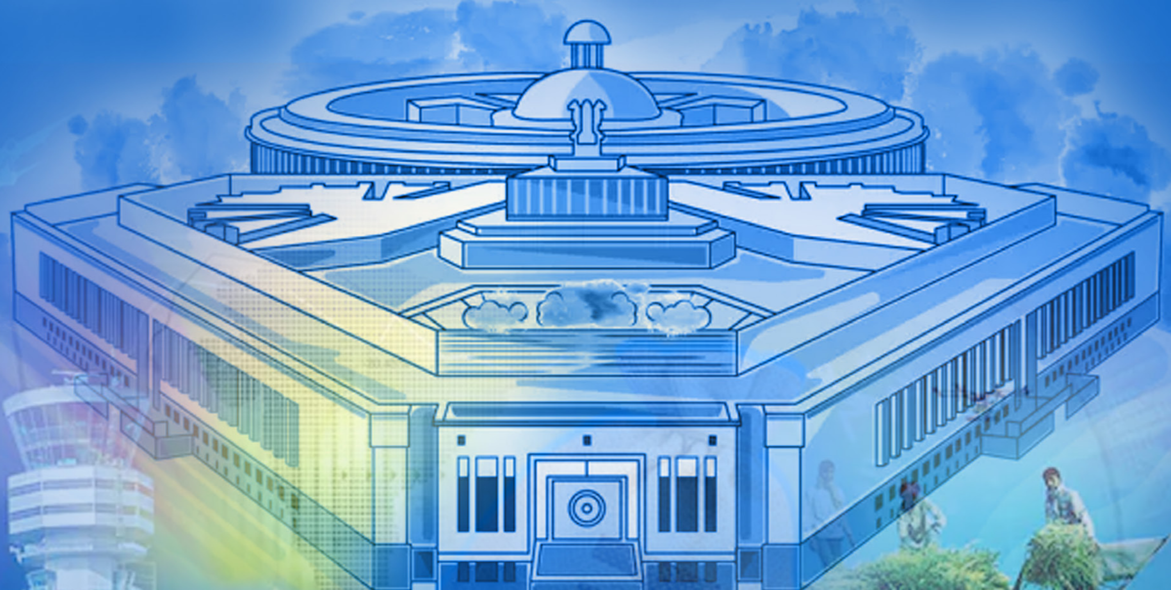
NEXT IAS

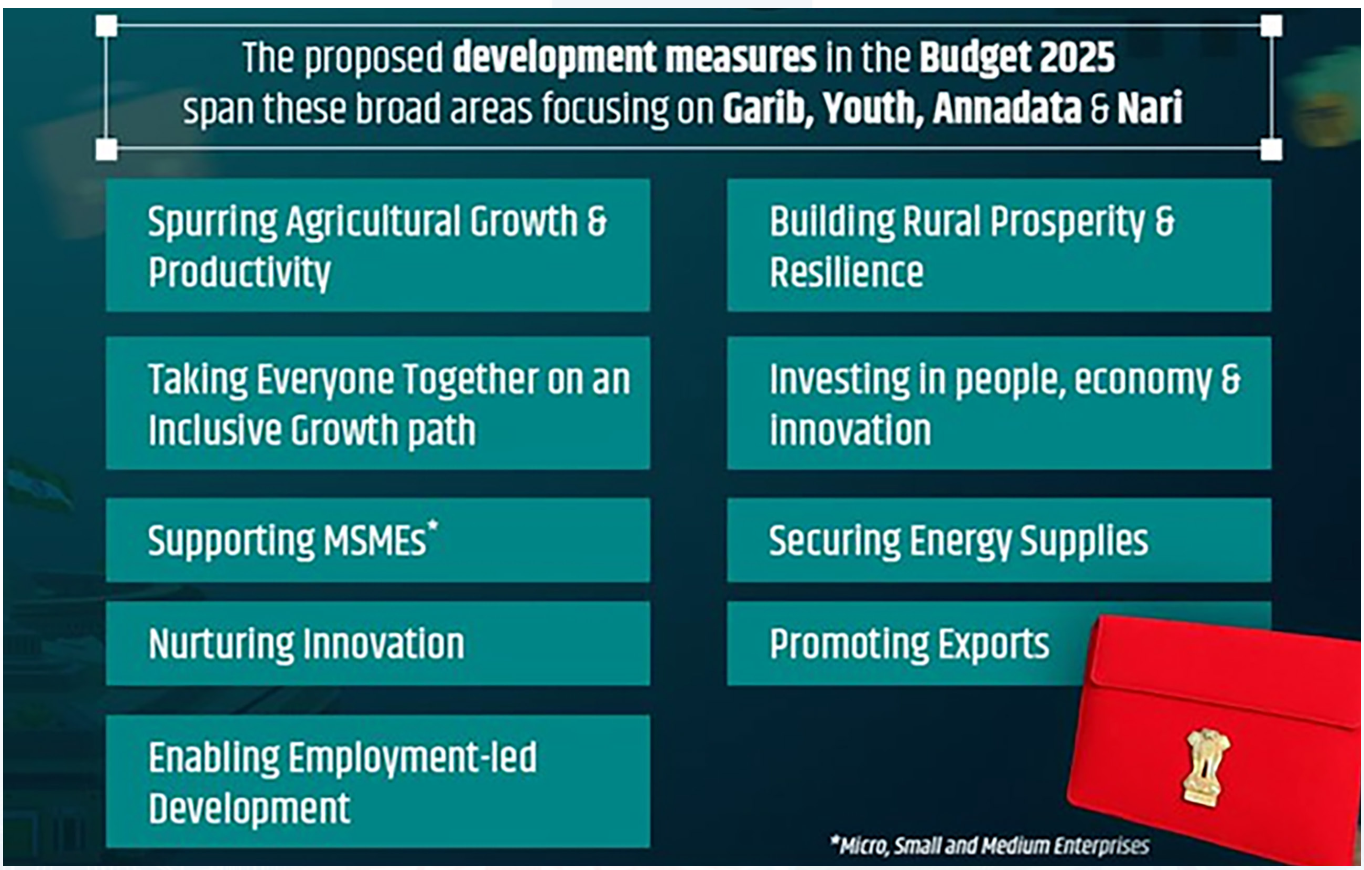
UNION BUDGET 2025-26



Key Highlights *by* NEXT IAS

ABOUT

- **Annual Financial Statement (AFS)**
  - Mandated under **Article 112**, the **Annual Financial Statement** provides estimates of **receipts and expenditure** for **2024-25**, along with estimates for **2023-24** and actuals for **2022-23**.
  - **It categorizes government accounts into three parts:**
    - **Consolidated Fund of India (CFI)** – Covers all government revenues, loans raised, and loan recoveries. Expenditures require **Parliamentary approval**. *(Article 266)*
    - **Contingency Fund of India** – An imprest fund under the **President's authority** to meet urgent unforeseen expenses. Requires **ex-post-facto Parliamentary approval** and is replenished from the **Consolidated Fund**. Current corpus: **₹30,000 crore**. *(Article 267)*
    - **Public Account of India** – Holds **trust funds** (e.g., Provident Funds, Small Savings) that do not belong to the government and must be repaid. **Parliamentary approval is not required** for withdrawals. *(Article 266)*
  - **The AFS also distinguishes between:**
    - **Revenue Account:** Regular government operations, subsidies, grants, and interest payments.
    - **Capital Account** – Expenditures on asset creation, investments, and loans.
  - **Revenue Budget Consists of:**
    - **Revenue Receipts** – Includes **tax revenue** (taxes, duties) and **non-tax revenue** (interest, dividends, fees).
    - **Revenue Expenditure** – Covers operational costs, subsidies, and grants. It does **not** create government assets.
  - **Capital Budget Comprises:**
