THE BUDGET MUST TACKLE INDIA'S PREVAILING ECONOMIC UNCERTAINTY

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Industry & Services Sector incl. MSMEs and PSUs

Suggestions on taxation, tariffs and other policy measures that would help our economy generate demand and employment

The numerous prompt and decisive relief and reform measures announced by the government in the recent past to manage the impact of the covid pandemic on Indian industry and the overall economy have led to a distinct turnaround in India's growth trajectory.

Improved trends in agricultural production, the manufacturing sector and consumption have boosted industry confidence and strengthened consumer sentiment. The latest poll of chief executive officers conducted by the [Confederation of Indian Industry](#) (CII) indicates positive business expectations, further affirmed by an all-time high [goods and services tax](#) (GST) revenue collection of 1.15 trillion in December 2020. It is likely that the economy will recover this year itself, and India will have to ensure that such a recovery remains sustainable. The Union Budget of 2021-22 is less than a month away and offers a great opportunity for comprehensive and objective steps towards achieving this objective.

The sharp fall in India's economic growth rate resulted in a revenue shortfall for the government, leading to a stressed fiscal situation. Thus, we need judicious fiscal management while simultaneously maintaining a growth impetus.

Like every year, CII has submitted a comprehensive set of suggestions for generating demand and employment, along with the required revenue, as well as on direct taxes and import tariffs to encourage Atmanirbhar Bharat.

The two most critical areas that require attention for India's economy to get back on a high-growth trajectory are private investment and job creation. For creating employment and livelihoods, a stable tax regime is strongly desired. Keeping in view the fiscal constraints, CII has not suggested any significant deductions or exemptions in direct taxation, and therefore, its tax recommendations are focused mainly on clarity in law, simplification of procedures and reduction of litigation to facilitate business transitions which would make doing business easier for industry. There is a need to maintain contractual sanctity by ensuring that any tax-law amendments are done in such a manner that the amended laws honour existing contracts under execution.

To encourage employment in higher skilled jobs, the present cap of 25,000 needs to be raised to 50,000 per month under Section 80JJAA of the Income Tax Act, which provides for deduction of 30% on emoluments paid to new employees, to be claimed for three years.

There exist large volumes of litigation and pending tax cases. Mediation can provide final and binding settlements to ensure certainty and provide relief from long-drawn litigation. Hence, a time-bound mediation mechanism for tax disputes should be introduced in the upcoming budget.

The Finance Act of 2018 provides for the grandfathering of long-term capital gains accrued up to 31 January 2018 on listed equity shares. A clarification should be issued that it would apply to shares of amalgamated or demerged companies as well.

To enhance the financial strength and soundness of banks, and thus the stability of India's financial sector, the prescribed limits on provisioning for bad and doubtful debts by Indian banks should be enhanced from the existing 8.5% to 15%. Further, the interest on non-performing assets that has been overdue for more than 90 days should be excluded from total income and taxed only on a receipt basis.

The global covid-induced economic downturn has had an unprecedented impact on exports. Orders have been cancelled and global trade has been transformed.

India's government has proactively taken steps to help industry manage the impact of covid through various measures, including a lowering of tax rates and the deferment of tax payments and compliances. Also, a major thrust has been given to the Make in India, Atmanirbhar Bharat and Vocal for Local initiatives. Following the vision of Prime Minister Narendra Modi, CII has proposed a set of general principles to guide the country's import tariff structure, along with a roadmap to encourage and calibrate domestic manufacturing in alignment with global trade trends that would strengthen its manufacturing capacities and boost its export competitiveness over three years.

CII has suggested the lowest or 'nil' slab for inputs or raw materials, a top slab of 5-7.5% for final products, and 2.5-5% for intermediate goods. This will help Indian industry integrate itself with global value chains and turn its goods and services competitive in world markets. Exceptions could be considered for a few products presently in higher slabs, accompanied by policy actions to boost domestic manufacturing through phased manufacturing programmes and production-linked incentive schemes. Any imposition or increase of import duty may impact the global competitiveness of Indian manufacturers and make it difficult for them to further slot their operations into global value chains.

At her interaction with CII in December, finance minister Nirmala Sitharaman had stated that the current unprecedented times call for a budget like never before. CII looks forward to an ambitious and balanced budget this year that will proactively tackle the prevailing economic uncertainty.

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