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Expectations of India Inc. from the New Union Government

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Industry's Voice for Policy Change

Expectations of India Inc. from the New Government

Dr. Naresh Maheshwari
Chairman, Farsight Group & Chairman, DPAI

Outcome of general elections 2014 which created unprecedented hype and media attention globally is expected shortly. Not only the masses but also the corporates have euphoria of hopes and expectations from the new government.

India was saddled with problems of stagflation, policy inertia resulting in low capacity utilization and low productivity. Global melt down added woes to the Indian economy and a sharp volatility and depreciation was observed in Indian currency, foreign trade, balance of payment, etc.

The people expect the new Government to be transparent, corruption- free and development oriented. Therefore, it would become fulcrum to attract investment including FDI. It has no option but to take expeditious actions on precarious state of economy where, on one hand, large numbers of projects are lying stalled and on the other hand there are shortage of electricity, coal, raw material, etc. for our industry. This has increased our dependency on import alarmingly.

We must understand limitations of the present government. Even if the NDA comes with majority they will remain in minority in RajyaSabha till at least next election of RajyaSabha, which practically means almost two years. It implies that action has to be done within the existing legislative

If the economy has to be restored, back on the track of growth, issues of unemployment and inflation are to be tackled framework. Fear of poor monsoon may fuel inflation and will be an obstacle even if RBI wants to lower the interest rates. Similarly ever going deficit will afford hardly any avenues in providing relief in taxation. As a matter of fact, citizens have to be ready for increased costs in terms of reduction or rationalization of subsidies or imposition of additional tax on luxuries. But the deep consolation, solace and satisfaction would be Transparent, Accountable and Decisive Government. Discussing policies and solutions may not be enough unless these are discussed thoroughly and are implemented diligently. It will be the burdened duty of new government to ensure that Parliament functions and sessions are not washed out.

If the economy has to be restored, back on the track of growth, issues of unemployment and inflation are to be tackled; the following key issues are to be addressed immediately and are the legitimate expectations of India Inc. from new Union Government.

Revival of Manufacturing Sector

India's manufacturing sector is shrinking and the Government needs a roadmap to revive this very crucial sector of the economy. It is not feasible to expect Indian manufacturing companies to compete with the rest of the world with their hands tied. India's share of global manufacturing stands at little over 2 percent.

The government is expected to adopt a multi- pronged approach revolutionizing regulatory regime in manufacturing sector by expediting approvals, and reviewing regulations related to land acquisition, mining, environmental clearance and documentation.There are large number of Industrial Acts which can be re-codified and unified into a single Code which will eliminate multiple and often contradictory definitions. For example, "factory", "wages" have been defined in different Acts in different manner. No doubt the law has to meet the legitimate expectations of working force but it should not create bottlenecks for the industry. Present industry is manned by highly skilled and educated work force as most of the jobs pertaining to unskilled labor has been mechanized and automated. This class has different aspirations and requires different types of protections. Therefore it is expected that the Industrial law will be realigned and re-written giving full focus on computerized compliance, clarity, protection coupled with accountability.

Government may come out with a moratorium for two years for compliance of technical issues and outdated laws, pending codification as suggested above.

Decentralization of more powers to State

The large number of matters which are impeding the economic growth falls in the concurrent list and there is no policy framework available. Article 254 of the Constitution provides that central government can delegate powers to the State to make the requisite laws. If these matters are delegated to the states, then the states will be able to make their own legislations and present state of total inertia will be evaporated. Thus if any state wants to go aggressive in any development model, they should be allowed to do so, instead of waiting for a central legislation which is difficult to pass keeping in view the multiple polar politics between central and state governments. Some of the illustrative items which central government can give to state are education, agricultural marketing, industrial dispute, warehousing, labour, warehousing and health.

This model can be further advanced if allocation to states is made from centre on the basis of achievement of mutual accepted outcomes.

Accelerating SME (Small and Medium Enterprises) Sector

SMEs are widely distributed across the country and producing a diverse range of products to meet not only the needs of the local markets, but also of the global market. Cottage and traditional sector have always been a foreign exchange earner. Of late, SME has seen a sharp decline because of various reasons such as non-availability of skilled labor, relocation of industry because of various environmental laws, high interest rates, etc. Cheap and unrestricted import from neighboring countries is also affecting local entrepreneurship. In some cases it has been observed that industry has put up manufacturing units in the neighboring countries to take benefit of local conditions such as cheap labor, cheap electricity and non- interference from inspector- raaz and from there manufactured goods are being imported into India. This has resulted in flight of scarce Indian capital and is adding to the Indian import bill. On other hand, it is contributing in growth and development of other countries and creating a competing super-economic power. New government has to make a roadmap as how they can compete with the benefits offered by the neighboring countries resulting into production of goods at lower cost.

