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BUDGET 2020

Kickstarting growth

India needs to push for investments to support growth

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ONE OF THE key highlights from the recently released advance estimates of GDP was of investment growth slumping to an anaemic 1% in the current fiscal from a healthy double-digit growth registered in the last fiscal. Investment was held back by weak private sector sentiment and limited fiscal space. There is ample evidence to suggest that unless investments post a meaningful recovery, growth will continue to languish. Though the government has announced a plethora of measures to kickstart investment cycle in the last few months, the current situation warrants additional measures.

First, the government should not cut back capital expenditure in view of the revenue shortfall. This could lead to a vicious cycle in which lower growth leads to lower revenue and lower expenditure which reinforces lower growth. Some flexibility in the fiscal target should be allowed for 'good' quality expenditure such as infrastructure projects. In this regard, the release of the National Infrastructure Pipeline is welcome and the projected ₹102 lakh crore investments should be initiated as soon as possible.

For private investments, one of the biggest reforms announced last year was the reduction in corporate taxes, but the desired impact is still far from satisfactory. One of the reasons has been the multitude of tax rates, which have created tax rate inequalities across manufacturing and service sectors. In the interest of simplification and uniformity, it is required that all these tax rates be converged. The Union Budget could announce a roadmap for such convergence by April 1, 2023. A tax rate of 15%, with no exemptions and incentives would help boost investor sentiment and encourage investments.

The reduction in corporate taxes partially addresses the issue of high cost of capital, multi-point taxation of dividends and LTCG tax continue to increase it. Thus, there is a need to reintroduce the classical tax system, where income tax is levied separately on company income and on dividends received by shareholders.

In addition, for reducing the high level of complexity in the present law of taxing capital gains, it is recommended to exempt LTCG Tax on equity capital altogether while converging to a single simplified rate of 10% for all other asset classes. Alternatively, if it is not possible then a standard rate of 10% can be considered for all asset classes, including equity capital.

It is also pivotal to release the significant amount of delayed and disputed payments which have the potential to provide liquidity to corporates for expansion and investments, in addition to improving sentiments. Though, there are currently no formal estimates on the quantum of delayed payments, however industry feedback suggests it to be large. To address this, it is suggested to create an integrated e-portal to capture all pending payments by central and state governments, and CPSE/SPSEs to all industry. Further, a Credit Guarantee Scheme is required to address delays in release of arbitral awards, which stand around ₹1 lakh crore.

Another pressing concern which requires immediate attention is the need to address tax litigations. These are estimated to be worth ₹5.71 lakh crore as on March 31, 2019. To address this, it is suggested that CBDT constitute an Expert Panel of mediators to resolve tax disputes at the assessment stage itself in a time-bound manner. Also needed is the reduction in multiplicity of levels of litigation along with dealing with the disposal of tax litigation matters in a prescribed timeline by the appellate authorities.

To maintain competitiveness, it is recommended that we continue with the 10% peak rate of customs duty for FY21. In general, it is imperative that the principle of lowest customs duty for raw materials, higher for intermediaries and highest for finished goods is followed. This graded duty structure for manufacturing sectors is useful to add value at different stages of production by the indigenous industry. In this context, it is recommended that customs duty on certain inputs and raw materials be reduced to enhance competitiveness and encourage the domestic manufacturers of final products.

Further, the policy measures announced by the government must instil confidence in the stakeholders that they will be carried out. Strengthening mutual trust and building a climate of business confidence by reassuring entrepreneurs, in the true spirit of 'Sabka Saath, Sabka Vikas and Sabka Vishwas' can foster the growth process. Decriminalization of business laws, on the lines of what is being done for the Companies Act, would be a concrete step to address this trust deficit.

To conclude, the Union Budget provides an excellent occasion to turn challenges into opportunities. Industry looks forward to a progressive and reform-oriented budget that will help to bring back growth to the economy.