Confederation of Indian Industry

Expectations from the Budget

The Union Budget 2014-15, the first budget of the newly elected government, is being announced at a time when the macro-economic milieu continues to be domestically and globally challenging. Our GDP growth has decelerated to 4.7 per cent during 2013-14, among the lowest in the decade, indicating that the recovery is still not on the horizon.

Under these circumstances, CII hopes that the forthcoming Union Budget would announce a slew of growth propelling policy measures which would rekindle business sentiment and revive the investment led growth momentum. The Budget should start clearing the tailback of unfinished reforms which would unleash investment activity and bring growth back to the economy.

Fiscal Consolidation

The first and foremost priority of the government is to adhere to fiscal deficit target. It is necessary to maintain fiscal discipline with a commitment towards expenditure reduction through subsidy rationalization, and augmenting revenue by aggressively targeting disinvestment, diluting stake in public sector banks and unlocking the assets locked up in sick PSUs. Equally important is to ensure the quality of fiscal consolidation. Some suggestions:

- We should revert to the FRRBM targets and lay out a road map for fiscal consolidation over the next three years, which should be announced.
- All avenues for non – tax revenues should be explored for increasing inflows.
    - Disinvestment has to be undertaken aggressively (Rs 50000 crores);
    - There are 67 sick PSUs, whose rehabilitation or winding up proposals has been referred to the Board of Reconstruction of Public Sector Enterprises. It is recommended that the government unlocks the assets of these PSUs by monetizing land, plant & machinery etc.

- Diluting government stake in public sector banks to 51% is another suggestion for revenue generation.
- A 20% rationalization of subsidy expenditure could result in savings to the tune of Rs. 50,000 crore.

Augmenting Investment and Consumption Demand

The new government would need to step up both public and private investment to revive demand in the economy. For boosting investment it is important to ensure that any project that has come for clearance should be fast tracked and put on the ground. Some suggestions:

- Any project that has come into queue for approval should be fast tracked and put on the ground in the shortest possible period.
- CII recommends reduction in the threshold limit of CCI clearance from the Rs. 1000 Crs to Rs. 500 Crs.
- The reserves of 277 PSUs in 2012-13 amounting to Rs. 6.8 lakh cores should be put to judicious use.
- The exemption limit of personal income tax should be increased to Rs.5 lakhs. Alternatively, basic exemption should be linked to cost of living index.
- It is proposed that MAT relief be granted to Developers and Units in SEZs.
- In early years of development, there were several financial institutions that provided project finance. These have been done away with. It is important that either existing financial institutions such as IDFC, ILFS, Banks are given adequate leeway to fill this gap or alternatively, a development finance corporation be created with the specific objective of funding long gestation investments.

Augmenting Savings

The government should work on creating suitable instruments to increase financial savings in the economy which have gone down to 7.1 per cent of GDP in 2012-13 as against 11.6 per cent in 2007-08. Augmenting savings will be crucial to finance future investments, including infrastructure.

- Increase the limit of deduction under section 80C from Rs. 1 lakh

- Remove TDS on interest income on bank deposits.

Boosting Manufacturing

The new government should take steps to bring back vibrancy in the manufacturing sector which would not only help create the much vaunted wealth to the economy but also create jobs. Most of the jobs would be in the private sector and by SMEs. India must leverage its natural resource advantage to emerge as a low cost manufacturing destination. There is also a need to work towards advanced manufacturing.

- Expedite the implementation of the National Manufacturing Policy and creation of National Investment and Manufacturing Zones across different locations deserve special priority.

- The government could also contemplate setting up a high-level task force on incentives to promote mass manufacturing on a huge scale to offer jobs to low-skilled workers.

- The threshold limit of investment should be reduced to Rs. 50 crores which would encourage mid-sized companies to participate as well. The quantum of deduction should be enhanced to 25 percent. Investment allowance should also be eligible for relief under MAT provisions to avoid rendering this benefit notional.

- Given the importance of kick starting the investment momentum, CII has suggested that the government allows 25% accelerated depreciation for investments in plant and machinery for a per defined period of 3–5 years. This should help prepone investments without affecting revenues.

- CII in its Pre-Budget Memorandum has brought out few cases of anomalies in customs duty structure, where duty rates on inputs are higher than the finished products. For example, unwrought lead attracts 5% duty compared to 10% on waste and scrap of lead acid batteries. Such cases need to be looked into.

- The global excess capacity still poses a threat of increased imports flooding the Indian market. Therefore we propose that the present peak rate of customs duty of 10% should be maintained in the forthcoming budget.

Reviving Investment Climate and Ease of Doing Business

- Apart from direct incentives to boost demand, a facilitative environment for ease of doing business would go a long way to bring manufacturing back to our country.

- When we are trying to revive investments, we have to keep in mind that a large part of investor sentiments are determined by our ease of doing business. The World Bank ranks us at 134 out of 189 countries.

- From the point of view of improving investment climate, we have been suggesting early implementation of GST. We feel that we are at one of the best situations now to push this through. It is important to ensure that the Constitution Amendment Bill does not have the sectoral exemptions built into it. In terms of a stimulus, nothing can be better than a well-crafted GST. It is expected that implementation of GST will increase growth of GDP by about 1.5%.

- The proposed introduction of GAAR in 2015 will exacerbate uncertainty and create anxiety in the minds of investors, therefore should be further deferred.

- There is need to announce clarity and stability in tax policies so that retrospective taxation is avoided.Retrospective tax amendments have negatively impacted business sentiment in the country. At a time when country needs to bring back investment flows to resume the high growth trajectory, we expect the Budget would amend the Income Tax Act to clarify that retrospective amendment would be reversed and taxation would only be applied prospectively.

- Let me now mention about the Direct Tax Code (DTC). Through its many iterations, the DTC has evolved into a complex and non-industry friendly Code. Therefore, CII suggests that fresh thinking be done and a simple, exemption free and low tax framework for direct taxes be evolved going forward, without looking at DTC as the base.

- CII suggests creating a framework for settling tax disputes without going into litigation. An institutional mechanism can help in getting clarifications from CBDT or the revenue department

- I would like to suggest the creation of an institutional mechanism, through which industry and the tax authorities can work to create a non-adversarial and conducive tax environment. CII would be only too happy to work out a platform for this purpose.

Containing Inflation

There has been a spike in inflation with WPI rebounding to a five month high of 6.01 per cent in May 2014. The Budget should address the key concerns pertaining to food inflation by taking the following measures

- Delist fruits and vegetables from the ambit of APMC
- Tackle Cereal inflation by offloading surplus food grain stock from FCI
- Tackle pulses Inflation proactively import pulses to offset lower supply
- Cut down the import duties on certain items like fruits and vegetables, skimmed Milk powder (SMP) etc to offset the rise in prices.

- Effect Moderation in MSP Announce roadmap for moving away from MSP based support
- Encourage crop diversification, Further incentivize production oilseeds, milk, animal husbandry
- Promote greater mechanization, promote aggregation of land through long term leases of land
- Allow contract farming.
- Take Concerted efforts to complete pending irrigation projects
- Ensure last-mile connectivity through creation of canals etc.
- Better dove-tailing of irrigation projects with existing schemes such as the MGNREGS
- Spending at least 60 per cent of MGNREGA's allocations on infrastructure related to agriculture

Employment and Skills

A portion of MNERGA can be linked to skill development initiatives for those workers who are interested in undergoing a training course. Skill training should be provided in PPP framework.

With the new government in place, restoration of economic growth to at least 6-6.5 per cent during the current year and creating conditions for 8-9 per cent growth in the subsequent next year should be the top priority.