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For India Inc, a soothing balm

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BUDGET 2017

In Budget 2017-18, finance minister Arun Jaitley has undertaken a comprehensive exercise to accelerate the Indian economy's growth path. Major growth drivers have been addressed in a strategy to stimulate domestic consumption, raise public expenditure on infrastructure and encourage small and medium enterprises to assume the reins of growth. For Indian industry, which has been troubled by global economic developments, the Budget comes as a soothing balm.

The key point to note about the Budget is that it reinforces the commitment of the government to economic reforms. Staying on the path of fiscal consolidation was important to reassure investors, keep open the space for private sector investments, and address future growth. The Budget works on this effort by keeping the fiscal deficit at 3.2 per cent of GDP and promising to lower it further to three per cent in the next financial year. Importantly, the revenue deficit adheres to the mandated level of 1.9 per cent of GDP for 2017-18, signifying that capital expenditure has been accorded high priority.

Although the finance minister had announced lowering of corporate income tax rates from 30 per cent to 25 per cent two years ago, the Budget this year implemented this historic reform measure by providing tax relief to 96 per cent of Indian companies. This one measure will go a long way to revive sentiments of the large section of smaller companies that are major creators of employment and wealth. A key benefit is that lower tax rates would bring these companies at par with prevailing rates in other emerging economies and help in building their global competitiveness. We hope that this would be extended to the remaining tax-paying companies shortly.

In general, through strategies regarding political funding, digitalisation of the economy and encouraging formalisation, the finance minister delivers on his promise of 'transform, energise, and clean' in Budget 2017-18

The action on the personal income-tax front was equally encouraging, lowering tax rates by as much as half from 10 per cent to five per cent for taxpayers earning between ₹2.5 lakhs to ₹5 lakhs. The outcome of this measure can be expected to incentivise consumption, expanding the market for consumer products, and is to be strongly welcomed.

The government has also promised to build and modernise infrastructure through a capex slated at 25.4 per cent higher than last year, which would build further growth drivers. With the Railway Budget now merged with the General Budget, the transport sector was taken up in a multi-modal manner. For example, coastal roads of 2,000 km are to be taken up in the coming year, which would synch with port-led development and rail hinterland connectivity. The safety fund for the Railways as also the listing of key railway public sector enterprises are progressive measures as is the intention to implement station modernisation of 25 stations. In the airports sector, a key initiative is to place airport operation and maintenance under PPP mode for Tier-2 cities.

Affordable housing received high attention in the Budget, recognising its vital role as an engine of growth. The real estate sector in India contributes about five to six per cent of the GDP, and it is important to increase this share to provide housing for all and generate demand for related sectors. Earlier, the Prime Minister, in his address to the nation on December 31, had announced interest rate subventions for housing loans, and the Budget takes this further by allowing the sector the infrastructure status. Further, instead of built-up area, the definition will now cover carpeted area of 30 and 60 square meters.

In addition to the infrastructure push, farmers and the rural economy were prioritised in the Budget, addressing the sectors where about 70 per cent of India's population resides. Credit and insurance schemes will be expanded in a bid to reinforce economic security of farmers. A special fund is being created under Nabard for micro-irrigation programmes and the move to deploy MGNREGA for "drought-proofing" panchayats can add to this effort. The proposed model law on contract farming can be a huge step in integrating farmers with markets, and incentivising corporate investments in the agriculture sector. Electrification of villages, higher support for employment generation, and strengthening of panchayati raj institutions can transform lives in rural areas.

The Budget also accorded high priority to skill development, which will empower the burgeoning youth workforce to contribute to economic growth. "Sankalp", for livelihood promotion, is a new programme aimed at providing relevant training to 35 million youth. Extending PM Kaushal Kendras to 600 districts will imply wider outreach to youth across the country, while establishing 100 India international skill centres will make them globally employable. These measures will work towards capacity creation and productivity enhancement for our workforce, as was strongly recommended by industry.

For businesses, there has been an emphasis on tax administration simplification and rationalisation. The Minimum Alternate Tax is now permitted to be carried forward for 15 years, and startups may avail deduction for three out of seven years, instead of five years as previously. Ease of doing business received attention through various measures such as transfer pricing changes, audit limit enhancement and extension of time limit for tax return revisions, a welcome series of measures for business.

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