

Tax exemptions for India Inc to be phased out, says FM

While the implementation of a goods and services tax (GST) faced uncertainty on Wednesday, Finance Minister Arun Jaitley reaffirmed the government's commitment to economic reforms, saying corporation tax exemptions would be phased out and weaker banks consolidated with strong ones.

In line with the Budget announcement of reducing corporation tax by five percentage points to 25 per cent in four years, Jaitley said the government would release a list of tax exemptions to be withdrawn in a phased manner. The aim is to align taxation levels in India with global standards and with those in competing countries.

"Over the next few days, we will come out with a list of exemptions, which we intend to phase out in the first place. In the next four years, corporation tax will come down by five per cent and a lot of exemptions will be phased out," Jaitley said at a summit organised by The Economist.

While corporation tax stands at 30 per cent, the effective rate of taxation is 23 per cent, on account of a large number of exemptions. There are 38 different deductions extended to the corporate sector. In 2012-13, the revenue forgone on account of such exemptions was Rs 68,000 crore.

"Therefore, we will slowly bring taxation levels to global standards and make tax assessment and returns simpler by just eliminating a lot of exemptions," Jaitley said.

He added measures to protect the domestic steel sector from dumping by foreign manufacturers were being examined. Later in the day, an official statement said the director general of safeguards had recommended imposition of a 20 per cent provision duty on hot-rolled non-alloy and steel alloys.

Jaitley said the government wouldn't relent on pursuing black money cases in India or abroad.

GST

The roll-out of GST from April 1, 2016, is set to be deferred, with the Cabinet Committee on Parliamentary Affairs deciding to prorogue the monsoon session of Parliament. That essentially means the constitutional amendment Bill for GST could now be taken up by the Rajya Sabha only in the winter session of Parliament.

"Keeping the political reality in mind, at the meeting of the Cabinet Committee on Parliamentary Affairs, it was decided we will recommend to the President to prorogue the monsoon session," Jaitley said.

Earlier in the day, he had said, "The Congress party says - I will only shout down...I would like to see it being implemented by April 1, but if this kind of obstructionism remains, perhaps the Congress party will succeed in hurting the Indian economy and derail the GST for some time."

The government was keen on extending the monsoon session to secure Parliament's nod for the Constitution amendment Bill on GST, but had opted against it "for the time being", as talks with the Congress did not yield results, he said after the Cabinet meeting.

Efforts to reach an agreement on the Bill would continue, he added.

The government would look at consolidating weaker public sector banks with stronger ones if they continued to remain fragile despite efforts to strengthen them, the finance minister said. The government has already asked banks to work out the possibility of synergies among themselves. Once the Bank Board Bureau came into being from April 1 next year, the government would talk to banks and recommend mergers or consolidation, Jaitley said.

"...if there is a fragile bank, we are looking at consolidation with stronger banks. So, it's not that banks don't get priority. In fact, after inheriting the banks in a fragile situation, we are systematically trying to address each of these problems," Jaitley said.

He said the government was taking steps to strengthen public sector banks and highlighted measures in this regard, including capital infusion and hiring of professionals, even from the private sector. Bringing down government stake in these banks to 52 per cent would further augment their capital, he said.

On rising NPAs in the banking sector, he said there was no need to "panic". He added NPAs were primarily high in sectors such as highways, steel, state discoms and textiles. On NPAs pertaining to discoms, Jaitley said he was in touch with each state on the reforms needed.

Steel anti-dumping duty

"We are looking and seriously examining other steps ... which can be defensive against dumping of steel in the country ... we have to balance the interest of the consuming industry with that of the steel manufacturing sector. It is an external issue. So, we have marginally increased our tariffs twice," Jaitley said.

The official statement said the recommendations of the director general of safeguards would be examined by the Board of Safeguards, headed by the commerce secretary. If the two are in agreement, the Board of Safeguards will recommend an imposition of duty to the finance ministry.

FTAs

India wouldn't "indiscriminately" enter into free trade agreements (FTAs), Jaitley said, adding it would ensure such deals were mutually beneficial. "A trade deal merely because it is part of economic diplomacy is not essential," he said.

Industry has been arguing that pacts with South Korea and Japan and the 10-nation Association of Southeast Asian Nations have benefited partner countries more.

"We have entered into a large number of trade deals but entering indiscriminately into (free) trade agreements and then having concerns a few years later is not wise. I think it's better to move carefully but surely," Jaitley said.

Nirmala Sitharaman, minister of state for commerce and industry, said the government followed the principles of free trade. "In a way, every country, given the depressed demand situation, is ensuring it protects national interests. I would say we shall also be very wary of developments all over; we shall not allow Indian interests to be hurt. However, that is not to be seen as being protectionist," she said.

(Business Standard)