Opinion

UNITING AGAINST CAA

West Bengal chief minister Mamata Banerjee

"We have already passed a resolution against NRC and CAB three to four months ago. As for the CAA, we will also pass a resolution within three to four days... I will also request the other states to pass a similar resolution"

Curbs on duty-free booze won't fix import hangover

Policy to produce minerals here & promoting electronic value-add is needed, not restricting duty-free shopping

IF ONLY, THE perfect *swadeshi* dream probably goes, India had the political will, it could restrict—in FY19—$514.1 bn of imports, not only saving precious foreign exchange but also adding a lot of potential manufacturing opportunity for Indian firms, considering India's import-to-GDP ratio is 18.9%. Restricting all imports, of course, is not possible; it drives up prices of goods for both consumers and manufacturers and, in many cases like oil or various minerals, imports are critical since there simply isn't enough production in India. Which is why, over the past few years, the government has been hiking import duties of just some goods. The latest suggestion from the commerce ministry is that passengers coming in from abroad be allowed to buy only one bottle of alcohol from duty-free shops instead of two, and that even the one carton of cigarettes allowed right now be stopped; it appears, import duties are to be raised on hundreds of 'non-essential imports', like toys, footwear, and rubber goods.

It is not clear if finance minister Nirmala Sitharaman will do this in the budget, but if she does, this is not just missing the woods for the trees but, worse, for the branches given how minuscule such imports are. While sales of duty-free alcohol is, at best, a few hundred million dollars, India's imports of minerals (including oil) are over $280 bn while that of mobile phones/components is around $23-24 bn. Instead of trying to save a few hundred million dollars, India should be aiming to curb these imports given that, were India's domestic policies to encourage domestic exploration and production, in fact, these imports are really the 'non-essential' ones. Indeed, in the case of mobile phones, while India's domestic assembly of phones has risen manifold over the past few years, so have imports of components since the government has not been able to woo big companies like Apple and Samsung, who can do more value addition in India. Worse, with its domestic manufacturing policies still quite restrictive, India remains quite uncompetitive and, so, while exports of countries like Vietnam have spiraled, India's exports rose just 5% in the last five years, from $314 bn in FY14 to $330 bn in FY19; had India's exports been rising fast, there would be no talk of curbing imports.

Apart from the fact that India will not be able to export if it keeps driving up import tariffs—reduction of import restrictions/tariffs has been a common demand in all of India's bilateral and multilateral trade negotiations—higher import duties just make Indian production more uncompetitive. Import duties give extra protection to local manufacturers who, then, have no reason to try and bring down costs. In an increasingly globalised world, if you are not globally competitive, you can't even be locally competitive since either imports or smuggled goods—in case, import tariffs are high—will pour in. If the hike in import duties was temporary, and was accompanied by dramatic and sweeping changes to make local production more competitive, it could still be acceptable; but, there is little evidence of that happening. Indeed, when import protection falls, as it did in the early 1990s, this becomes a trigger for some local reform as well. The government will be hard-placed to show examples of countries that have become more competitive while hiking import tariffs/restrictions, but it is fair to say the move will go down well with individual lobby groups like domestic manufacturers of IMFL, cigarette producers, etc.

Why apply NSA in Delhi?

Gets more worrying in the context of JNU-Jamia protest

THE DELHI POLICE (DP) getting powers under the National Security Act (NSA) may be a routine matter—DP has clarified that the NSA provision has been there in the law and is just re-notified every quarter—but that doesn't make it any less of a concern. Indeed, that a routine notification should have caused the kind of furore it has points to how poor the optics of the move are. The NSA's provisions are draconian since they allow detention of people without filing of charges for up to 12 months (extendable if the government finds fresh evidence), and suspension of a host of rights under the Criminal Procedure Code—including the right to legal counsel—that apply to people arrested under other laws and legal provisions. NSA was originally meant to deal with threats to national security since, very often, it is difficult to get enough proof against terrorists in a relatively short period of time, to ensure they don't get out on bail. This provision, however, is a double-edged sword; while such powers need to be available to combat terrorism, they can also be made an instrument of state oppression. The recent instances of Manipuri journalist Kishorechandra Wangkhem being jailed under NSA for over four months for being critical of the chief minister of the state, and of Bhim Army chief Chandrashekar Azad Ravan being jailed for nearly 15 months show how such powers can be misused by the state.

Against the backdrop of the anti-CAA protests in the national capital, among other places in the country, and the aggressive statements from members of the ruling party on the need to clamp down on the protests which, they claim, are anti-national, the NSA powers will exacerbate the anxieties of those who believe the CAA—along with the talk on NPR/NRC—is discriminatory towards Muslims. Delhi's winter of protests has also seen violence against students in Jamia Millia Islamia and Jawaharlal Nehru University, in which the role of the police has stoked controversy. Although there have been instances of unrest, the anti-CAA protests in the national capital have largely been peaceful, and there seems little threat of them degenerating into situations that will threaten the security of the country. And, student protests, loud and disruptive though they may be, are little threat to national security. Indeed, for a functioning democracy, dissent must be allowed. With the Delhi Police under the Union home ministry, the Centre must offer reassurance, volubly and visibly, that the NSA provisions won't be used to crush democratic dissent.

