Opinion

TUESDAY, JANUARY 14, 2020

CAUSE AND EFFECT
Chief minister of Bihar, Nitish Kumar

How the question of NRC arise? We have no inkling that such an exercise would be conducted across the country. It would be needless and have no justification.

A step towards normalcy

SC does well to put curbs on govt's J&K mobile/net lockdown

THE SUPREME COURT, last week, in the context of the internet shutdown in Jammu & Kashmir (J&K), ruled that the freedom of speech and right to carry on trade and business were protected by Article 19(1) of the Constitution and that the internet is now a crucial tool for these to be exercised. It also ruled that any curbs on these must be temporary, in keeping with the Temporary Suspension of Telecom Services (Public Emergency or Public Service) Rules, 2017, and must pass the test of proportionality, under Article 19(2) and (6). Thus, there is now no doubt that a prolonged shutdown, like that in J&K, is untenable. To the extent that the judgment will help matters normalise, aid the restitution of livelihoods, and even allow the people of the newly-declared Union Territory communicate with their families, it should restore the faith of the J&K body politic in the law of the land.

J&K has been in a virtual lockdown, with mobile and internet facilities suspended, for 163 days; some curbs have been lifted, but these are nowhere near what is needed to claim that there is normalcy in the UT. Meanwhile, Kashmiris living outside the states have had to learn of family members' deaths weeks after their passing, the UT has suffered a ₹10,000 crore loss in terms of suspended economic activity, as per the business community's estimates, and, indeed, people have had to physically go to a fire station to report a fire. To be sure, in the aftermath of the decision to revoke Article 370 of the Constitution and bifurcate the former state of J&K into the Union Territories of J&K and Ladakh, there was a need to preempt the backlash, including possible violence and terror attacks, which would not have been possible without some manner of curbs on digital and telephonic communication. But, as the SC noted in its judgment, the state must pronounce complete, broad suspension of internet and mobile services as necessary and unavoidable only after having assessed the existence of "alternate less intrusive remedy". Indeed, while saying that the government is "entitled to restrict the freedom of speech and expression", the question is "one of extent rather than … the power to restrict". While local authorities make frequent use of Section 144 of the Criminal Procedure Code to shut down mobile/internet services indiscriminately citing "national security" concerns, the court deemed such action abuse of power, and ordered the government to publish all orders on internet/mobile shutdowns to see if they met the test of proportionality. However, where the SC judgment falls short is in providing immediate, summary relief to the petitioners and the people of Kashmir. Instead, it creates the mechanism of a periodic review of the shutdown—with no such provision in the law—by the Union home ministry, which is akin to asking a cat to bell itself.

A recent research report pegged the economic cost of India's internet shutdowns in 2019 at $1.3 billion—third only to Iran and Sudan. Whether that estimate is a close approximate or not is difficult to say; indeed, a 2016 Brookings study pegged the cost of internet shutdowns across the globe in 2015 at $2.4 billion, while an Icrier study from 2018 said internet shutdowns in India between 2012 and 2017 cost the country $3 billion. But, a prolonged shutdown, in the manner that has happened in J&K, will surely break the economic backbone of the UT, and with the curbs on civilian, peaceful dissent that it places, it could fuel even worse disenchantment with the Indian state than what, the latter argues, is being contained by the lockdown.

Not just the Kochi builders

Panchayat permits were illegal, Kerala HC order helped

THE DEMOLITION OF the flats in Maradu municipality in Kerala's Ernakulam district are, without doubt, a ringing endorsement of the sanctity of the country's environmental laws. The Supreme Court ordered the demolition of all structures in the area built in violation of the Coastal Regulatory Zone (CRZ) regulations. In doing so, it also invoked expert studies showing how the devastating floods faced by Uttarakhand and Tamil Nadu in recent years could be blamed on "uncontrolled construction activities on river shores and unscrupulous trespass into the natural path of backwaters". But, the Maradu affair is also evidence of the complex maze that is the Indian administrative system, and the rather sordid way in which the government/courts remain insulated from the consequences of poor decisions while the masses and business pay the price.

In September 2006, the Maradu panchayat issued building permits to four companies to construct apartment complexes in an area designated as CRZ III. This itself was illegal, and twice over. First, CRZ III does not allow any construction within 200 metres of the coast; second, a panchayat is not allowed to give such permissions. After the panchayat permitted the construction, the Kerala Coastal Zone Management Authority (KCZMA) asked it to issue a show cause notice to the builders since the construction violated CRZ III; in other words, at least one part of the official machinery was doing its job. The builders, however, obtained an interim order in July 2007 from the Kerala High Court and resumed construction; indeed, in 2012 and 2016, the HC ruled in favour of the builders, saying that they couldn't be held responsible for the failure of the local government. The KCZMA had then approached the SC. A technical committee set up by the SC in 2018 found that the Maradu panchayat had violated the CRZ rules in giving the permission.

