A Budget of Hope for Revival of Economic Growth Momentum

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In the 2012-13 Budget while there were relaxations done by creating the negative list on one hand, the heat was generated on issues of tinkering with the custom and excise duties, on the other hand. Moreover, the issues related to GST remain unresolved. With this background, the author critically analyses the pros and cons of the recent budget regarding the indirect taxes.

On 16th March, 2012, the nation woke up with nervous expectations on two fronts — the possibility of Sachin's hundredth hundred and Pranab Da's union budget — both expected to act as soothing balms for a nation that had seen many ups and downs in the last year. The two gentlemen, veterans in their areas of expertise having battled away to earn epithets "Mr. Fix It" and "Men for all occasions" were on the threshold of contributing something big to the nation. The viewers were frenetically switching television channels to follow both the Budget proposals and the progress of Sachin's innings against Bangladesh in the Asia Cup Cricket Tournament. One community was particularly more nervous than the others and they were the media who were frantically searching for column spaces in their newspapers preparing for the next day to cover both the events. What finally unfolded was a damp squib as India lost to Bangladesh after a brilliant century by Sachin and the Union Budget was given thumbs down almost by every section of society including the corporates after a brilliant speech by the FM.

As for the Finance Minister, he has had to perform the most difficult balancing acts ever since he took over the reigns as Finance Minister in 2008 to present the interim budget for the present government. Like an expert trapeze artist, he has not only had to balance the Economic Tsunamis but also deal with many a Political Crisis each time he has presented the budget in the last four years. This year's budget was no different with the sovereign debt crisis in the Euro zone intensifying, uncertainty because of political turmoil in Middle East, choppy crude oil prices, and the earthquake in Japan casting an overall gloom in the world economy. Added to it was the near double digit runaway inflation, the dip in economic as well as industrial growths and the last but not the least the onus of carrying the fractured coalition along. The Railway Budget presented by his colleague a few days earlier with the announcement of a hike in passenger fare did make the situation more poignant than ever.

The Budget 2012 is certainly that of hope for revival of economic growth through a slew of measures as well as enhanced outlays for agriculture, infrastructure and the social sectors. It is also a huge numerical exercise to reign in the fiscal deficit. But this Budget has also sent some confusing signals as far as indirect taxes are concerned. On the one hand, while the widening of the Service Tax net and introduction of a negative list was welcome and long overdue to mobilise revenue for the developmental projects, the increase in the rate by 2 per cent is not explainable. Similarly the across the board increase in excise duties for all non-petroleum goods by 2 per cent was also not on expected lines. Till last year when the excise and service taxes were broadly being brought in the band of 10 per cent, the expectation was that the introduction of GST would see a uniform rate of 8 per cent as it was believed that this was the final resting point. If the hike is purely to mobilise resources to reign in fiscal deficit and it would be brought down once again after the calibration and the economy picks up, it certainly does not augur well for the short term at least, for these measures are bound to increase the prices of services as well as goods and spur inflation. The signal to the international community is also that of an unpredictable tax regime.

Another disappointment is the lack of clarity on a date for introduction of Good and Services Tax (GST). Moving towards GST is going to be the next biggest breakthrough as far as indirect tax regime is concerned and the faster India takes the step, the better it is for the industry and economy. While the Finance Minister has mentioned that the Constitution Amendment Bill, a preparatory step in the implementation of Goods and Services Tax (GST) has been introduced in Parliament in March 2011 and is before the Parliamentary Standing Committee, I do hope that there are not too many postponements. The nation has lost enough time with the several aborted attempts before the eventual Value Added Tax (VAT) was delivered and we cannot afford to lose another major opportunity with the GST regime. The FM should focus all the energy in getting the final recommendations of the Committee and drafting of model legislation for Centre and State GST in concert with States.

The good news is that the structure of GST Network (GSTN) has been approved by the Empowered Committee of State Finance Ministers and will be set up as a National Information Utility by August 2012. The GSTN is expected to implement common PAN-based registration, returns filing and payments processing for all States on a shared platform. The use of PAN as a common identifier in both direct and indirect taxes is expected to infuse and enhance transparency to check tax evasion.

A closer look at Service Tax reveals that the Finance Ministry is finally tapping the full potential of this sector with its contribution close to 60 per cent to the GDP. In fact the Economic Survey has made a particular reference that the healthy growth rate of 10 per cent achieved by the services sector has to a large extent insulated India from the global slowdown. A late entrant in the tax net in 1994 with only three services taxed at a moderate 5 per cent has today been expanded to 117 services taxed at 10.3 per cent and the revenues have grown from Rs. 410 crores to almost Rs. 95,000 crores in 2011-12. With the tax rate now at 12 per cent, I do hope that this is not seen as the next milking cow as it has been time and again experienced like the famous Kautilya's dictum "Milk is not got by milking the cow dry". With the widening of the service tax net, Rs. 124,000 crores is expected to be mobilised. In the short term however services like Life Insurance premium for ULIPS, Air Travel, restaurants having license to serve liquor, rail travel, money changing and sale of lottery are going to increase impacting the common man. The hotel stay and convention centre services, caterers and tent/wedding venues are going to however become cheaper.

