

For a more inclusive development process

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India has seen an economic slowdown in the recent past, much to the chagrin of the domestic industry. We faced lower production due to erosion in consumer demand. We also saw stimulus packages and reduction in excise and service tax rates in the last quarter.

It is heartening to note the government has not taken any step to destabilize the expansion of consumer demand by increasing indirect tax rates. Maintaining status quo is a prudent step, for it was easy for the government to get carried away by relying on April growth rates, which does indicate a possible bottoming of the economy.

The second important aspect of the Budget is the commitment to introduce a goods and services tax (GST) by 1 April, 2010, and a sneak preview of its basic structure—a dual GST comprising Union and state GST. This is a desirable step, given that multiplicity of indirect taxes and break in the credit chain for goods and services have often led to cost-prohibitive supply chain.

Indirect taxes in their current form is not entirely a tax on consumption for it taxes business as well. However, with the introduction of GST, we hope that cost efficiencies are achieved in supply chains, and consumers bear the impact of indirect taxes and businesses are freed from its impact.

The third important aspect is the alignment on the territorial jurisdiction of the three federal indirect taxes—customs, excise and service tax. Until this Budget, the territorial jurisdiction of the customs and excise laws extended to the entire exclusive economic zone and continental shelf of India, whereas service tax laws extended only to designated coordinates in the continental shelf.

Territorial jurisdiction of service tax laws are now being extended in line with that applied under customs and excise. This can have a far-reaching impact on oil and gas exploration in the east coast. The cost of exploration and production is likely to increase.

The finance minister has indicated elaborate budgetary support to provide infrastructure development and made policy announcements to provide stimulus to public investment in infrastructure and public-private partnerships. However, purely from an indirect tax perspective, the Budget falls short of expectation for the infrastructure sector.

There are no significant indirect tax changes introduced that can provide a fillip and impetus to this sector and several industry demands have remained unfulfilled. Instead, one notices a slew of countermeasures, such as a service tax on transportation of goods by railways.

The Budget proposals undoubtedly are aimed at making the development process more inclusive, a plank forming the basis of this United Progressive Alliance government's road to power. One hopes that some of the unfinished agendas would be taken up in the course of this year.

We can surely pin our hopes on the statement of the finance minister when he says, "A single Budget speech cannot solve all our problems, nor is the Union Budget the only instrument to do so."

These words make one expect that fiscal rationalization and tax as tools for intervention may be used throughout the year and some of the unfinished agendas may be addressed as we move along this fiscal.