The new CZMP, the CZMP 2011, it is true, classified the area as CRZ II, where construction can be permitted beyond 50 metres from the coast; this, in fact, is the argument the builders used. But, the permission by the panchayat was given before this—in 2006—when it was a CRZ III zone. Also, even though the draft CZMP 2011 was made in that year, it was approved by the central government only in February 2019. Not surprisingly, then, in May last year, the SC ordered the demolition of the flats within a month, saying the permission granted by the panchayat was illegal and void. In September, the SC, taking up the matter *suo motu*, issued an ultimatum to the state government on the demolition. Since the flat-owners bought the flats at higher values than the ₹25 lakh compensation the SC had said they must get—the state is to collect it from the builders—there can be little doubt that they have been short-changed by the panchayat and the legal process.

HouseRULES

Maharashtra's liquor ordinance will lead to more harassment, state must find other ways to regulate home dine-ins

ALTHOUGH INDIA HAS scrapped many colonial laws since Independence, some stick out sorely even today. For instance, while prohibition has never really worked, states keep thinking of some form of it as a good idea. Andhra Pradesh is the latest to do so. There are also those who have some form of a partial ban, which is not only just as ineffective as a total ban but also signals contradictory goals. Take Maharashtra, for instance. On the one hand, it moved to allow bars to stay open till 5 am; and liquor shops can be in business till as late as 1 am on Christmas and New Years. On the other, it has moved to strengthen the prohibition law that dates back to 1949.

The ordinance, passed in September last year, sets a limit to possession of alcohol—given that it allows an individual to possess up to 12,000 litres, it shouldn't seem too restrictive. But, it has also imposed a rule whereby those hosting house parties of more than 10 people need to apply for alcohol licences. Though such regulations have existed for societies, restaurants and large gatherings, and other states also have restrictions, they are rarely observed. More importantly, if such rules are allowed, they shall only become a tool in the hands of local authorities to extort money. It is true that internet and platform economies have led to home dine-ins and apps like VizEat, and these put restaurants at a disadvantage. Restaurants have to apply for licences to serve liquor, whereas these establishments can do so without any restrictions. However, the state needs to find other ways to deal with the problem. One possible example can be asking such platforms to impose rules on behalf of the state—Uber and Ola, for instance, must ensure that no driver without a licence can register. The state needs to realise that old methods of regulation won't help with new, digital-age businesses.

TRADE WINDS

FAILURE OF SEZs AND A FORCEFUL COMEBACK OF THE *SWADESHI* IDEAS IN POLITICALLY ENABLING CONDITIONS HAS LED TO THE RETURN OF IMPORT PHOBIA OF THE 1960S AND 1970S

India turning the clock back on trade

AMITENDU PALIT
Senior research fellow and research lead (trade and economic policy), NUS. *Views are personal*

THE YEAR 2019 was notable for India's stubborn disengagement on trade. It also marked the exceptionally low priority trade has come to occupy in India's economic policy-making.

Historically, India was anti-trade for several years after independence. For four decades after independence, imports were limited to the 'essential' and 'high priority'. The ostensible reasons were encouraging local industry to develop sufficient capacities and capabilities. The eventual realisation that four decades of heavily protective import-substitution policies had resulted in large industrial shortages and inefficiencies, forced a re-think on trade. This coincided with negotiations going on at the Uruguay Round of the General Agreement on Tariffs and Trade (GATT), which led to the creation of the World Trade Organisation. India played an active role in establishing the WTO and formulating global trade rules. The active role was inspired by the belief that it needed to trade more with the rest of the world to maximise its own economic interests. It was equally influenced by the view that an outward-oriented, economically reformed India could be a model for achieving economic prosperity through greater participation in rules-based global trade for several other developing countries.

During the 1990s and the first decade of the current century, India remained engaged in global and regional trade consultations. At the WTO, its role became increasingly defensive. This was largely due to the push-back on the Doha Development Agenda (DDA). As most OECD countries resisted implementation of DDA without more significant market access concessions by developing countries, India begun leading the developing country resistance to such concessions. At the same time, like several other developing countries, it began exploring bilateral and regional FTAs, to get market access over and above that in the WTO. But, whether at the WTO or through FTAs, it remained engaged in trade talks, successfully pulling off various FTAs, first with smaller economies, and later, with advanced ones like Japan and Korea.

A significant change in India's trade engagement arose came in the middle of the last decade. India began turning back on various ongoing FTA negotiations. These included advanced negotiations like those with Australia, Canada, and the EU. The withdrawal from the Regional Comprehensive Economic Partnership (RCEP) last year, was, by far, the strongest example of India resorting to active disengagement on trade. Looking back, India appears to have turned around the last three decades in one single sweep by going back to the kind of disengagement it practised before the 1990s.