RareRELIEF

Govt aid to beneficiaries of PM-JAY for one-time treatment of select rare diseases is good, but more needs to be done

THE SUBSTANTIVE PART of the Centre's proposed policy on rare diseases—extending medical cover of upto ₹15 lakh for a one-time treatment in the case of certain treatable rare diseases at tertiary hospitals to the beneficiaries of the PM Jan Arogya Yojana—may not prove a healing touch. Rare diseases often require phased or lifelong treatment and these can be quite expensive. But, meant for people who can't even afford the basic care for such diseases, it is actually a big step forward. That said, to be successful in making any manner of dent against such diseases, India needs epidemiological data on these, something that it sorely lacks. The data unavailability hampers efforts to define and identify rare diseases; the resulting lack of awareness leads to multiple misdiagnoses and prolonged suffering for patients. While the draft bill does propose encouraging research into rare diseases in India, and speaks of a National Registry for Rare Diseases to be developed by the Indian Council for Medical Research, it does not lay out any actionable measures to do so.

Globally, as many as 300 million people suffer from rare diseases. While there are about 5,000-8,000 known rare diseases, cures are known for less than 5% of these. In India, so far, only about 450 diseases that are globally recognised as rare have been recorded. The medical cover proposed by the draft bill extends only to a minority of diseases that can be cured—severe combined immunodeficiency, polycystic kidney disease, tyrosinemia, etc. The decision, and onus, of supporting patients that require lifelong care has been left entirely to the state governments. While resource constraint is a real factor—the government had planned a corpus of ₹100 crore to fund treatment of rare genetic diseases in 2017, but this, too, fell through due to budget limitations—the Centre would, perhaps, be well-advised to invest in palliative care units and pain management centres, and building an infrastructure of healthcare workers to aid those excluded from medical coverage for treatment in the draft bill.

BUDGET 2020

BUDGET 2020 WILL MOSTLY BE A POINTER ON THE FISCAL EXPECTATION AND DIRECTION, WITH ANY ACTUAL POLICY ANNOUNCEMENT TAKING A BACK SEAT

A Budget for hard times

MADAN SABNAVIS

Chief economist, CARE Ratings

Views are personal

THE NEXT BIG policy announcement will be the Union Budget, which, as usual, has raised expectations. While a lot of announcements pertaining to different sectors have been made by the government since August, the issues on taxation have not been completely addressed, and, hence, the market expects these to be addressed on February 1. But, since changes to GST are solely within the ambit of the GST Council, it is only income tax that can be addressed. Similarly, a number of announcements have been made with respect to tax refunds and operational issues, especially for SMEs, as well as bank mergers, which obviates the need for a fresh set of measures addressing these concerns.

Two things would be important—the revised numbers of FY20, and the fiscal contours of FY21. The revised numbers are important because there has been substantial debate on the achievement of fiscal targets for FY20. More so, because when the corporate tax rate was lowered, it was officially stated that the revenue loss from this could be ₹1.45 lakh crore. Besides, the Budget was drawn up with two rather aggressive assumptions. The first is the 7% GDP growth rate during the year; this will now be 5%, as per the CSO. The other is that the overall size of the budget, which comprises revenue collections and borrowings, was ₹27.9 lakh crore over a revised number of ₹24.6 lakh crore; this was surprising given that the actual number, as per accounts for March 2019, was ₹23.11 lakh crore. The important implication, here, is that, as per the budget, the government was to raise an additional ₹3.3 lakh crore over FY19; this would, then, amount to ₹4.8 lakh crore, based on the actual number at a time when the economy has slowed down sharply.

Therefore, the fiscal numbers for FY20 assume significance as they will also reveal the willingness to compromise on the fiscal deficit target to prop up the economy by enhancing the fiscal deficit. Hence, the questions here are: Will tax revenue collections be met? Will disinvestment of ₹1 lakh crore materialise even though some announcements have been made? At present, the market does not expect more than two-thirds of the target to be achieved. Missing the disinvestment target will have implications for the FY21 target, too.

On the expenditure side, the accounts show that ministries have been spending within the budgets mandated by the FM, so far. Now, with slippages on the revenue side, the obvious question to be asked is whether or not expenditures will be managed by some tweaking, especially in February and March, after the budget is presented. There are two options available to the government, here. The first is rollover of some expenses, in particular, subsidies. Last year, there was a large rollover, where the FCI had to borrow from banks to procure foodgrains from farmers. The other is cutbacks on capex by ministries towards the end of the year. These are standard ways of controlling the level of fiscal deficit, which appears almost certain to go towards 3.8-4% this year, even with these cuts. In fact, some social programmes can also be pruned. Which option is availed will be known only when the accounts are presented.

