

A delicate balancing act!

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Well, as expected, with lurking scepticism and caution, the first full Budget of the new government was a deft balancing act for broad-basing sustained economic growth, rather than a 'big bang' announcement for a fresh stimulus package and tax concessions. Though the securities markets, a barometer of investors' sentiments, did throw a knee-jerk reaction, the Budget is a balanced event considering various factors!

Roadmap for sustained growth

On expected lines, the Budget put emphasis on sustained growth and has laid down a roadmap for economic development, coupled with fiscal prudence. Articulating the key challenges for the new government, the finance minister reiterated the government's commitment to lead the economy back to 9 per cent growth and deepen the agenda for inclusive development. While the Budget speech lauded short-term measures to bring the economy back on track, the finance minister underlined the significance of continuous infrastructure development and export growth as medium- and long-term drivers for economic recovery.

While the statistics revealed by the Economic Survey and re-emphasised by the FM pegged the fiscal deficit at 6.8 per cent of the GDP, the Budget speech underscored the importance of sticking to the deficit targets set up by the FRBM Act. For achieving sustainable objectives with medium- to long-term prudence, the Budget assured a planned return to the original budgetary deficit target set under FRBMA.

To me, this announcement is certainly a reprieve knowing that the fiscal stimulus packages and doleouts to combat the repercussions of global slowdown have been sending the fiscal deficit numbers to an all-time high.

Infrastructure and export growth — panacea for economic woes!

In no uncertain words, the finance minister declared that infrastructure development (highway and railways, power, gas, water, urban infrastructure, etc) is the 'cure-all' for economic recovery and sustained inclusive growth. While the planned Budgetary allocation has increased significantly, attracting private investment in a wide range of infrastructure sectors such as telecommunications, power generation, airports, ports, roads and railways through public private partnerships (PPP) holds the key.

Further, to revitalise the export sector, the finance minister acknowledged an immediate need of providing all possible assistance. The key proposals included the extension of Export Credit Guarantee scheme till March 2010, interest subvention for exporters, increase in allocation for Market development assistance schemes, facilitating flow of credit at reasonable rates to micro, small and medium enterprises through a special funds, etc.

Disinvestment — still groping for clarity!

Whilst the capital market was widely expecting a clear vision on the big word 'Disinvestment', it didn't feature in the speech. Though the minister did allude to the impending disinvestment of profitable PSUs and encouraged private participation in the disinvestment programme, the speech did not articulate a roadmap with definitive milestones for achieving an overdue policy reform. Interestingly, he was firm that banking and insurance public sector enterprises would continue to remain outside the purview of divestment and will be given support, including capital infusion, to grow and remain competitive.

Tax proposals — a mixed bag!

As he turned the pages to present tax proposals, India Inc was expecting an announcement of significant tax cuts and new fiscal incentives to rejuvenate the dampened economic outlook. However, the minister was not ready for too many surprises; a few pleasant ones did follow though!

On the direct tax front, whilst the corporate tax rate and surcharge remain unperturbed, individual taxpayers have something to cheer as the surcharge on the personal income tax is withdrawn and the maximum exemption limit increased, though marginally. For corporates, the extension of tax holidays for exporters and software players by a year, and withdrawal of Fringe Benefit Tax would be welcomed; however, the increase in the rate of Minimum Alternate Tax to 15 per cent is a dampener. The FM has very adroitly tried to minimise the sting of the MAT rate increase by extending the period for carry forward of MAT credit to 10 years. Scrapping of Commodity Transaction Tax and withdrawal of Securities Transaction Tax (STT) on sale/purchase of shares by NPT were other highlights. The fine print though suggests that the burden of FBT on ESOP's share now rests on the shoulder of the employee.

To usher in structural changes in the tax system and stimulate tax collections to GDP, the minister announced the introduction of a much-awaited direct tax code to be presented in the next 45 days. Another significant announcement was extending the seven-year tax holiday to commercial production of natural gas in blocks awarded under the NELP-VIII rounds. This however, still does not clarify the controversy as to whether production of natural gas in existing blocks (pre NELP and post-NELP) would be eligible for tax holiday. Announcement of dispute resolution panel to deal with Transfer Pricing cases and for all tax matters of foreign companies would lend some balance and objectivity to dealing with complex cross-border tax disputes. Similarly, a safe harbour provision for transfer pricing matters shall facilitate settlement of past years' cases mired in controversy.

On the indirect tax front, the FM reiterated the government's commitment to adhere to the April 2010 deadline for introducing the Goods and Service Tax (GST). Sounding optimistic about meeting this deadline, he indicated that a basic structure for implementing GST had been agreed between the Centre and states. Under the most likely two-tiered GST regime, the Centre and states will each legislate, levy and administer the Central GST and State GST, respectively. Besides, the Budget also contained proposals for rationalising product-specific rates for Custom duty and Excise duty and service tax reforms for simplifying service tax refund for exporters. A tax-reformist Budget!

Arguably, the Budget has not been the most flamboyant event as markets had anticipated; yet, I feel confident with the way Mr Mukherjee has pulled it off, especially in current times when he is burdened with industry demands and expectations to put the economic recovery back on track. The Budget, in my view, shall pave the way for accelerated tax reforms in this regime. He should be credited for having presented a promising economic outlook for the next few years, at the same time taking courage to initiate long-overdue policy reforms, on the fiscal and economic flank.