Today, trade in India suffers from a noticeable absence of champions. This wasn't so in the early years of the century. At a time when the Indian economy was growing at 8% annually and trade was expanding, the role of trade was considered virtuous for the economy's long-term growth. Indeed, it even inspired the government of the day to announce the Special Economic Zones (SEZs) strategy for prioritising exports through long-term financial incentives. Multiple imperfections led to limited results from the policy, with several SEZs getting scrapped, the policy inviting flak for encouraging dubious real estate deals, and state governments—who should have been at the forefront of the export drive—giving up on SEZs. A bottom-up, holistic implementation of the policy, backed by creation of durable infrastructure and trade facilitation might have resulted in much greater shares of Indian manufacturing and services in global trade.

> **Disengagement has... meant India not being involved in dialogues and discussions on the latest developments in global trade**

The failure of most SEZs to deliver, and the cynicism surrounding them, including politically catastrophic issues like acquisition of land for commercial and industrial development, pushed export promotion way down the priority ladder. A simultaneous forceful comeback of the *swadeshi* ideas in politically enabling conditions ensured the return of the import phobia of the 1960s and 1970s. Importing even for eventual exports, became a non-priority. Nowhere is this more evident than in the structuring of the GST, which, by not allowing exporters to avail exemptions on inputs used for manufacturing exports, has hit them hard.

As exports became low-priority, competitiveness and 'national interest' became useful grounds for disengaging from trade talks. The nearly five decades old logic of resisting opening up for fear of the adverse impact it would have on uncompetitive domestic industries has been reemployed successfully for disengaging from FTAs, particularly RCEP. While doing so, it has hardly been realised that the services currently driving the economy—hospitality, entertainment, education, and health—are not entirely domestic. The global exchanges prominent in these services necessitate India focusing closely on trade policies involving data, competition, investment, and standards—a far larger gamut of issues than India's sole point of obsession, i.e., tariffs.

Disengagement has not just meant India losing out on multiple economic opportunities. It has also meant India not being involved in dialogues and discussions on latest developments in global trade, thereby losing out on the opportunity to contribute to the process of rule-making around these developments. Obsession with the local has shifted sight from the realisation that the local is hardly as local as it is made out to be. It has become more global than is imagined, and will become even more so, over time. A good dash of global is needed for nurturing the local, which is impossible without engagement.

Implementing India's economic strategy

NITI Aayog's strategy for new India @75 addresses some of the problems of the architecture of governance in India

NIRVIKAR SINGH
Professor of Economics, UC Santa Cruz. *Views are personal*

MY LAST COLUMN for 2019 reflected on India's lost year, where what can mildly be described as continued political missteps accumulated to the point of threatening the country's economic future. Nevertheless, one has to look to the future, and understand where there is room for making a positive difference. This involves thinking about India's economic strategy going forward. A year ago, I wrote two columns critically analysing a report titled *An Economic Strategy for India*, written by about a dozen premier economists with expertise on the Indian economy. The group included US- and India-based individuals in academia, the private sector, and international policy roles, but no one, as far as I could tell, working actively with the national government. The report said many of the right things, and my main concern was that not enough attention was given to focusing on India's lack of dynamism in the industrial sector, traditionally the core of economic development.

I have also been lamenting the lack of broad consultation of experts by the national government, but this thought prompted me to dig into what NITI Aayog, the government's premier think tank, has been doing. I discovered a significant report that was published a month before the "outsider" document I had discussed a year ago. *Strategy for a New India @75* is over 200 pages long, and identifies 41 areas for attention and focus. It is clear and well-written, the recommendations are good, and it has a foreword by the prime minister. Many experts were consulted, and it shows in the report's breadth and quality. Interestingly, there seems to be no overlap in the contributors to the two reports.

One major difference in the NITI Aayog report is that it doesn't give much attention to macroeconomic stability or to the need to clean up the mess in the financial sector. In some sense, these are preconditions that one can view as necessary, but at a different level than strategies for sustained growth. Given its length and the breadth of its coverage, it tackles many important issues that the "outsider" report neglects or does not emphasise enough. In particular, the seven sets of governance reforms, including civil service reform and modernisation of city governance, are given welcome prominence. I wish I had read this report a year earlier. But, since so little of what it recommends seems to have happened, perhaps it is not too late.

What do we learn from the NITI Aayog report—not just its content, but also its trajectory? In the rest of this column, I offer several tentative lessons. First, if the goal of creating NITI Aayog was to have a high-quality think tank, this report provides some validation. Freed of the futile and outmoded exercise of planning, and separated from the politics of allocating central government money to sub-national governments, the new organisation has great potential.

> **Any successful economic strategy will depend on systemic changes in the civil service, regulators, the judicial system, and of course, politicians**

Second, there is clearly considerable expertise within the system, or on its peripheries. I have been arguing that the government's economic policymakers should not hesitate to bring in outside expertise, but it seems that outsiders might also do better by interacting more on the ground with those who are engaged with the realities of India. Of course, as this year's Nobel Prize illustrated, there are such ties, particularly with NGOs and with some state governments, but deeper intellectual engagement across different groups must surely help, if only to refine ideas that most already agree on. A related point is that the internal document seems to me to have a clearer sense of the kind of structural transformation that India needs. The "outsider" report was, to some extent, circumscribed by the fashions of the economic profession, in academia and in international organisations. Economists need to engage more productively with non-economists.