The government needs to strengthen theSMEsectorunitsthroughpromotion of quality competitiveness and research and development. Presently, even a SSI has to comply more than 35 Factories Act and Industrial law which are major hurdles in development of SME sector. These again have to be re-codified to avoid delays and bureaucratic interference. Most of the provisions of the Act are applicable if numbers of employees are more than ten/twenty. This should be increased minimum to fifty, keeping in view the change in level of education, skills and bargaining power of work force.

SME are suffering because of multiple taxation resulting into multiple compliance. SME having turnover below a prescribed limit say 200 lacs should be subjected to a single tax based on turnover which should take care of income, sales tax, VAT, excise, etc. this single tax can be apportioned between state and central governments. But the SME sector would be required to file a single tax return. It is expected that the new government will engage in some out-of -box thinking and will come out with radical plans to revitalize the SME sector.

Rationalization of Taxation

UPA government introduced DTC (Direct Tax Code) promising panacea and solutions to all vexed issues of taxation. Government is looking for increased revenue to meet out its commitment and fund its all galloping

expenditureincludingsubsidy,interest and defence outlays. Therefore, it is essential to plug loopholes, increase coverage and find out new avenues in any taxation policy. But any overdose of taxation is counter- productive. It increases incentive for evasion and leaves fewer amounts for household and industry development. More than the rate of tax non- clarity about many exemptions and applications of provisions irritates the honest taxpayers.

Increase in basic exemption

Basic exemption limit be increased to Rs. 3.5 lacs.Aggregate amount for deductions in savings be increased to Rs. 1.5 lacs. Therefore, upto income of Rs. 5 lacs should be tax free. Beyond that rate should be reasonable as provided in the new DTC.A large number of exemptions and deductions be unified and re-codified.

Rationale for Transaction Tax

World over economists are of the same opinion that any tax on transactions distort the market equilibrium and price discovery mechanism and therefore, should be avoided. More so in a developing economy where markets are imperfect, unorganized and major turnover occurs outside the official market. Therefore, any tax on transactions be it mandi tax, APMC tax, securities transaction tax (STT) or commodity transaction tax (CTT), be avoided.

STT (Securities Transaction Tax) v/s Long term Capital Gains exemption

The concept of exemption of long term capital gains itself require a re-examination.STT and Long term capital gains exemption cannot be traded off. Moreover, it is feared that long term capital gain exemption has benefitted only promoters or the large financial institutions at the cost of small and marginal players who hardly made any gains but kept on paying STT.

Should Dividends be taxed?

DDT was introduced as it was difficult to tax dividend in the hands of millions of investors, cost of administration was high, there was TDS on dividend beyond a limit and reconciliation was also a problem. Further there was double taxation of dividend in case of corporate shareholder.

However, there are unintended consequences of DDT wherein a small investor is subsidizing a big investor. DDT seems government's contribution to promoters since the tax is paid by companies as the dividend comes tax-free to promoters.

Further, insertion of Rule 8D ("Method for determining amount of expenditure in relation to income not includible in total income")in Section 14A of Income Taxwhich provides for, provides for disallowance of not only direct expenditure incurred for earning the exempt income but also for disallowance of proportionate indirect expenditure & that of 0.5% of the average value of investment.

This is causing lot of litigation as well as unfair treatment to an investor as the tax paid by company on its income and dividend distribution tax goes from the pocket of investors only, thus, putting another disallowance and that at the rate of 0.5% of the average investment value leads to 3 times taxation on the same income.

It is, therefore, suggested that the section should be suitably amended or CBDT should clarify that S. 14A should not be invoked where income is received by the assessee after payment of tax under the Income-tax Act.

Scope for Voluntary Disclosure:

Any voluntary disclosure scheme attracts differentopinions. It goes against the honest taxpayers, yet keeping in view the vast amount of black money generated in the last decade, there seems to be no other option. Any scheme in this direction has to be carefully drafted where it does not seem giving incentives to the dishonest tax payers. Money should be collected separately and be utilized in specialized projects.

