

Budget 2016-17 pushes for Inclusive Growth

Union Budget is actually a vision for macro-economic policy promoting overall economic growth, so goes an economics saying. In that sense, the vision for India's Union Budget 2016-17 is positively and progressively different from the Budgets of the last few years as it focuses more on strengthening rural-social sector and infrastructure sector besides introducing tax reforms to create a more rationalised, simplified and litigation free tax regime, and counter tax evasion so as to facilitate an economically vibrant India. Overall, it's a progressive and growth-oriented Budget, which has kept economic targets realistic and has aimed at providing a level-playing field to domestic manufacturers to facilitate *Make in India*, fiscal consolidation and fiscal prudence. A redeeming feature is that it has improved upon the Revenue Deficit target from 2.8% to 2.5% of GDP in 2015-16 while the fiscal deficit in 2015-16 and 2016-17 have been retained at 3.9% and 3.5% of the GDP respectively.

This Budget has been very articulately premised on nine pillars that will transform India, which are tax reforms, ensuring fiscal discipline, infrastructure investment, promoting ease of doing business, agriculture, rural sector, social sector, education and job creation. A staggering ₹1.77 lakh crore have been set aside for the rural economy which caters to 68.8% of the country's population, with commendable plans to double farmer income by 2020. The proposed Krishi Kalyan cess of 0.5% on taxable services, which although will increase the effective Service tax rate to 15% from 1st June 2016, will actually go a long way in boosting the agriculture sector.

A commendably massive ₹2.21 lakh crore have been earmarked for infrastructure sector to boost economic growth although an Infrastructure cess is also proposed to be levied on motor vehicles subject to certain exceptions. ₹2,000 crore will be provided for giving concessional LPG connections to BPL families which is important in the backdrop of the World Health Organisation estimates that five lakh women die in India because of unclean cooking fuels.

This Budget is particularly noteworthy in terms of provisions for countering tax evasion, reducing litigation and providing certainty in taxation. Therefore, the tax proposals in this regard are in the nature "Limited Period Compliance Window", providing for reduced rate of penalty and immunity from prosecution when the payment is made within the said limited period. Formulation of a new Dispute Resolution Scheme (DRS), keeping in mind the large number of cases pending before the Commissioner (Appeals), is a welcome measure. Reducing the stringency of penal provisions will go a long way in reducing tax litigation and improving compliance.

The Finance Act, 2012 had made significant retrospective amendments bringing to tax gains from off-

shore transactions where the value is attributable to the underlying assets located in India. These amendments had huge revenue implications. Now, the Budget proposes a one-time scheme of Dispute Resolution for ongoing cases relating to such retrospective amendment. The scheme requires assessee to pay the tax arrears and withdraw any pending case. This, however, does not seem to be in line with the Government's intention of not creating any fresh liability based on a retrospective amendment. This scheme, in effect, requires payment of the tax liability for closure of dispute. Mere waiver of interest and penalty cannot be a cure for the huge tax liability resulting out of a retrospective amendment.

Introducing a graded penalty scheme in the place of a broad range of 100% to 300% of tax sought to be evaded would definitely serve the intended objective of reducing the discretionary power of the tax officers, and bring in an element of certainty. Granting stay of demand on payment of 15% of the disputed demand is yet another taxpayer friendly measure.

Other laudable measures are, creation of eleven new benches of CESTAT and raising monetary limit of deciding an appeal by a single member bench of ITAT. Another positive move is the reduction in interest rate on delayed payment of indirect taxes while Amendment in CENVAT Credit Rules, 2004, which have always been vulnerable to disputes, would help in clarifying the correct position of law, thereby reducing litigation.

One highlight on the International taxation front is the Tax Equalisation Levy at 6% on payment to Non Resident for online advertisement and other specified payments covered under Chapter VIII of The Finance Act and not under the Income-tax Act will not be eligible for Foreign tax Credit to the Non Resident under the DTAA in his country. Non Residents have, over the last few years, entered into net of tax contracts with Indian residents. Considering that the guidelines relating to Place of Effective Management (POEM) have still not been notified, the postponement of provisions relating to POEM by one year is a welcome step.

It is welcome that in a post Budget move, the Prime Minister and the Finance Minister have addressed the concerns of salaried class, wherein, in a bid to rationalise NPS, the settled position relating to tax exemption of PF and superannuation funds was disturbed.

Amid global economic volatility, India has admirably achieved a 7.6% GDP growth in the current fiscal. In this scenario, this budget will go a long way in harnessing the beehive of the country's growth and pollinate progress across all economic segments. Overall, it has lived up to the Government's motto of 'Sab ka saath sab ka vikas.' ■

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