    - **Capital Receipts** – Includes **market loans, borrowings, foreign loans, and recoveries of loans**.
    - **Capital Expenditure** – Covers **asset creation** (land, buildings, machinery), **investments**, and **loans to states, UTs, and public enterprises**.
- **Demands for Grants (DG)**
  - Required under **Article 113**, these estimates detail government expenditures **from the Consolidated Fund of India** that require **Lok Sabha approval**.
  - Presented alongside the **Annual Financial Statement**.



Journey of Development

Engines of development

- Agriculture
- MSME
- Investment
- Exports

The fuel: Reforms

Guiding spirit: Inclusivity

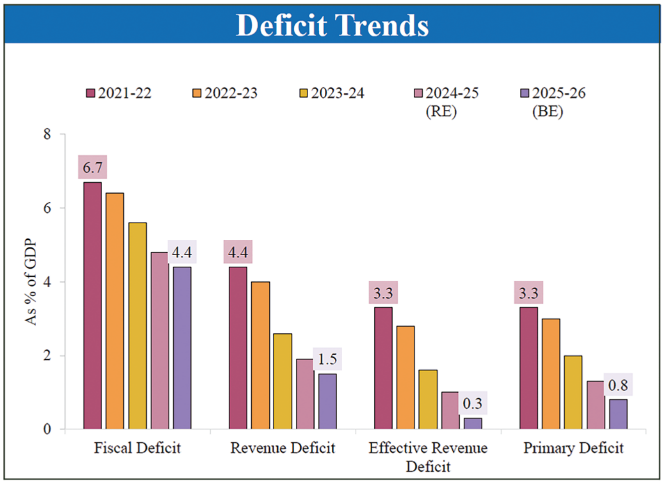
Destination: *Viksit Bharat*

A country is not just its soil, a country is its people.

Aspiration for *Viksit Bharat*

- Accelerate Growth
- Secure Inclusive Development
- Enhance Spending Power Of India's Rising Middle Class
- Invigorate Private Sector Investments
- Uplift Household Sentiments

KEY HIGHLIGHTS

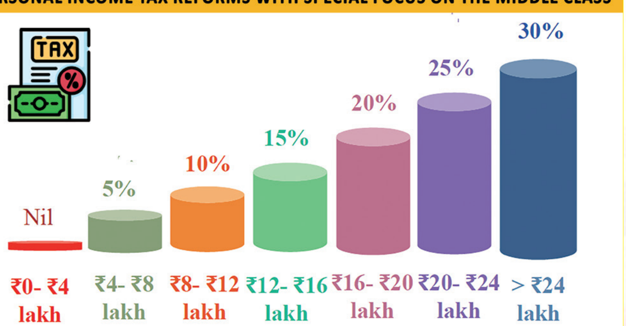


- **Fiscal Deficit:**
  - Revised fiscal deficit for FY25: 4.8%
  - Fiscal deficit target for FY26: 4.4%
- **Receipts for 2024-25:**
  - Total receipts (excluding borrowings): ₹31.47 lakh crore
  - Net tax receipts: ₹25.57 lakh crore
- **Expenditure for 2024-25:**
  - Total expenditure: ₹47.16 lakh crore
  - Capital expenditure: ₹10.1 lakh crore

Income Tax

- No income tax is payable for income up to **₹12 lakh** under the new tax regime.
  - **Revised tax slabs** will be implemented across all income groups.
  - Individuals earning above **₹24 lakh per year** will be taxed at **30%**.
  - The **tax return filing window** will be extended from **2 years to 4 years**.