The services that have been exempted include health care, services provided by charities, religious persons, sports persons, performing artists in folk and classical arts, individual advocates providing services to non-business entities, independent journalists and services by way of animal care or car parking. For greater penetration of financial services in rural areas, the services of business facilitators and correspondents to banks and insurance companies have been exempted from service tax.

Construction services relating to specified infrastructure, canals, irrigation works, post-harvest infrastructure, residential dwelling and low-cost mass housing up to an area of 60 sq mtr under the Scheme of Affordable Housing in Partnership have also been exempted from service tax. The centenary year of Indian cinema has been recognised by exempting the industry from service tax on copyrights relating to recording of cinematographic films. The negative list will help in reducing ad hoc changes in legislation, retrospective amendments, addition of new category of services in every budget, definitional issues.

On the excise front, there have been specific attempts to raise revenue wherever possible thereby deviating from the general direction to move towards a central rate. The duty on all non-petroleum goods have been raised to 12 per cent standard rate as a fiscal correction measure. The merit rate has also been raised by one percentage point from 5 per cent to 6 per cent and the lower merit rate from 1 per cent to 2 per cent. However, the lower merit rate for coal, fertilisers, mobile phones and precious metal and jewellery is being retained at 1 per cent.

For people aspiring to buy big vehicles, the news is not encouraging as cars currently attracting excise duty depending on engine capacity and length has seen an increase from 22 per cent to 24 per cent. In the case of cars that attract a mixed rate of duty of 22 per cent + Rs. 15000 per vehicle, the duty has been raised to an ad valorem rate of 27 per cent.

While the peak customs duty has not been changed in the hope of giving a boost to certain sectors having potential to generate domestic demand, several measures have been announced to reduce customs duties.

Agriculture and related Sectors have been given a boost by reducing basic customs duty from 7.5 per cent to 2.5 per cent on sugarcane planter, root or tuber crop harvesting machine and rotary tiller and weeder as well as parts for the manufacture of these. Similar reductions have been announced on specified coffee plantation and processing machinery from 7.5 per cent to 5 per cent. Project import at concessional rate of 5 per cent has been extended to green house and protected cultivation for horticulture and floriculture. The basic customs duty on some water soluble fertilisers and liquid fertilisers other than urea has been reduced from 7.5 per cent to 5 per cent and from 5 per cent to 2.5 per cent. Concessional import duty available for installation of Mechanised Handling Systems and Pallet Racking Systems in mandis and warehouses has been extended for horticultural produce also. Imports of equipment for initial setting up or substantial expansion of fertiliser projects have been fully exempted from basic customs duty of 5 per cent for a period of three years up to 31st March, 2015.

In order to give an impetus to infrastructure several import benefits have been given to the critical sectors of power, coal and railways. The domestic producers of thermal power have been exempted fully from basic customs duty as a compensation for the high prices of coal. Full exemption from basic customs duty and a concessional CVD of 1 per cent has been accorded for steam coal for a period of two years till 31st March, 2014. Full exemption from basic duty has also been provided Natural Gas and Liquefied Natural Gas; Uranium concentrates Sintered Uranium Dioxide in natural and pellet used for power generation.

For tapping the potential, enhancing the productivity and efficiency in mining basic customs duty on machinery and instruments for surveying and prospecting in the range of 10 and 7.5 per cent to a uniform rate of 2.5 per cent. In addition, full exemption from basic customs duty has been provided to coal mining projects.

Similar concessions and reductions in import duties have been given to railways, roads and civil aviation sectors with a hope that they would have a multiplier effect and economic activity would pick up. The manufacturing sector in the grips of a slowdown has been given relief by way of cheaper cost of raw materials, inputs, components and capital goods through customs duty reductions. The sectors that have been given special thrust through excise as well as customs duty reductions are textiles, medical equipment, bicycles, health care and environment.

As customary the excise duty on “demerit” goods like cigarettes, bidis, pan masalas, gutkha, chewing tobacco etc. have been increased. For international travelers the good news is that the baggage allowance has been increased from Rs. 25,000 to Rs. 35,000 including the allowance of children up to 10 years from Rs. 12,000 to Rs. 15,000.

In effect, while mobile phones, branded silver jewellery, branded garments, imported LCD and LED TVs among others would be cheaper for those who can afford them, the others such as two wheelers, cars, refrigerators, air conditioners, washing machines, watches, gold, soaps and the like will become dearer.

On the whole, this budget exercise as far as indirect taxes is concerned has been a mixed bag and is expected to fetch the exchequer Rs. 1,86,694 crores from customs, Rs. 1,94,350 crores from excise. There have certainly been concrete steps in the right direction as far as the service tax is concerned. But there has been a larger scale tinkering of both excise and customs duties because of the exigency to balance the revenue and the expenditure. It is hoped that the issues relating to Goods and Services Tax (GST) is sorted out at the earliest and the stage is set to introduce a comprehensive GST regime by the next year's budget.

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