Third, the NITI Aayog report and its overall efforts illustrate the continued weaknesses of economic policymaking in India. The report may have been launched with a splash, but I could find no evidence of updates, of assessment of progress, or linkages to all the other documents and ideas spread across the organisation's website. The report itself did suffer from the standard weakness of Indian government documents, having a long list of areas that need attention, without any clear prioritisation, systematic analysis of linkages between different areas, clearly presented pathways to implementation, or realistic timelines (India will turn 75 very soon).

The root cause is the internal organisation of India's national government, where the focus too easily becomes one of retaining and projecting political power. This tendency has been exacerbated in the current government. There is already too much centralisation of power and decision-making geographically, and further concentration within a small group at the Centre just makes everything worse. The NITI Aayog report does address some of these problems of the architecture of governance in India. Any successful economic strategy will depend on systemic changes in this architecture, including the civil service, regulators, the judicial system, and of course, politicians. Compared to what needs to be done on this front, the economics is relatively easy.

LETTERS TO THE EDITOR

PM's fallacious argument

Prime minister Narendra Modi bases his case for the CAA on the contention that the law is meant 'to give citizenship, not to take it away'. But, his line of argument does not hold. For one, religion is made the criterion for citizenship. For another, the law snatches the right to citizenship prospectively from Muslims on religious grounds. The CAA is unconscionable because it legalises religious discrimination. It is simplistic, shallow and fallacious for the PM to say from the headquarters of Ramakrishna Mission, of all places, that the CAA grants citizenship and does not snatch it away from anyone. The citizenship law should have been amended to give citizenship to all persecuted minorities of all religious persuasions from all neighbouring countries. Uighurs, Rohingyas, Ahmadiyyas, and Sri Lankan Hindus and Muslims, too, are human like Hindus, Buddhists, Jains, Sikhs Christians and Zoroastrians from Pakistan, Bangladesh and Afghanistan. People persecuted are people persecuted. Why divide people who are essentially the same biologically on the basis of religion. No amount of rationalisation can alter the fact the CAA fundamentally changes the basis of citizenship. Modi's invocation of Mahatma Gandhi to justify a law that negates the constitutionally promised equality of religions is an affront to his memory. The incumbent PM who refused to wear a skull cap, referred to *kabristan* versus *shamshan* and exhorted people 'to identify rioters by their clothes' should know that Mahatma Gandhi was a martyr to the cause of Hindu-Muslim unity and avoid dragging his holy name to validate unholy things. The remark that 'CAA has made the world aware of Pakistan minorities' persecution' has brought out the Hindu revivalist in him. It is not clear whether Pakistan will now stop persecuting minorities fearing the amended citizenship law in India. One humble appeal to the Modi government is to let people have their peace of mind.

— G David Milton, Maruthancode

● Write to us at feletters@expressindia.com

R.N.I. Reg. No. 6188/61 Printed for the proprietors, The Indian Express (P) Ltd by Vaidehi Chintaman Thakur at The Indian Express (P) Ltd Press, Plot No. EL-208, TTC Industrial Area, Mahape, Navi Mumbai-400 710 and published from Express Towers, Nariman Point, Mumbai-400 021. Editorial & Administrative Offices: Express Towers, Nariman Point, Mumbai-400 021. Phone: 22022627/67440000. Fax: 022-22856323.
Chairman of the Board: Viveck Goenka, Managing Editor: Sunil Jain, Resident Editor: Malini Bhupta* (*Responsible for selection of news under PRB Act)
© Copyright: The Indian Express (P) Ltd. All rights reserved. Reproduction in any manner, electronic or otherwise, in whole or in part, without prior written permission is prohibited. The Financial Express®