PERSONAL INCOME TAX REFORMS WITH SPECIAL FOCUS ON THE MIDDLE CLASS



- **Tax Reforms**
  - **Senior Citizens:** The **tax-free interest income threshold** for senior citizens has been **increased to ₹1 lakh**.
  - **TDS on Rent:** The TDS exemption limit on rent has been raised from ₹2.4 lakh to ₹6 lakh.
  - **Education Remittances: TCS will be removed** for education-related remittances if funded through a loan from a **specified financial institution**.
  - **Higher TDS:** Will apply **only in cases where PAN is not available**.
  - **LRS Remittances:** The TCS threshold for remittances under RBI's Liberalized Remittance Scheme (LRS) has been increased from ₹7 lakh to ₹10 lakh.
- **Cess and Tariff Reforms**
  - **Customs Tariff Simplification**
    - The government will streamline the **customs tariff structure** to correct **duty inversion**, support **domestic manufacturing**, and boost **exports**.
    - Seven more tariff rates will be eliminated, leaving only **eight**, including a **zero rate**.

Promoting Exports

- ***Export Promotion Mission***: With sectoral and ministerial targets to facilitate easy access to export credit, cross-border factoring support, and support to MSMEs to tackle non-tariff measures in overseas markets.
- ***BharatTradeNet***: A digital public infrastructure, '*BharatTradeNet*' (BTN) for international trade will be set-up as a unified platform for trade documentation and financing solutions. Support for integration with **Global Supply Chains.**
- ***National Framework for GCC***: As guidance to states for promoting Global Capability Centres in emerging tier 2 cities.
- ***Warehousing facility for air cargo***: To facilitate upgradation of infrastructure and warehousing for air cargo including high value perishable horticulture produce.

  - **Cess & Surcharge:** No more than **one cess or surcharge** will be levied, and the **social welfare surcharge** will be **exempted on 82 tariff lines**.
  - **Customs Duty Exemptions:**
    - Full exemption on Basic Customs Duty (BCD) for cobalt powder, lithium-ion battery waste, scrap, and 12 other critical minerals.
    - 37 new medicines and 13 patient assistance programs added to the exemption list.
    - Six life-saving medicines to have a concessional 5% customs duty.
    - BCD fully extended on wet blue leather, and crust leather exempted from the 20% duty.

- **Tariff Reductions:**
  - **BCD on frozen fish paste** reduced from **30% to 5%** and on **fish hydrolysates** from **15% to 5%**.
  - **BCD on interactive flat panel displays** increased from **10% to 20%**.
  - **BCD on open cell and components for LCDs & LEDs** reduced to **5%**.

Financial Reforms

- **FDI in Insurance:** Foreign Direct Investment (FDI) limit for **insurance firms investing their entire premium in India** will be **raised from 74% to 100%**.
- **Central KYC Registry:** A **revamped central KYC registry** will be introduced to align regulations with **technological advancements** and the **global regulatory landscape**.
- **Ease of Doing Business:** The government will implement **faster approvals for company mergers** and expand related regulations, aiming for a **modern, trust-based regulatory framework**.
- **Investment Friendliness Index:** A **state-wise Investment Friendliness Index** will be launched in **2025** to promote **competitive cooperative federalism**.
- **Regulatory Evaluation:** Under the **Financial Stability and Development Council (FSDC)**, a mechanism will be established to **assess the impact of financial regulations** and improve sectoral **responsiveness and growth**.

Infrastructure Reforms

- **Urban Challenge Fund**
  - A **₹1 lakh crore** fund will be launched to transform **cities into growth hubs**, support **redevelopment**, and improve **water & sanitation infrastructure**.
  - It will cover **up to 25% of the cost** for **bankable projects**, with at least **50% funding** required from **bonds, bank loans, or PPPs**.
- **PPP Initiatives:** Each **infrastructure ministry** will present a **three-year PPP project list**, focusing on **three key proposals per ministry**. An initial **₹10,000 crore** is allocated for FY26.
- **Capital Expenditure:** The government will provide **₹1.5 lakh crore** in **interest-free loans** for capex and introduce **incentives** to drive **reforms**.
- **Affordable Housing**
  - **40,000 additional housing units** will be completed in **FY26**, and a **₹15,000 crore SWAMI Fund 2** will be established to support affordable housing projects.
  - **SWAMIH Fund** is a social impact fund specifically formed for completing stressed and stalled residential projects.
- **Medical Education Expansion**
  - **Increase in Medical Seats:** The government will add **10,000 medical undergraduate and postgraduate seats** over the next year as part of a broader initiative to increase the total number of seats by **75,000** over five years.
  - **Growth in Medical Seats:** Over the past decade, the number of **MBBS seats** has grown from **51,384** in 2014 to **1,12,112** in 2024, and **PG seats** have risen from **31,185** to **72,627**.
  - **Geographical Distribution:** There has been an imbalance in the distribution of medical seats, with some regions like **Karnataka** and **Puducherry** having more than their required share.
  - **New Norms:** To address this, the **National Medical Commission** has introduced a norm of **100 MBBS seats per 10 lakh population**.

