systematically lowered from 10 per cent in FY06 to 5 per cent in FY12. So, going by the trend MAT may be increased. However, given the weakness in India's investment demand cycle, depreciation-related concessions may be extended.

8. **Disinvestment:** The government could not meet its Rs. 30,000 crore disinvestment target in 2012-13 because of an extended weakness in equity markets. However, the Finance Minister may provide for a heavy disinvestment agenda in FY14 to provide additional revenues amid buoyant equity market conditions.

9. **GAAR:** Former Finance Minister Pranab Mukherjee created a flutter among corporates last year when he introduced the contentious General Anti-Avoidance Rules, or GAAR, which sought to target tax evaders, partly by stopping Indian companies and investors from routing investments through tax havens for the sole purpose of avoiding taxes. Mr Chidambaram, who announced the postponement of GAAR up to 2016 in January, may further clarify the government's stance in his Budget speech.

10. **Direct cash transfer:** A meaningful ramp-up in the direct cash transfer of subsidies with a clear focus on districts that will see state elections later this year is likely.

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