We need some deft touches from Jaitley

Enough of the roller-coaster uncertainty in policymaking. Manufacturers and investors are looking for stability

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The 'Make in India' agenda is an important one, given that India's share in manufacturing remains low compared to the average for middle income countries and there is scope for significant expansion.

By simplifying the tax structure and tuning tax rates to attract manufacturing investments to India, Budget 2015-16 has a role to play in making this programme a success.

Offsetting gains

Last year's Economic Survey pointed out that total taxation of corporations is higher in India compared to other emerging markets. A lower tax rate would "ensure that India is a competitive destination for investments of global and Indian firms."

To this end, the Budget should either lower the corporate rate or at least reduce the rate at which Minimum Alternate Tax (MAT) is applied to 10 per cent. The MAT is applicable to those companies who enjoy tax exemptions under the Income Tax laws. However, this has diluted the incentives given for some reason.

For example, several projects were announced on the basis of fiscal incentives accorded to SEZ developers and units, but the levy of MAT, along with the increase in MAT rate, has made these incentives redundant. CII has, therefore, recommended that the developers and units in SEZs should be provided relief from MAT and DDT.

Another example is that of infrastructure companies. Infrastructure projects enjoy a deduction under Chapter VI-A of the Income Tax Act (Act). The government has offered various tax incentives under section 80-IA of the Act to boost infrastructure. However, these benefits get neutralised since the companies are required to pay MAT on their book profits.

Don't change too much

On indirect taxes, the Budget should avoid the temptation of raising excise duties, which would jeopardise immediate growth prospects for the sector. The general rate of excise duty has been raised and lowered several times in line with demand conditions.

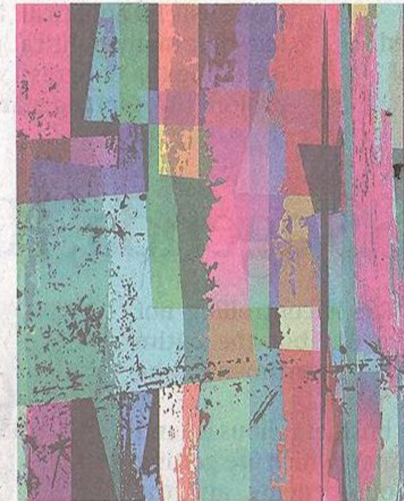
However, too many changes create uncertainty and consumers tend to adjust their purchases according to expectations. The current rate of 12 per cent is the same as the rate of service tax and should therefore be maintained at least till both of these are subsumed under the GST. Finance Minister Arun Jaitley should announce a timeline for achieving different milestones in the implementation of GST by April 2016.

The effort to persuade states to replace all taxes by GST, make it applicable to all products and services, and set a reasonable Revenue Neutral Rate (RNR) should be kept up.

Further, industry should be allowed to participate in deciding various issues related to GST such as the RNR, Place of Supply Rules and the draft GST legislation.

The Budget should also consider reduction in the rate of Central Sales Tax from 2 per cent to 1 per cent, till GST is implemented.

Regarding customs duties, CII has suggested that peak rates be retained at the current 10 per cent and the Budget focus on correction of inverted duty structures, which have arisen due to free trade agreements with countries such as Malaysia, Thailand, ASEAN, and others.



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As a result, finished products can be brought in at a lower duty compared to that on components.

The Budget should also provide some incentives for skill development, which is critical for developing a successful manufacturing nation. A range of incentives could be given to industry to undertake skill development.

These include reimbursement of training cost, earmarking 25 per cent of CSR fund for skill development, tax breaks on investments made in skills and introduction of skill development fellowships.

Finally, the Budget needs to ensure sufficient investment in transport infrastructure such as roads and railways, without which the manufacturing sector cannot be competitive. While the Union Budget may not itself allocate funds, it may create special purpose vehicles that can raise funds for this purpose. Investment from pension funds, multilateral agencies and other long-term investors could be brought into these SPVs.

Foreign investors have burnt their fingers in the past due to sudden changes in laws and regulations including tax laws. The Finance Minister needs to give them the assurance that the current government will provide stability and security.

The writer is the Director General of Confederation of Indian Industry