Nuclear Energy Reforms

- **Nuclear Energy Mission:** A **Nuclear Energy Mission** will be introduced to accelerate India's transition to **clean energy**, with a target to develop **100 GW of nuclear power** by **2047**.
- **Private Sector Involvement:** Amendments will be made to the **Atomic Energy Act** and the **Civil Liability for Nuclear Damage Act** to encourage **private sector participation**.
- **SMR Development:** A **₹20,000 crore** initiative will be launched for the **research and development of Small Modular Reactors (SMRs)**, with the goal of having at least **five indigenously developed SMRs** operational by **2033**.

MSME Reforms

- **Growth Contribution:** MSMEs are recognized as the **second engine of growth** in India, contributing **45% of the country's exports**.
- **Support Initiatives:** To boost their development, the Finance Minister introduced:
  - **Customized credit cards** for MSMEs.
  - A **fund of funds** for **startups**.
  - An **expanded fund-of-funds (f-o-f)** with a broader scope to improve **capital access**.

REVISION IN CLASSIFICATION CRITERIA FOR MSMESA

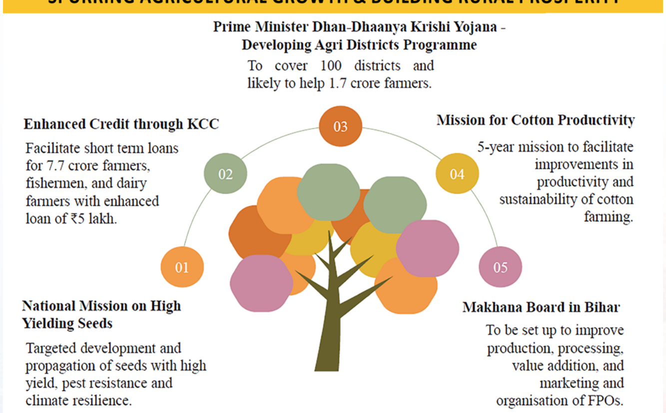
₹ in Crore	Investment		Turnover	
	Current	Revised	Current	Revised
Micro Enterprises	1	2.5	5	10
Small Enterprises	10	25	50	100
Medium Enterprises	50	125	250	500

- **Investment & Turnover Limits:** The government will **increase MSME investment** and **turnover limits** by **2.5 times** and **2 times**, respectively, to drive their growth and enhance **operational efficiency**.

Agriculture Reforms

- **Han Dhanya Krishi Yojana**
  - A new initiative under the **Prime Minister Krishi Yojana** will focus on **100 districts** with low productivity, moderate crop intensity, and limited credit access.
  - It will promote **crop diversification**, improve **storage**, enhance **irrigation**, and facilitate both **short and long-term credit** for farmers, benefiting an estimated **1.7 crore farmers**.
- **Pulses Self-Reliance Mission:** A 6-year mission will aim for self-reliance in pulses, especially tur and masoor, alongside strengthening domestic production of edible oils and seeds.
- **Makhana Board:** A Makhana Board will be established in Bihar to enhance production, processing, and market linkages, with support for farmers through FPOs.
- **Kisan Credit Cards:** The government will increase loan limits for Kisan Credit Cards (KCC) from ₹3 lakh to ₹5 lakh, continuing to support 7.7 crore farmers, fishermen, and dairy farmers with short-term credit.

SPURRING AGRICULTURAL GROWTH & BUILDING RURAL PROSPERITY



- **High Yielding Seeds Mission:** The government will launch a National Mission to develop high-yield, pest-resistant, and climate-resilient seeds, ensuring availability of 100 seed varieties by 2024.
- **Fisheries Growth:** India's fisheries sector will receive a framework for sustainable growth, focusing on the Indian Exclusive Economic Zone and Andaman & Nicobar Islands.
- **Cotton Productivity Mission:** A 5-year mission will aim to improve cotton productivity, promote ELS cotton varieties, and provide scientific support aligned with the Farm to Fiber to Fashion vision.
- **Urea Production:** The government is reviving three dormant urea plants and setting up a new urea plant in Assam to reduce import dependency.
- **India Post for Rural Economy:** India Post, with its vast network of rural post offices and Dak Sevaks, will be transformed into a key player for artisans, entrepreneurs, and MSMEs, driving rural economic growth.