financialexp.epapr.in

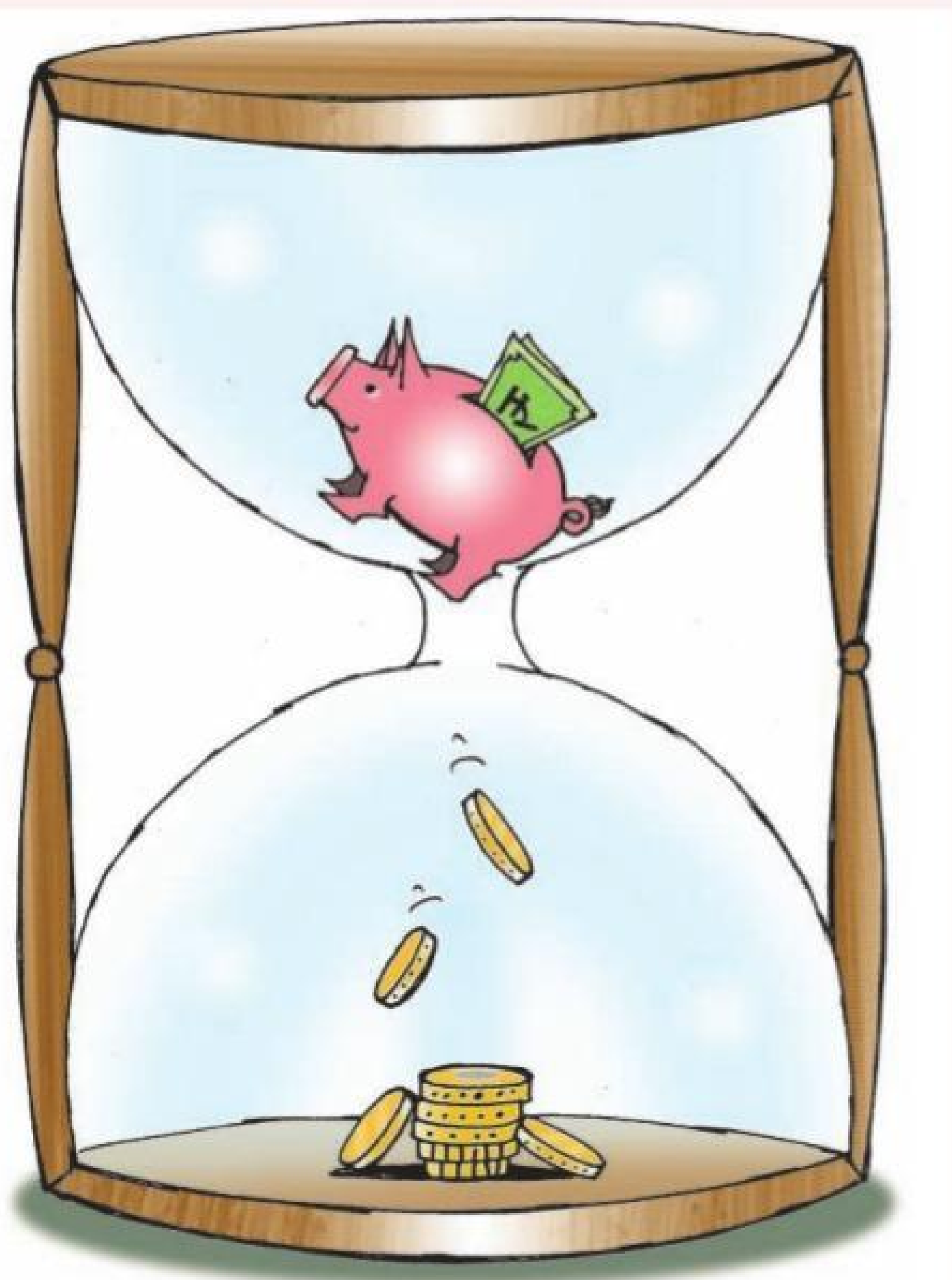


ILLUSTRATION: ROHIT PHORE

TV MOHANDAS PAI & S KRISHNAN

Pai is chairman, Aarin Capital Partners, and Krishnan is a tax consultant

Simplifying capital gains tax regime

A simple capital gains tax regime will help investors in compliance and the income-tax department in administration

IT WAS RECENTLY reported in the media that there are anomalies in the processing of I-T returns at the IT department's Central Processing Centre, resulting in incorrect computation of tax liability on capital gains. It's not surprising, since taxation of capital gains is one of the most complex regimes to understand. Holding periods are different for various types of assets. Tax rates are different for short-term and long-term gains, and are different for various assets. Exemptions are provided on meeting some preconditions and withdrawal of those exemptions when the preconditions are not met. In addition, some specified categories of long-term capital assets get the benefit of cost-inflation indexation, whereby the base cost of the asset is increased by the ratio of inflation in the year of sale and purchase. The rules for carry-forward and set-off are also not uniform. Short-term capital loss, which is carried forward from earlier years, can be adjusted against long-term capital gains as well as short-term capital gains, whereas long-term capital loss can be adjusted only against long-term capital gains!

Long-term capital gains (LTCG) arising from the transfer of a long-term capital asset are either taxed at a concessional rate in India or exempt from taxation on meeting some preconditions. A long-term capital asset is defined by the period of holding such capital asset. The de facto holding period for a long-term capital asset in India is more than 36 months immediately preceding the date of its transfer. However, this de facto period is modified for various types of assets. In the case of a share listed on a recognised stock exchange in India, the holding period is 12 months, while it is 24 months in the case of an unlisted share. The holding period in case of a debenture listed on a recognised stock exchange in India is 12 months, while it is 36 months for unlisted debentures. In the case of an equity-oriented mutual fund unit, the holding period is 12 months, while it is 36 months for a debt-oriented mutual fund unit. An immovable property being land or building or both is considered long-term if the holding period is 24 months.

The capital gains tax rate is different for short-term and long-term assets, depending on the type of capital asset and payment of applicable securities transaction tax (STT). The accompanying table provides a summary of the tax rates and the tenure to determine long-term capital asset.

