Budget must remove Make in India hurdles

The rate of Minimum Alternate Tax has more than doubled from 7.5% in 2007 to 18.5% currently, which is inhibiting manufacturing competitiveness

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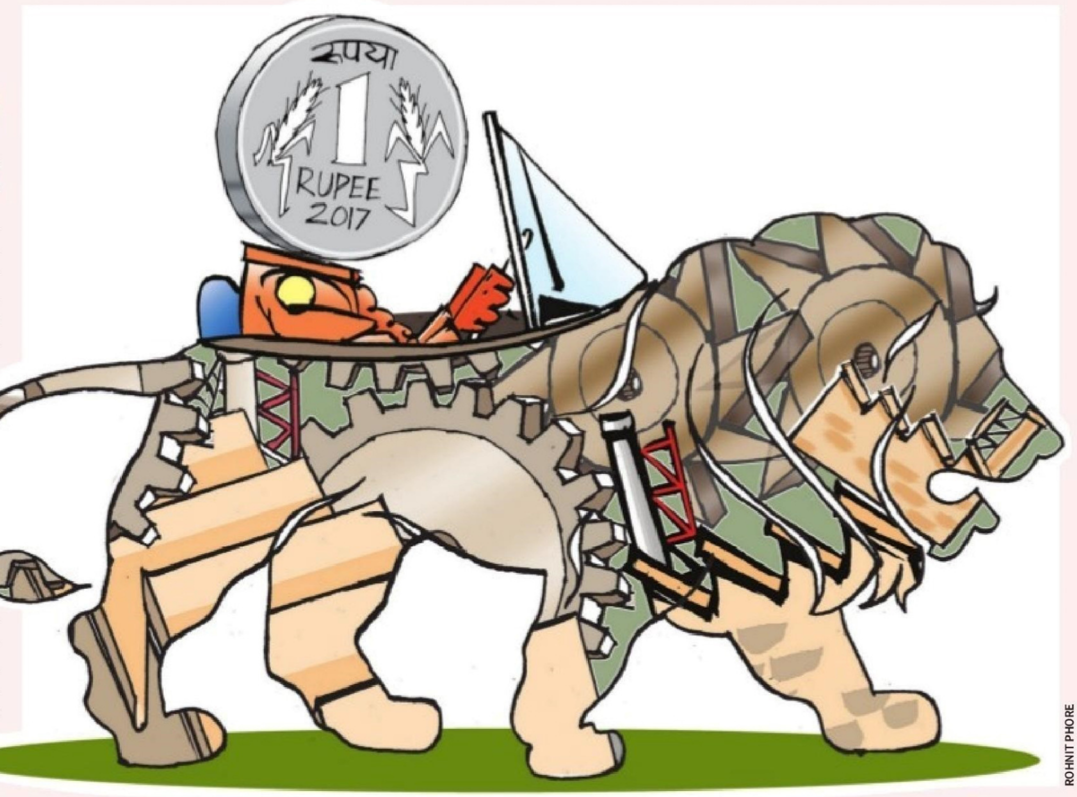

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THERE is much anticipation that the finance minister would unravel a momentous Budget which would rejuvenate the growth drivers of the economy. Expectations are that the forthcoming Budget would delineate a new economic 'dream' of a resurgent India which is both inclusive and self-sustaining.

The macro-economic backdrop of the Union Budget 2017-18 is inspiring. The economy is in a better shape today than it was in the past. In terms of GDP growth, we are much ahead of both the BRICS and other advanced countries, despite growing below potential. GDP growth showed a moderate uptick to 7.3% in the second quarter, as compared to 7.1% in the previous quarter.

However, despite steady growth, the inclination of the private sector to make key investments continues to be below potential. Further, demonetisation is widely expected to dent growth during the second half of this fiscal. Already, RBI has pared GDP growth to 7.1% for this fiscal from 7.6% marked earlier. Thus, a key challenge is to bring growth back to the economy. And one way to boost economic growth is to bring manufacturing to the forefront of economic revival—through a fillip to Make in India.

The vital role played by the manufacturing sector is well known. No country in the world has grown and created jobs without a strong manufacturing base. India needs around 1.5 million jobs per month and 17-20 million jobs per annum. So, the contribution of manufacturing to GDP can be much higher.

In April-October 2016-17, industrial output was down by 0.3%. Industry is working at 75-80% capacity deterring new investment. And the recent cash crunch could further hurt manufacturing performance. Hence, we look forward to a tool box of policies and a focussed strategy in the Budget which would ensure the success of the Make in India campaign.

A key consideration is that the rate of Minimum Alternate Tax (MAT) has more than doubled from 7.5% in 2007 to 18.5% currently, which is inhibiting manufacturing competitiveness. To incentivise manufacturing, the Budget should consider withdrawing MAT in a calibrated manner and institute a uniform accounting standard for calculation of profits. If this is not possible, then MAT should be brought down to the level of 7-10%.

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The Budget should consider withdrawing MAT in a calibrated manner and institute a uniform accounting standard for calculation of profits. In particular, developers and units of special economic zones (SEZs) should be provided relief from MAT and DDT, which have discouraged exports

Similarly, dividend distribution tax (DDT) leads to double taxation of the corporate sector and, hence should be abolished. Alternatively, a basic exemption limit, say 10% of profits/capital may be provided where the company distributing dividend up to 10% is not liable to dividend distribution tax.

In particular, developers and units of special economic zones (SEZs) should be provided relief from MAT and DDT, which have discouraged exports. In fact, before the MAT and the DDT were imposed in 2011-12, the growth in exports from SEZs far exceeded the country's overall merchandise exports. However, export growth has dropped consistently since then.

Another area of pivotal interest to investors pertains to the ease of doing business. The government is to be complimented for improving ground-level implementation and simplifying procedures. But much more needs to be done to bring India's rank within the top-50 in the World Bank Doing Business rankings.

Another confidence booster that can be expected from the Budget is reduction in the corporate tax rates. Currently, India's tax rate for companies compares unfavourably to that of most other emerging economies, so that funds are tempted to avoid the country. The corporate tax rate should be brought down to 18% (all inclusive) to bring it in sync with world standards.

Reform in public procurement norms is long overdue to incentivise Make in India especially in items such as defence. With the government being the largest buyer in the economy, the procurement process should be made more efficient, time-bound and predictable. Similarly, there is need to move away from the policy of awarding contracts based on L1 as this often discriminates against vendors with sophisticated equipment. Industry also needs a level-playing field with foreign firms in terms of payment and proven track record norms.

The Budget should provide enabling policies which would help creation of 1 million start-ups in the next five years. These should be permitted to comply with regulations through self-declaration for all interface with the state for the first five years. The definition of a start-up can be any firm less than five-years old with no further qualification.

And above all, a thrust to manufacturing would remain incomplete unless the government speeds up, on a war footing, the pace of infrastructure development by augmenting investment, both public and private, in roads, new ports, improving logistics and connectivity.

For the first time, the Union Budget would witness the merger of Rail Budget and the removal of the Plan/non-Plan distinction. Taking this grand feat forward with the resolve to make the 'Make in India' initiative succeed would do wonders to lift sentiment and pave the way for inclusive growth.

The author is director general, Confederation of Indian Industry. Views are personal