Modified Interest Subvention Scheme (MISS)

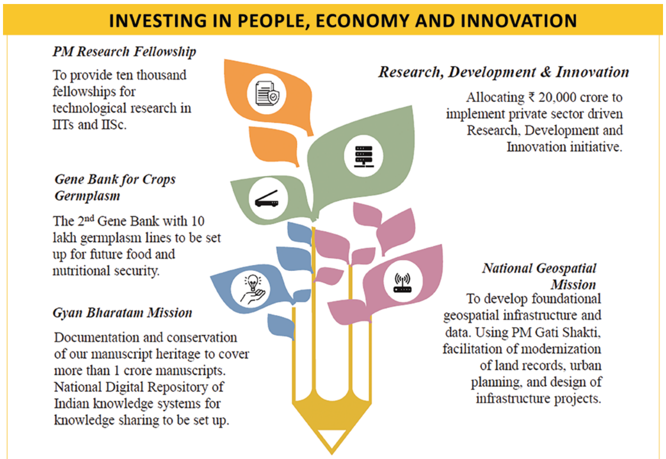
- **Loan Limit Increase:** The loan limit under **MISS** will be raised from **₹3 lakh to ₹5 lakh**.
- **Current MISS Scheme:** Farmers engaged in **Agriculture** and allied activities can currently obtain **Kisan Credit Card loans** up to 3 lakh at an interest rate of **9%**, with the government providing **2% interest subvention**, reducing the effective rate to **7%**. An additional **3% concession** for timely repayment further reduces the interest to **4% per year**.
- **Post-Harvest Loans:** The scheme also applies to **post-harvest loans** (for up to **six months post-harvest**) for small and marginal farmers with Kisan Credit Cards, helping prevent **distress sale** of their produce.

Leather and Footwear Reforms

- **Footwear & Leather Sector:** New new scheme to enhance **productivity, quality**, and **competitiveness** in the **footwear and leather sector**, focusing on **design, component manufacturing**, and machinery for both **non-leather** and **leather footwear**.
  - This initiative is expected to **create 22 lakh jobs**, generate **₹400 crore**, and boost **exports** to over **₹1.1 lakh crore**.
- **Toy Sector:** A new scheme will be launched to position India as a global hub for toys, with a

focus on developing clusters, improving skills, and building a sustainable manufacturing ecosystem for high-quality, innovative toys.

- **Investing in People**

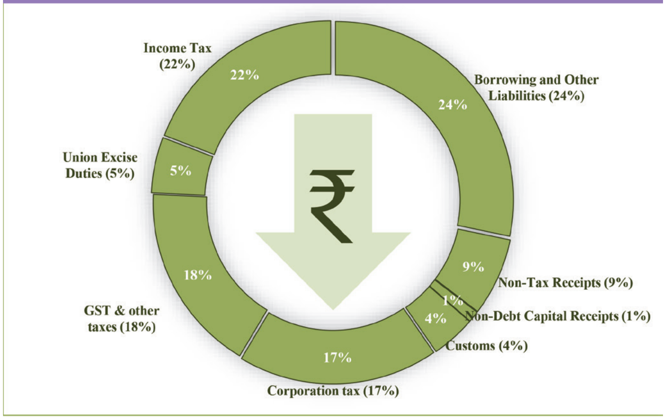


- **Focus on Growth:** The Finance Minister highlighted **investment in people** as the **third engine of growth**, emphasizing **people**, the **economy**, and **innovation**.
- **Nutritional Support**
  - The government is prioritizing the **Sashakt Anganwadi** and **Poshan 2.0 programs** to provide nutritional support to over **8 crore children**, **pregnant women**, **lactating mothers**, and **20 lakh adolescent girls** in **aspirational districts** and the **Northeast**.
- **Educational Infrastructure:** Infrastructure will be expanded in **5 IITs** established post-2014, adding space for **6,500 more students**.
- **Skilling Initiatives: 5 National Centres of Excellence for skilling** will be established to support workforce development.
- **Gig Worker Support:** The government plans to issue **identity cards** and register **gig workers** on the **e-Shram portal**, with an aim to assist **1 crore workers**.
- **Support for SC/ST Women Entrepreneurs**
  - **New Scheme:** A new scheme will be launched to support **5 lakh SC/ST women entrepreneurs** by providing **term loans up to ₹2 crore** over the next five years.
  - **Learning from Stand-Up India:** The new scheme will incorporate lessons from the **Stand-Up India scheme**, which was launched on **April 5, 2016**, to empower women entrepreneurs, particularly from the **SC/ST communities**.
    - **Stand-Up India Scheme:** The scheme offers loans between **₹10 lakh and ₹1 crore** to at least **one SC or ST borrower** and **one woman borrower per bank branch** for setting up greenfield enterprises in manufacturing, services, or trading, as well as agriculture-related activities.
    - **Extension:** The scheme was extended until **2025**, and it is not clear whether the new scheme will be integrated with or replace the existing one.
  - **Loan Data:** As of **June 2024**, **40,002 SC women** and **13,424 women** have received loans under the **Stand-Up India scheme**.

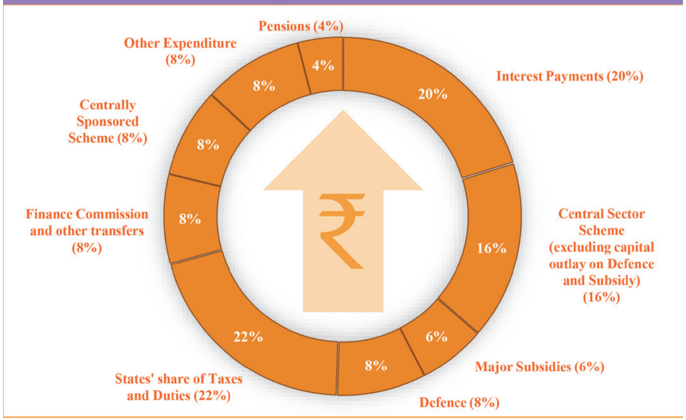
- **Aviation Reforms**
  - **UDAN Scheme:** The **UDAN scheme** has successfully connected **1.5 crore middle-class people** to **88 airports** through **619 routes**.
  - **Expanded UDAN:** A **modified version** of UDAN will be launched, extending to **120 new destinations** and aiming to accommodate an additional **4 crore passengers**.
  - **New Airports: Greenfield airports** will be developed in **Bihar** to further enhance regional connectivity.