The LTCG exemption regime is further complicated with too many rules and restrictions, and is not uniformly applicable for all taxpayers. An individual or a HUF generating LTCG on transfer/sale of an existing residential house property is exempt to the extent the LTCG is used to buy or construct maximum of two new houses (residential property). However, LTCG on the sale of existing house property must not exceed ₹2 crore. The new properties must be purchased either one year before the sale or two years after the sale of the property. Or the new residential properties must be constructed within three years of the sale of the property. If the taxpayer is not able to use the capital gains to buy or construct new houses before the date of furnishing of the return of income, he or she should deposit the amount in the Capital Gains Accounts Scheme (CGAS), else the gains become taxable. This benefit can be claimed only once in the lifetime by an individual or a member of HUF. If full amount of LTCG is not reinvested, then pro rata relief is available.

LTCG arising on transfer of any capital asset not being a residential house is exempt from taxation if the taxpayer, being an individual or a HUF, has within a period of one year before or two years after the transfer date purchased, or within a period of three years after that date constructed one residential house in India. If full amount of LTCG is not used for the purchase or construction, then pro rata relief is available. The taxpayer will not be entitled to LTCG exemption if he or she (1) owns more than one residential house, other than the new asset, on the date of transfer of the original asset; or (2) purchases any residential house, other than the new asset, within a period of one year after the date of transfer of the original asset; or (3) constructs any residential house, other than the new asset, within a period of three years after the date of transfer of the original asset.

If a taxpayer within six months from the sale of land or building or both (residential or non-residential) has invested LTCG in long-term specified bonds issued by NHAI and REC or by the central government for a minimum period of five years, such LTCG shall be tax exempt to a maximum of ₹50 lakh. This exemption is available to any person. All of these are confusing to ordinary taxpayers, forcing them to seek professional help.

The finance minister, earlier this year, simplified the corporate tax regime by introducing two low-tax rates associated with no deductions and exemptions. A similar approach should be adopted for capital gains tax regime. An exclusive capital gains tax regime should be introduced for financial assets, whereby investments in equity and debt securities, whether listed or not, should be taxed in a uniform manner.

Various types of financial assets carry risks associated with returns. Defaults in interest payment of debt securities in India in the recent past indicate that debt securities also carry significant risk. There is no rationale for debt securities to be considered as long-term capital assets after a holding period of 36 months, instead of 12 months applicable for listed equity securities and equity mutual fund units. It is similar for the difference in tax rates. To take benefit of lower tax rates of equity securities, many investors opt to invest in arbitrage funds/hybrid funds, with the justification that the risk is similar to a debt fund and its taxation is similar to an equity fund, thereby possibly generating higher post-tax returns.

Investments in unlisted equity shares carry higher risks compared to listed equity shares. However, the holding period is 24 months for unlisted shares to qualify as a long-term capital asset and the tax rate is higher at 20% with indexation benefit. There is no rationale for this difference.

To rectify this anomaly, all investments in financial assets should be considered as long-term capital assets after 12 months of holding. Income-tax rate of 10% with an exemption up to ₹1 lakh should be extended to LTCG from all financial assets. Income-tax rate of 15% should be applicable for short-term capital gains from all financial assets. To incentivise investments in start-up companies, a tax deduction of 50% should be provided in the year of investment. Consequently, investments in listed and unlisted equity shares and debentures, and equity and debt mutual fund units, would be taxed in a similar manner. This will enable investors to choose investments based on risk and reward suitable to them, rather than driven by tax considerations.

Immovable property, being land or building, is considered long-term capital asset if held for a period of more than 24 months. LTCG from transfer of immovable property is subject to taxation at 20% with indexation benefits. The option of taxation at a lower rate of 10% without indexation benefit should also be extended to immovable property, which would then be similar to the rate applicable to financial assets. The lower tax rate of 10% would make the real estate sector attractive for investments, thereby helping real estate builders to reduce the volume of unsold inventory. A simple capital gains tax regime will help investors in compliance and the income-tax department in administration.

The tax rates and the tenure to determine long-term capital asset

Nature of asset	STCG tax rate	LTCG tax rate	Holding period for LTCG
Unlisted shares of a company	Regular income-tax rates applicable to various tax payers	**20%** with indexation benefit	24 months
Equity shares listed on a recognised stock exchange in India before February 1, 2018; applicable STT is paid; A unit of an equity oriented mutual fund	**15%**	If sold on or after April 1, 2018, 10% on LTCG exceeding ₹ 1 lakh. Capital gains up to January 31, 2018 is tax exempt. No indexation benefit	12 months
Equity shares listed on a recognised stock exchange in India after January 31, 2018; applicable STT is paid	**15%**	If sold on or after April 1, 2018, 10% on LTCG of more than ₹1 lakh. Indexation benefits apply. Cost will be indexed up to FY17-18	12 months
Equity shares listed on a recognised stock exchange in India on which STT is not paid (off-market transactions)	Regular income-tax rates applicable to various tax payers	**20%** with indexation benefit or 10% without indexation benefit, whichever is lower	12 months
Preference shares or non-convertible debentures listed on a recognised stock exchange in India (No STT is payable on a preference share or a non-convertible debenture)	Regular income-tax rates applicable to various tax payers	**20%** with indexation benefit or 10% without indexation benefit, whichever is lower	12 months
Units of debt mutual funds	Regular income-tax rates applicable to various tax payers	**20%** with indexation benefit or 10% without indexation benefit, whichever is lower	36 months
Immovable property being land or building or both	Regular income-tax rates applicable to various tax payers	**20%** with indexation benefit	24 months

