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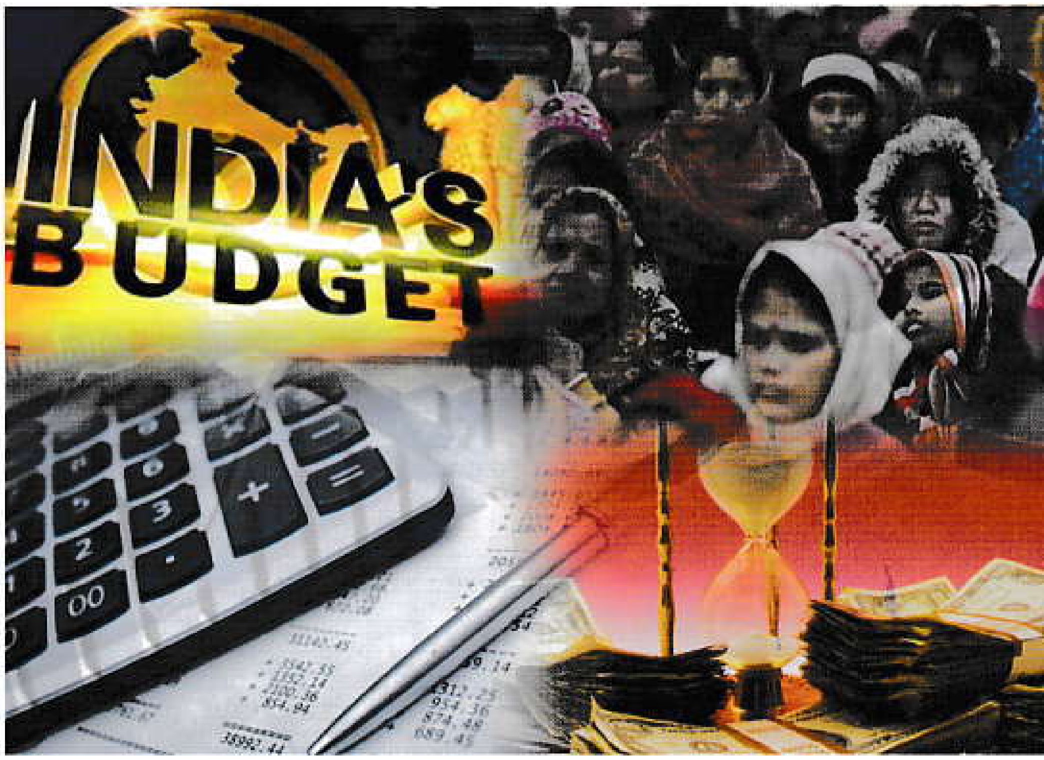
Budget Special Edition



Reactions to the Union Budget 2013-14

FEDERATION OF INDIAN CHAMBERS OF COMMERCE AND INDUSTRY

Industry's Voice for Policy Change

Budget 2013 - Catalyst to Capital Formation

Dr. Naresh Maheshwari, *Chairman of Farsight Group*

Primary role of the capital market is to channelize the domestic savings into industry or capital seekers by ensuring an orderly play in achieving a reasonable rate of return and reducing cost of impact on transactions. Thus, investment should induce profits and profits should make investment vibrant and market should provide liquidity and volume. Investors would flock to the capital market if they believe that economy is growing at a faster pace to provide them reasonable and sustainable returns.Budget 2013 has not made any paradigm shift yet it has taken important steps to bring back the investors' confidence into the market

Investment Allowance

Last few years has seen not many green field projects. Growth in manufacturing sector is negligible. There cannot be any better pill but to re introduce the Investment allowance. Provisions similar to this had been introduced earlier and were phased out as its resulted into reducing collection of Corporate tax to around 25% of Corporate profits instead of 30% targeted. However, the period of 2 Years require an upward revision as planning, execution of bigger projects require longer time. Stable Fiscal policies and stimulus only work in long term.

Budget 2013, by and large is a responsible budget. It might not have improved the markets on D'day but neither were the angry reactions or a doze of populist measures

Securities Transaction Tax

There are no two opinions that taxing transaction is a bad economics. It not only distorts the price discovery mechanism but also affects the impact cost which in term reduces the liquidity. Budget has proposed to reduce STT on equity derivative and on mutual funds transactions through ETF (Exchange Traded Funds) which will help in bringing back volume and liquidity in the market?