Government should come out with an effective policy which can unearth black- money and further generation of black money can be eliminated. In the past, many schemes with different models were floated. However, governmentmay come out with a scheme similar to the Special Bearer Bonds scheme where collected funds can be invested in mega infrastructural projects.

Pro- active Tax Provisions

To attract foreign investors, it is of the essence for the new leadership to focus on renegotiate certain tax treaties, stabilization of tax policies, doing away with retrospective taxation.

If tax measures advocated by the industry bodies are endorsed by the government such as introduction of GST, reducing the corporate tax rate to 20% and apply it on consolidated GAAP profits from Indian operations, tax dividend income and capital gains at marginal tax rate, it will go a long way in augmenting growth in industrial output and increased investment by the foreign players.

Foreign Investments

We recognize that India is a capital scarce economy which needs FDI in key sectors viz, multi-brand retail, defence, and banking. To see the importance of FDI in a promising economy, India needs only to look to rival China, where foreign manufacturers have helped to create huge economies of scale and transferred—sometimes unwillingly—enormous expertise.

Of late there has been bout of reform and liberalisation measures done to revive investors' confidence and flow of foreign funds to India Inc, t here is still room for a lot more.

For instance, government can move to a regime of free pricing for transfer of shares between resident and non-resident i.e. the buyer and seller should be free to decide the transaction price. Then, there shouldn't be any need to obtain approval from the RBI in cases where deferred consideration is received from foreign acquirer of shares of Indian company.

Most importantly, giving national treatment to foreign owned companies, and more importantly a stable policy regime is essential to attract continuous flows of investments.

E-Governance

E-Governance, endowed with transparency, expediency and accountability, can be a lethal weapon to rule outbiggest problem of the country, i.e. corruption. Many studies suggest that electronic delivery of services (e.g., submitting internet applications and tax returns for computer processing) can reduce corruption by reducing interactions with officials, speeding up decisions, and reducing human errors. E-government can lead to centralizes data which can be used for improving audit and analysis.

As taxpayers are important partners in generating revenues for national endeavors, the honest taxpayers should be awarded in recognition of having met national responsibility. They can be provided a tax-compliance certificate to a firm to help it build an image; and requiring tax certificates to renew some types of licenses.

All the three limbs of government:

Legislature, executive and judiciary need to kick start the code of conduct and the watch dog agencies. With the huge groundswell of public anger, civil societies and social movements have already come to life, more active and responsible participation of the government is anticipated. Accountability and transparency must be generated by the combination of political will from the top and public pressure at the base.

Conclusion

Although, path of the new government is very difficult due to accumulated budgetary deficit, poor expected monsoon, not having majority in Rajya Sabha. Yet we expect the government to make a paradigm shift in reviving growth, bringi stable and predictable policies a more important the transparen accountability and sensitivity. The factors alone will bring confidence the people and all other stakeholde which are catalyst to the growth the country. Expectations of India Ir may not be fulfilled overnight but w begun would be half- done.

Dr. Naresh Maheshwari
Chairman, Farsight Group &
Chairman, DPAI

Dr Naresh Maheshwari, FCA, FCS, FISA, doctorate in options trading, is Chairman of Farsight Group, a well known broking house of India He is a prolific commentator on matters pertaining to Capital Market, Investors Protection and Corporate Laws in electronic and print media.

Dr. Maheshwari has been associated with many trade bodies. Founder and Past President of Commodity Participants Association of India (CPAI)and Past President of Association of National Exchanges Members of India (ANMI). Former chairman of ASIA forum for Investor Education (AFIE) , South Korea, Comprising of 31 organization of 21 counties having vibrant Capital Market, he is now member of SEBI Secondary Market Advisory Committee.

He has visited and represented Indian capital market in many international organizations like KOFIA Korea, ASC Thailand, MAS Singapore, various stock exchanges at Hong Kong, Shanghai (China), Korea, Bursa Malaysia, SMX etc.Dr Maheshwari also led Indian capital market delegation to Asian Securities Forum at Beijing and Tokyo. He was observer in ICSA (International Council of Secretary Association) AGM-2011 at London and ICMA (International Capital Market Association) AGM-2011 at Paris.

A hand book for Investing & Investor Protection authored by Dr. Maheshwari published by Institute of Chartered Accountants of India was released by Mr D. K Mittal, secretary Ministry of Corporate Affairs Govt. of India.