In addition to income-tax, surcharge and cess as applicable are chargeable on the above tax rates

BIT BY BIT

How laptops are changing

NANDAGOPAL RAJAN

nandagopal.rajan@indianexpress.com

They are getting thinner, have foldable screens and almost day-long battery life

I CAN'T REMEMBER THE last time a Consumer Electronics Show generated so much excitement around laptops and so little around everything else. CES 2020 will stand out for the transitional year it has been for laptops. There are three big trends that emerged from the products launched that could underline how the laptop segment itself will pan out in the coming years.

To start with, there was clear indication that foldable laptops are something technologically possible now; companies have been working on foldable laptops for a while. Lenovo announced the ThinkPad X1 Fold, the first laptop with a foldable screen. The company's team in Japan spent well over four years figuring out the best possible iteration of such a device. A lot of effort seems to have gone into getting the screen, the materials behind it, and the hinge right. For any foldable device, the hinge will be key. Although foldable screen phones are available, the hinge issue hasn't really been solved. "Smartphone makers have to just cater to open-and-closed. But for laptops you need to work on everything in between, as far as folding screen goes," says Yasumichi Tsukamoto, director & principal engineer, System Innovation Commercial Notebook Development at Lenovo.

> With the Yoga 5G, Lenovo is promising 24 hours of battery life! Almost unheard of when we think in terms of laptops

Intel and Dell, too, showcased their concepts of foldable laptops, but both seem to have different takes on the hinge. Justin Lyles, vice-president of Consumer Design at Dell, says we are going to see more dual display devices first. "There's a lot of opportunity here. But we want to make sure we don't misstep in that space by rushing into it too quickly," Lyles is very clear. "So you will see us explore different sizes of bendable displays over the next couple of years. We are really going to test this with users in different ways to make sure there's real good value before we release that to the customer."

The other big transition seems to be happening with battery life. With the Yoga 5G announced last week, Lenovo is promising 24 hours of battery life! Almost unheard of when we think in terms of laptops. Lenovo APAC president Ken Wong says the day-long battery life is like a smartphone experience. "We think the technology is very convincing. And it's very sellable," he says, adding how we will now be talking of battery life in terms of days and not hours.

There is also a trend that devices are much thinner than before. Yes, they have been becoming thin for years, but not across price points. In late 2019, Asus and AMD got together to showcase many new thin laptops across price points. Even an entry-level laptop can now be thin, even a gaming device for that matter. At CES, both Lenovo and Dell had many extremely thin laptops to display. Flipkart has announced its first private label laptop, the Falkon Aerbook—extremely thin when you consider its sub-₹40,000 price point.

While Lenovo is pushing its new Legion devices for gamers with a very thin chassis, Lyles is not convinced that thin and gaming are meant to go together, just yet. "A gaming device is not a thin Ultrabook-type device because the power required is much larger. It is a thicker, heavier device," he underlines. But across CES it was clear that gaming devices could become much thinner.

Also, AI is becoming more integral to laptops by optimising battery life based on usage, ensuring the laptop is locked when it's not in use, and even blurring the background while you make video calls. You will see more of these optimisations in devices launched this year.

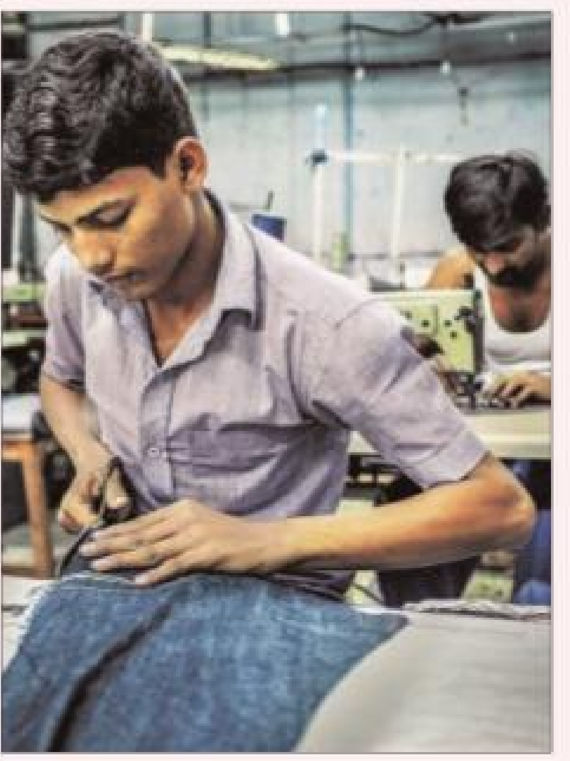
Beyond these is the impending 5G revolution. While we all know it is coming, we don't know how it will play out. If 5G gives a huge bump to interactive, immersive experiences, we could see the laptop space heading towards another big pivot. But it is too early to take that call. For now, everyone is talking about 5G in terms of more download speeds, but this new technology could also let devices push all processing power to the cloud, unlocking themselves from issues of power and battery life. That could truly be a whole new world.

