Budget 2013-14 for Inclusive, Sustainable Growth

Given the onerous task of chasing the elusive high growth rate and bringing the economy back on track in the face of populist pressures, Finance Minister P. Chidambaram, in the Union Budget 2013-14, has deftly mooted good economics as a tool of good politics. Taking into account the tight spot in which our economy has slipped into, he has clearly identified the challenges and spelled out the direction, by keeping the focus of the Budget on inclusive and sustainable growth with fiscal consolidation. *"It is not a novelty or beyond our capacity,"* rightly said the Finance Minister in his Budget speech, as he went an extra mile for the poor, backward, women, minorities, youth, education, health, agriculture, industry, infrastructure and defence.

It is a responsible, bold Budget that will lead to macro-economic stability. The responsible bit is evident enough: the fiscal deficit has been reined in, both for the current year and for the next year (5.2% in 2012-13 and projected 4.8% in 2013-14). Further, the subsidies for 2013-14 are just over 2% of GDP, compared to over 2.5% in 2012-13. The boldness is that, he has preferred good economics over politics of populism.

The Budget has unveiled a higher-than-expected spending for fiscal 2013-14, aiming to fund it with higher revenues. In this regard, the tax proposals are in tandem with the overall aim of the budget, proposed to be achieved by focusing on key areas, such as bringing in stability in tax regime, ensuring a non-adversarial tax administration, curbing tax evasion and increasing voluntary compliance. Also, the budget reinforces its faith on the progressive system of taxation, by proposing a levy of 10% surcharge on individuals with an income in excess of ₹1 crore and increased levy by way of surcharge @10% on domestic companies with total income exceeding ₹10 crore, higher taxes on luxury & sin goods, provision of additional deductions to specified categories which do not encompass the rich (like additional interest on housing loans up to a specified limit, total income cap of ₹12 lakh for new investors to avail the benefit of deduction of investment in Rajiv Gandhi Equity Savings Scheme), and lower abatements for service tax in case of houses of high value.

The stability in tax regime is to be achieved by maintaining status quo with respect to basic exemption limit and income-tax slabs. The rates for all the three central indirect taxes, namely, excise duty, customs duty and service tax have also not been tinkered with. The proposals to continue the benefits relating to deduction for new investors investing in equity market as well as the lower rate of tax on dividend received from foreign companies and the proposal to make minimum addition in the negative list of services introduced last year are in line with this objective. Further, another notable feature in ensuring stability is that no major retrospective amendment has been proposed this year. *"In a constrained economy, there is little room to raise tax rates or large amounts of additional tax revenues. Equally, there is little room to give away tax revenues or the tax base. It is a time for prudence, restraint and patience,"* rightly said the Finance Minister in his budget speech.

Significant thrust has been placed on "non-adversarial tax administration" by proposing to constitute a Tax Administration Reform Commission, to review the application of tax policies and tax laws. This would facilitate our tax systems to adopt best global practices. The proposal to provide for MRP based valuation in respect of branded medicaments of non-allopathic systems of medicine will bring more clarity in law. However, non-rationalisation of the complex and restrictive credit provisions is a major disappointment.

The re-introduction of tax deduction at source on sale of immovable property, where the consideration exceeds ₹50 lakh, is certainly the need of the hour to curb tax evasion. Introduction of additional income tax @ 20% of profits distributed by unlisted companies to shareholders through buyback of shares would prevent significant revenue leakage. Likewise, levy of higher rate of tax on royalty and fee for technical services on payments to non-resident, to prevent categorising distribution of profits by a subsidiary to a foreign parent company as royalty, is expected to plug the loophole and prevent escapement of income.

In order to ensure that the current defaulters of service tax comply with the requirement to file returns and pay taxes, a one-time scheme called "Voluntary Compliance Encouragement Scheme" is to be introduced, which is a welcome revenue garnering step.

The proposed introduction of investment allowance @ 15% to a manufacturing company investing more than ₹100 crore in plant and machinery during the period 01-04-2013 to 31-03-2015, exemption of Investor Protection Fund (set-up by a depository for the protection of interest of beneficial owners) from income-tax, extension of "eligible date" for projects in power sector for availing benefit under sSection 80-IA would certainly go a long way in giving a boost to the economy by attracting more investments.

Commendably, the Finance Minister has outlined the roadmap for ushering in the GST regime by specifically allocating a sum of ₹9,000 crore towards the first installment of the balance of CST compensation. The Finance Minister's assurance on the Direct Taxes Code Bill is also welcome. It is hoped that the new DTC, giving due weightage to the recommendations of the Standing Committee, would ultimately incorporate the best global practices, and at the same time, maintain the right balance between simplicity and equity.

The Budget 2013-14 has indeed given a clear direction to the economy, but much more is still to be done. As such, we need to pay heed to the concluding words of the Finance Minister's speech where he quoteds Swami Vivekanand- *"All the strength and succour you want is within yourself. Therefore, make your own future."*

-Editorial Board

ICAI – Partner in Nation Building