Commodities Futures traded in Exchanges would now be considered not speculative transactions. It would encourage institutional and corporate players to take hedge positions in exchanges and to reinvigorate the risk management system. Thus, a level playing field is contemplated between equity and commodities trading. Time probably has come for more convergence amongst various stakeholders for regulating commodities and equity future trading.

However, the non-delivery intraday trade in Capital Market- Cash segment continues to be charged with higher rate of Non delivery STT. This would result day trader and jobbers to shift to derivatives market from cash segment and cash segment thin volume will become thinner. In lieu of this higher rate of Non delivery STT in cash market, the rate of short term capital gain tax could have been reduced substantially, aligning with recommendation of Shome Panel.

Government has announced constitution of committee to look into all aspects of transaction cost in financialsector. It is expected the committee would be able to review a large number of cost associated like Exchange transaction charges, Service Tax, Stamp Duty, SEBI Fee, DP Charges etc. Much awaited reforms on Stamp Duty on financial sector could not come in this budget. May be committee would be in a position to look into all these and can recommend a consolidated duty/taxes and may suggest a way out of phasing out many. The imposition of CTT should be started only after taking a decision on this committee report.

RGESS: Rajiv Gandhi Equity Saving Scheme

Budget proposes to make RGESS more attractive by enhancing the benefits from 1 year to 3 years and also increasing the income limit. This will definitely help the small investors to come to Capital Market directly or through mutual funds.

SME's including startups will be permitted to list on SME Exchange even without making an IPO.

Taxation of Overseas Investors

The policies of taxing overseas investors should be constant, stable yet crisp clear and unambiguous. Despite that every budget have its own share of some unintended irritants in the shape of Tax Residing Certificate (TRC) Participating note (P- note), Tax avoidance treaty or rules, which could have been avoided particularly at a time when our CAD (Current Account Deficit) is worsening.Import bill is rising because of gold and crude imports.

Simplification in registration process, KYC for various categories of foreign portfolio investors and broadening the role of qualified depository participants would boost the market sentiment as more foreign inflows can be expected. FIIs would be allowed to participate in an exchange traded currency derivatives segment and can now place their investment in Government securities as collateral to meet margin requirements.

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Dividend Distribution Tax

Increase in DDT only strengthens the fallacy that dividend is a tax free income. With such increase there is no need of covering dividends under section 14A. Cost of paying DDT and suffering mandatory disallowances under section 14 A may sometimes nullify the benefits of making

dividends tax free.. The dividend yield of sensex is less than 1%.

Summary

To conclude Budget 2013, by and large is a responsible budget. It might not have improved the markets on D'day but neither were the angry reactions or a doze of populist measures. The efforts to contain fiscal deficit and current account deficit would be welcomed by the long term interest.

Naresh Maheshwari
Chairman, Farsight Group

Dr. Naresh Maheshwari, National president DPAI, doctorate in Options Trading Strategies besides being FCA, FCS, FISA with a standing of 30 years and presently, is Chairman of Farsight Group, a well known broking house of India. He is associated with many research projects on Derivatives with professional Institutes and Universities. He is a prolific commentator on matters pertaining to Capital Market, Investors Protection and Corporate Laws in electronic and print media. Recently, he has been elected co-chairman of FICCI (the biggest federation of Trade Bodies in India) capital market secondary market committee. He is part of Expert Advisory Group of Institute of Company Secretaries of India premier corporate body set up under Act of Parliament.

He was instrumental in setting up Commodity Participants Association of India (CPAI) association of all commodities brokers in India and is its Past President. Dr. Maheshwari just completed his term as National President of ANMI, Association of National Exchanges Members of India and presently, is chairman of ANMI committees for Investor Education and Govt. Affairs. He is part of SEBI Secondary Market Advisory committee and committee for Review of Disclosures. He is also part of various committees of Ministry of Finance pertaining to capital market Dr. Maheshwari has recently taken over as chairman of ASIA forum for Investor Education (AFIE), South Korea, and Comprising of 31 organizations of 21 counties having vibrant Capital Market.

He has authored a hand book for Investing & Investor Protection authored by Dr. Maheshwari published by Institute of Chartered Accountants of India