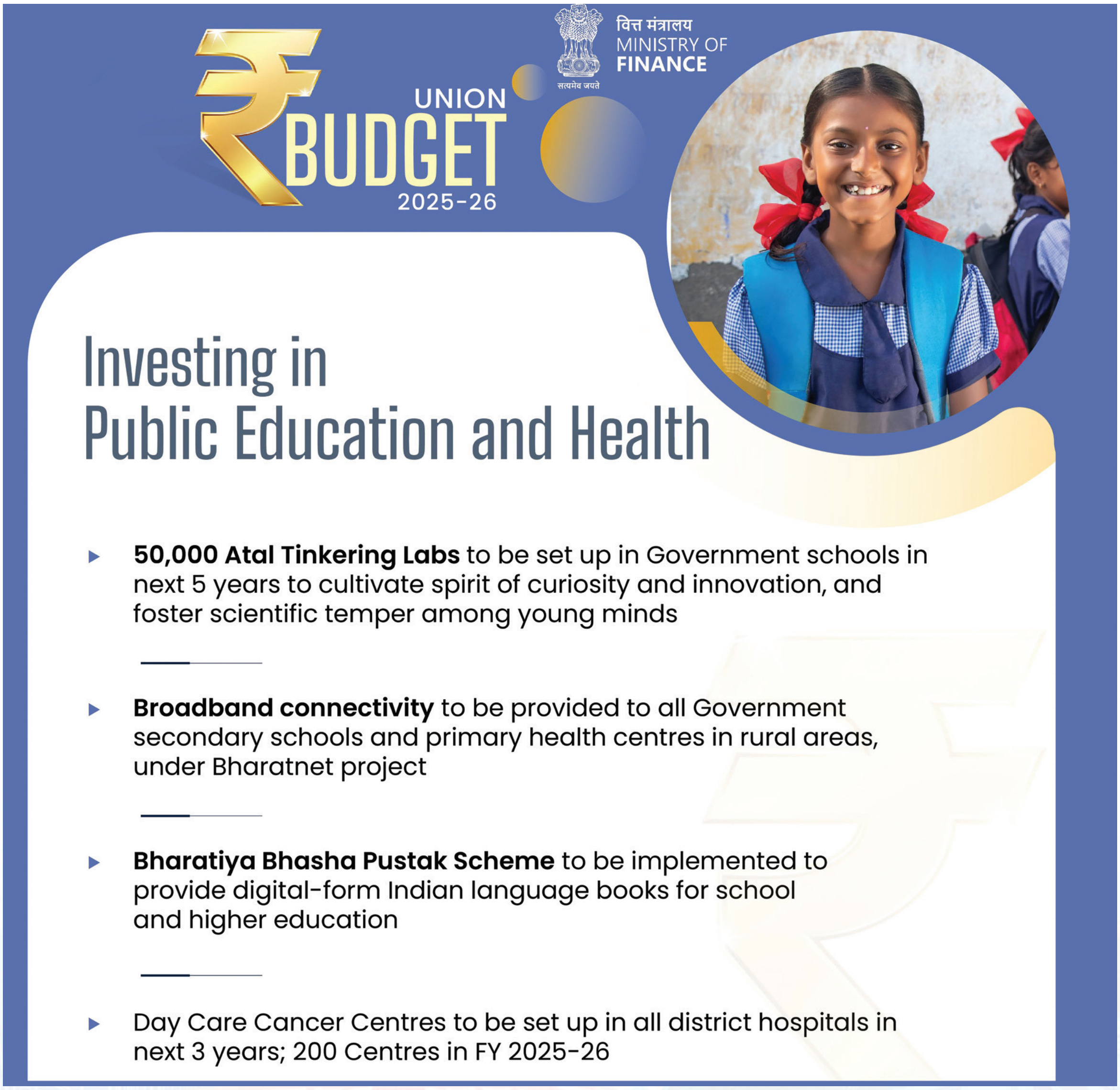
KEY INFORGRAPHICS

Rupee Comes From



Rupee Goes To



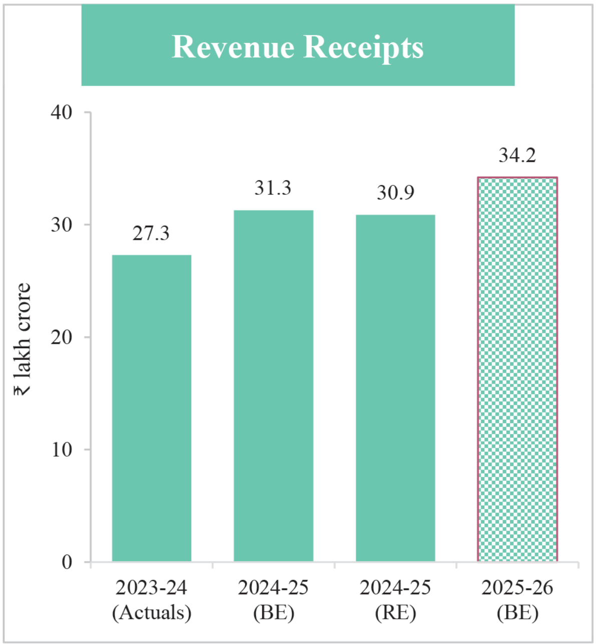


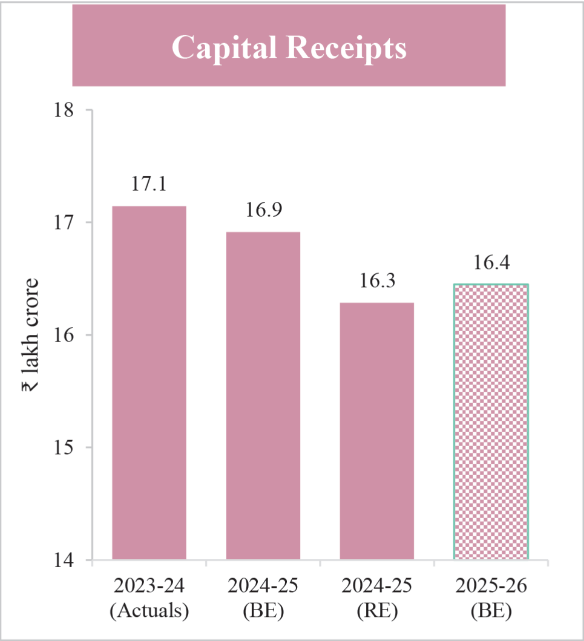
Development measures focusing on *Garib, Youth, Annadata and Nari*

Investing in people, economy and innovation

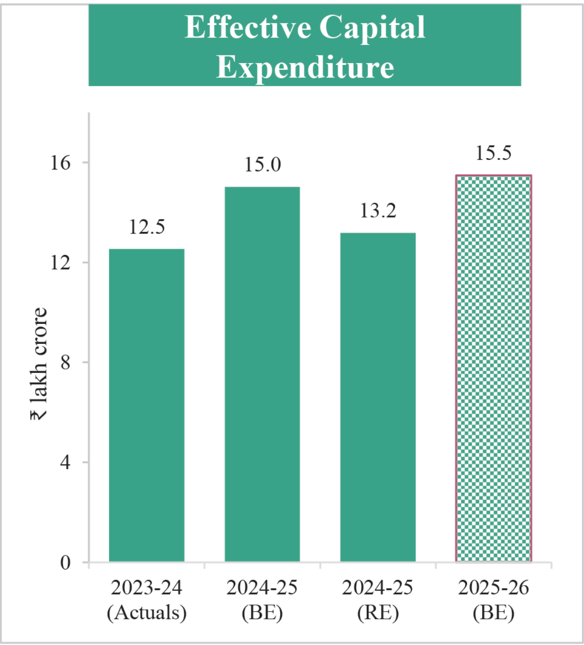
- *Saksham Anganwadi and Poshan 2.0*
- *Expansion of Capacity in IITs*
- *Day Care Cancer Centres in all District Hospitals*
- **Bharatiya Bhasha Pustak Scheme:** provide digital-form Indian language books for school and higher education.
- **05 National Centres of Excellence for skilling** to be set up with global expertise and partnerships.
- **Atal Tinkering Labs:** 50 Thousand Labs to be set up in government schools in next 5 years.
- **Centre of Excellence in Artificial Intelligence for education** with a total outlay of ₹500 crore.