Making fiscal expansion effective

Current levels of inflation, especially core inflation, provide a conducive environment to increase spending

ANUJ AGARWAL

The author is an economist. Views are personal



THE LATEST ESTIMATE of India's growth for fiscal 2020, at 5%, is at a 11-year low. With every passing day comes a new anecdote of India's slowing growth. The most recent one was that of liquor sales taking a hit. Another one was Surat's diamond merchants and polishers suffering amidst the slowdown, and Nirav Modi's PNB scam case. Some interesting ones relate to innerwear sales and biscuits. A recent visit to a manufacturing facility made the ground-level impact of the slowdown clear—macro having a bearing at the micro level.

Amidst the ongoing slowdown, construction was banned in Delhi NCR to keep a check on air pollution. As a result, the demand for the product of this manufacturing plant took a hit. The plant was operating at around 60% capacity utilisation, and daily dispatches were down nearly 90%. As a result, some causal labourers (about 20% of the total workforce) were laid off. One can argue the very essence of casual/contact labour is to help the plant in tiding over highs and lows, nevertheless this meant loss of livelihood. The ancillary businesses that the plant supported in the vicinity had also taken a hit. Other industries in the area, too, were in a similar plight. Consumption in the area would take a big hit, leading to a lower demand for manufactured goods, and this vicious cycle might spill over to other sectors and industries.

Now, how do we revive demand and growth in such a scenario? While RBI is doing its bit by lowering policy rates and asking for a transmission, there is also a need for an expansionary fiscal policy. Breaching the fiscal deficit target (within acceptable limits) is not too big a sin, if it helps the economy tide over tough times. Some even question the sanctity of the 3% benchmark. On the fiscal front, the government has two levers to play with—expenditure and revenue. One way to provide stimulus is for the government to forego revenue by lowering taxes and duties. It has already announced corporate tax cuts, and there are expectations of concessions on personal income tax as well. Savings from reduction in corporate taxes aren't as huge as government estimates them to be, and there is no guarantee that these savings will translate into investment spending or increased payouts. The other option to provide fiscal stimulus is to increase spending. The quality, however, is crucial—increased spending should be focused on capacity creation and should ideally be capital expenditure.

Consider the case of the manufacturing plant. A reduction in government taxes both for the business as well as the individual employee won't be of any help. For the business, the demand for its output is weak amidst the slowdown. Employees of the plant are also witnessing this slowdown, and won't be too positive about future incomes and employment. For the workers who have been laid off, a reduction in income tax means nothing when there is no income. In such a scenario, increased demand/spending by the business or by individuals is unlikely. On the contrary, if the government decides to spend more on infrastructure projects, the demand for plant's output will increase. Employees will be confident about their future economic prospects. The plant will start to operate at a higher capacity utilisation rate. With increased demand, the business may be willing to hire more people to meet the increasing needs. In such a scenario, new investment by the business seems likely. Confident individuals are also likely to spend more.

The effectiveness of fiscal stimulus as increased spending versus tax cuts has been long debated by academicians. In a broad sense, with tax cuts, increase in revenue expenditure is assumed to precede and lead to increase in capital expenditure. Fiscal expansion via increased spending on infrastructure will lead to increased capital expenditure driving the increase in revenue expenditure—increased demand for capital goods, increased incomes for the people in those industries, and increased consumption spend. The advocates of lower taxes argue that tax cuts are self-financing by way of increased economic activity and higher tax collections in the future. In a similar way, increased fiscal spending of capital nature will lead to capacity creation and facilitate increased economic activity in the future. In the current scenario, fiscal expansion via increased government spending seems to be better suited. The effectiveness of tax cuts to stimulate demand and investments remains doubtful in a scenario of weak confidence. Moreover, direct tax cuts will have a limited impact given the following facts: With a population of around 1.3 billion, India has only 80 million individual taxpayers. Of this, around 22 million pay zero tax.

While the latest numbers suggest that fiscal deficit had reached 4% until November 2019, perhaps it is time to let go of the fiscal discipline and put faith into the Keynesian economic theory. Government consumption spending accounted for nearly a quarter of the growth in fiscal 2020—clearly, government spending is what is keeping the economy going. Public sector also accounts for nearly a quarter of capital formation. Current low levels of inflation, especially core inflation, provide a conducive environment to increase spending. The government must use the Budget for the next fiscal as an opportunity to jump-start the economy and revive all sectors, be it undergarments or auto.

financialexp.epapr.in