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REPLY TO DEBATE

NDA for a lower tax regime: FM

Jaitley signals that 'pro-business' govt is looking at bold measures to curb the rising subsidy bill

By Remya Nair & Utpal Bhaskar

NEW DELHI

Finance minister Arun Jaitley on Friday detailed the thrust of the government's economic policy, which promises to usher in a low-tax regime, rationalize subsidies and shun populism.

According to Jaitley, the budget reflected some of this intent and also enjoyed the support of Prime Minister Narendra Modi.

The finance minister's remarks are significant as they come in the context of criticism that the Union budget, which he unveiled on 10 July against a backdrop of two years of sub-5% economic growth and persistent inflation, did not go far enough to promote reform.

Replying to the debate on the Union Budget 2014-15 in the Lok Sabha, Jaitley admitted the Bharatiya Janata Party-led National Democratic Alliance (NDA) was "pro-business", adding that its stance in no way contradicted the government's commitment to alleviating poverty.

Laying out the defence of his first budget, the finance minister attempted to rally support for the package from among the political opposition, saying that there was a "large space" for forging consensus on policy reforms.

product (GDP) ratio fell to 10.1% in the year ended 31 March, the lowest level since 2006-07, as slower economic growth crimped tax revenues, especially excise and customs duties. The government expects growth to rebound to 5.4% in the current fiscal year.

The government is looking to build a consensus with states to implement the goods and services tax, an indirect tax reform that is expected to substantially raise the tax buoyancy.

The finance minister desisted from raising tax rates in the budget and tried to put more money in the hands of the people to prop up savings and consumption.

The budget also gave a number of incentives like investment depreciation benefits to revive the manufacturing sector. The government is hoping that the sops, coupled with lower interest rates, will revive growth. "Interest rates have gone up. Hopefully, if inflation moderates, they will come down," Jaitley said.

Signalling that the government is looking at some bold measures to curb the rising subsidy bill, Jaitley said, "There cannot be an unquantified sum set aside for an unidentified section, be it for education or oil subsidy," before adding, "We need to correct this".

Implicitly, the finance minister was suggesting the restriction of subsidies only to those who need it and making a case for better targeting of subsidies.

The subsidy bill is budgeted at ₹2.6 trillion in the current fiscal year, or around 2.02% of GDP, against ₹2.55 trillion, or

Jaitley also restored the accelerated depreciation benefits for the wind energy sector, in line with the government's aim of promoting clean energy.

Expanding on the philosophy behind the need to create a low-tax regime, Jaitley argued that it would reduce costs, make Indian goods more competitive and accelerate economic activity.

"Expanding economic activity will increase tax buoyancy and revenues, and that is what we are aiming for," he said.

India's tax-to-gross domestic

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2.2% of GDP, in 2013-14.

Making a case for the increase he proposed in the foreign direct investment limit to 49% from 26% in defence production and insurance, Jaitley stressed that both sectors urgently require capital infusion.

"Around 70% of our defence equipment comes from abroad and leads to outgo of foreign exchange earnings. We need to build capacity domestically to meet our requirements," he said.

He also stressed that being pro-business isn't in conflict with being pro-poor."If business activity increases, it will generate jobs and alleviate poverty," he said.

Jaitley also announced a special ₹2,000 crore fund for the food processing sector under

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the National Bank for Agriculture and Rural Development. He also announced an allocation of ₹50 crore for setting up centres to treat drug addiction in Punjab.

Jaitley added that some other tax proposals-related issues raised by the industry are under the consideration of the government.

Concerns were raised over the taxation of investments in debt mutual funds retrospectively. Investors who have redeemed debt mutual fund units between 1 April and 10 July would have to pay a higher tax because of the budget proposal.

The reinstatement of accelerated depreciation benefits for the wind energy sector would reduce tax and strengthen cash flows. Under the earlier accelerated depreciation benefits scheme that was withdrawn by the Central Board of Direct Taxes in April 2012, wind power generation companies could claim a depreciation benefit of up to 80% of their investment in the first year of the project itself.

The tax benefit on offer earlier had encouraged fraudulent schemes where investments in wind energy remained on paper and companies and individuals got extensive depreciation benefits.

India has an installed power generation capacity of 248,510 megawatts (MW), of which 31,692.14MW is fuelled by renewable energy. Of this, 21,200MW is wind power capacity.

The generation-based incentive, also withdrawn in April 2012, was aimed at discouraging investments that were merely aimed at availing tax concessions and promised 50 paise for every unit of electricity generated by wind power firms. It was later reinstated.

India's National Action Plan on Climate Change recommends that the country generate 10% of its power from solar, wind, hydropower and other renewable sources by 2015, and 15% by 2020.

Raj Prabhu, CEO and co-founder of **Mercom Capital Group**, a clean technology communications and research firm, said the reinstatement of accelerated depreciation benefits was a positive sign for the struggling sector and sends a powerful message from the new Modi administration that it is serious about renewable energy.

"Wind installations fell after accelerated depreciation was withdrawn by about 50% from 3GW (gigawatts) installed in 2011 to 1.7GW installed last year. With the return of accelerated depreciation, we can expect growth to revive in the Indian wind industry and installations to pick back up," he said.

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