- **Broadband connectivity to be provided to all government secondary schools and primary health centres** in rural areas.
- **Expansion of medical education:** 10,000 additional seats with the goal of adding 75,000 seats in the next 5 years.
- **PM SVANidhi:** To be revamped with enhanced loans from banks, UPI linked credit cards and capacity building support.
- **Welfare of Online Platform Workers:** Registration on the e-Shram portal & healthcare under PM Jan Arogya Yojana.

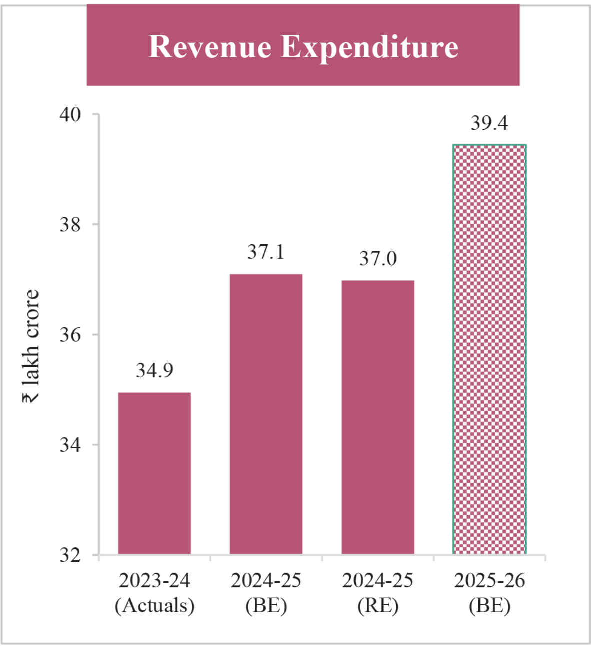
Receipts





Expenditure





Expenditure of Major Items

Defence	4,91,732
Rural Development	2,66,817
Home Affairs	2,33,211
Agriculture and Allied Activities	1,71,437
Education	1,28,650
Health	98,311
Urban Development	96,777
IT and Telecom	95,298
Energy	81,174
Commerce & Industry	65,553
Social Welfare	60,052
Scientific Departments	55,679

in ₹ Crore

BASICS ABOUT THE BUDGET

- **Introduction**
  - **Origin:** The term 'budget' originates from the Old French word 'bougette', meaning a pouch or bag.
  - **Traditional Presentation:** Budget documents were traditionally carried in a leather bag or briefcase.
  - **Definition:** Budget is the government's estimated financial statement for a year, running from April 1 to March 31.
  - **Official Term:** Known officially as the Annual Financial Statement, not explicitly called 'budget' in the Constitution.
  - **Responsible Division**: The Budget Division of the Department of Economic Affairs, Ministry of Finance, prepares the Budget.
- **Old and New Trends:**
  - **Change in Tradition:** From 2019, the briefcase was replaced with a 'Bahi-Khata' or a traditional ledger wrapped in red cloth.
  - **Merger of Rail and General Budget:** The Rail Budget was merged with the Union Budget from 2017-18, based on the recommendations of the Bibek Debroy Committee. This ended a 92-year-old practice initiated by the Acworth Committee in 1924.
- **Constitutional Provisions:** Annual Financial Statement is provided for under Article 112 of Part V of the Constitution.

NOTE: If the Lok Sabha fails to pass the annual Union Budget, the Prime Minister tenders the resignation of the Council of Ministers.

STAGES OF PASSING OF THE BUDGET

Presenting the Budget: The Finance Minister presents it in the Lok Sabha, followed by the Rajya Sabha, which can discuss but not vote on it.

Voting on Demands for Grants: Lok Sabha members discuss and vote on the budget details; Rajya Sabha does not vote.

General Discussion: Both houses discuss principles or the budget as a whole without voting or moving cut motions.

Passage of Appropriation Bill: Allows appropriation from the Consolidated Fund of India; includes 'Vote on Account' for 2 months if needed.

Scrutiny: Departmental standing committees conduct detailed examinations of the demands for grants over 3-4 weeks.

Passage of Finance Bill: Legalizes financial proposals of the Government; must be enacted within 75 days as per the Provisional Collection of Taxes Act of 1931.

DIFFERENCE BETWEEN REGULAR AND INTERIM BUDGET		
Definition	A detailed financial statement for a full fiscal year.	A temporary financial statement, usually in an election year. There is no constitutional provision for an interim budget.
Purpose	Outlines the government's revenue and expenditure for the entire year.	Primarily for seeking Parliament's approval for essential expenditure for a part of the year.
Duration	Covers the entire financial year.	Covers a part of the fiscal year, until a new government presents the full budget.
Expenditure	Includes a complete account of expenses and allocations.	Only essential expenditures are covered.
Policy Decisions	Contains major policy decisions, new schemes, and long-term plans.	Generally avoids major policy decisions or new schemes.
Typical Occurrence	Usually presented at the beginning of the financial year.	Occurs when the tenure of the current government is ending and new elections are due.

KEY TERMS	
Capital Expenditure	➲ Expenditure of a capital nature is broadly defined as expenditure incurred with the object of either increasing concrete assets of a material and permanent character or of reducing recurring liabilities.
Capital Receipt	➲ Capital receipt comprises of loans raised by the Government, borrowing from the Reserve Bank of India and loans taken from foreign Governments/institutions. It also embraces recoveries of loans ➲ advanced by the Government and sale proceeds of government assets, including those realized from divestment of Government equity in PSUs.
Effective Revenue Deficit	➲ Effective Revenue Deficit is the difference between revenue deficit and grants for creation of capital assets. It can be interpreted as the difference between the government's current expenditure (on revenue account) and revenue receipts less grants for creation of capital assets which is recorded as revenue expenditure. ➲ **Effective Revenue Deficit = Revenue Expenditure - Grants for Capital Expenditure**
Fiscal Deficit	➲ Excess of total disbursements from the Consolidated Fund of India, excluding repayment of debt over total receipts in the Fund, excluding the debt receipts, during a financial year. ➲ **Fiscal Deficit = Total Expenditure - Total Revenue (excluding borrowings)**
Revenue Deficit	➲ Excess of revenue expenditure over revenue receipts.
Revenue Expenditure	➲ Charges on maintenance, repair, upkeep and working expenses, which are required to maintain the assets in a running order and also all other expenses incurred for the day to day running of the organisation, including establishment and administrative expenses are classified as revenue expenditure. Grants given to State/UT Government and other entities are also treated as revenue expenditure, even if some of the grants may be meant for creating capital assets.
Revenue Receipts	➲ These include proceeds of taxes and duties levied by the Government, interest and dividend on investments made by the Government, fees and other receipts for services rendered by the Government.
Primary Deficit	➲ It is a financial metric that assesses a government's fiscal health by focusing on the fiscal gap excluding interest payments on existing debt. ➲ It indicates the government's ability to meet its current spending needs without relying on additional borrowing to cover interest expenses. ➲ **Primary Deficit = Fiscal Deficit–Interest Payments on Previous Borrowings**