The more important announcements that will be observed are those pertaining to FY21. Income tax rates are something that households are expecting to come down. Now, at a time when GDP growth has slowed down and will probably not move beyond the 6-6.5% range for FY21, it may be hard for the FM to go in for such cuts. But, with consumption being down, there is demand for these rates to be rationalised. This will be an interesting call because the DTC spoke of lower rates, but annulment of tax deductions, which if done, may not leave households better off in net terms. At the same time, doing it upfront risks collections coming down. Therefore, this will be a tough call for the government to take, considering that there is reason to believe that the GST rates may be tweaked upwards during the course of the year as the continuous downward movement of rates has impacted collections.

> **Under the present circumstances, a real growth rate of 6-6.5% could be the maximum that can be expected along with 4% inflation**

Second, the fiscal target would be very important not just from the point of view of the market borrowings likely for the year, which in turn will have a bearing on RBI policy, but also because it will reveal the fiscal path chosen by the government. If the target is lower than that for FY20 (R), it would mean that the prudent path is being pursued; anything in the range of 4% or above will mean that the government will be taking on the role of a fiscal stimulus given that the monetary push has not quite worked the way it was intended to.

Third, the expenditure pattern will be of interest on two grounds that will partly be revealed in the fiscal deficit numbers. The first is the allocation for capex—₹3.4 lakh crore for FY20. As the government has spoken of a target of ₹102.5 lakh crore for infra spending, of which the central government is to contribute 39%, this number should ideally be increasing. The other pertains to the social expenditure as there will be no further compulsions of elections for some time. The ₹75,000 crore PM-Kisan scheme was a big-ticket expense announced last year, and while it would be interesting to see if the entire amount for the year gone by has been, or will be spent, the target for the next year will be important, too, as it will have a bearing on the fiscal trajectory.

Fourth, the growth assumption will be indicative of what the government feels will happen, and while there has always been a tendency to be aggressive in assumption, it will lay the foundation for all the other numbers, especially on the revenue side. Under the present circumstances, a real growth rate of 6-6.5% could be the maximum that can be expected along with 4% inflation, thus denoting a growth rate of 10-10.5% in nominal GDP, which serves as a denominator for reckoning the fiscal deficit. Interestingly, in four of the last five years, the budget overstated the GDP growth by between 0.3-2.4%, while in FY17, it was understated by 0.5%. For FY20, the budgeted growth is 10.5% and has come in at 7.5%.

In short, this year's budget will be looked at more from the point of view of fiscal expectation and direction, with policy taking a back seat, considering that the FM has covered almost the entire perimeter of measures to revive the economy, both with regards to specific sectors as well as procedure.

Budget fog

As and when credit conditions improve, the economy will revive. Attempts to accelerate the recovery by fiscal stimulus when financial accounts are in a dire state will not help

MEGHNAD DESAI

Prominent economist and labour peer. *Views are personal*

ECONOMIC POLICY-MAKING HAS been described as driving in the rain, when neither the road ahead can be seen nor does the rear view mirror work. The Budget about to be introduced by Nirmala Sitharaman will be very much such an exercise, without any fault of hers.

As it is, budgets are a strange phenomenon. They are not so much an economic exercise as an accounting one. By established rules and procedures, a government has to present the financial accounts for the previous year and plans for the current one. Being an accounting exercise, two sides have to balance with the deficits or surpluses being listed, whether achieved or hoped for.

Despite the fuss made over budgets, they do not bear to be taken seriously beyond the first flush. A day later, the stale budget is no longer appetising. The economic effect of any budget will only be felt over the coming year. Ideally, any budget speech should dwell on the previous year's exercise and evaluate its results.

The Budget about to be presented will face not only the problems of the fog surrounding any economic intelligence but will also have to regain the credibility of the exercise. Last year's budget was surprisingly fragile and had to be supplemented by corrections of already declared policies and new initiatives. It was a very tentative exercise.

Having said that, one should ask whether that is not a better way of budgeting from an economic rather than a financial perspective. Economists would, or rather should, prefer fuzzy budgeting. Revenue and expenditure numbers should be given as ranges around a central figure, since it is inherently unknowable what the future will bring.

This year, especially, not only is the fog thicker, but the ground, too, is shifting and sinking. Given the fragility of even the statistics on GDP growth, the outcomes are pretty bad. If Aravind Subramanian, the former CEA is to be believed, even the 5% growth may be 2% or less. All the numbers for the economy, except perhaps the inflation numbers, are more unreliable than they normally are. The government's most urgent task is to announce some policy designed to reestablish confidence in India's economic statistics, perhaps by hiring outside experts.

> **Revenue and expenditure numbers should be given as ranges around a central figure, since it is inherently unknowable what the future will bring**

But, whatever the growth number, it is one of the lowest in recent years. The economy is in a severe growth recession, having traversed a cycle of six years. India benefited from the spectacular growth cycle of 1998-2008, but it has not been able to sustain another such cycle. That cycle benefited from a fast growing global economy since India had opened up its own economy. Since 2008, western economies have slowed down spectacularly, from 3-4% growth to 0.5-1.5% growth. India has suffered due to this slowdown. It has also had the most spectacular crash in credit availability. Structural weaknesses of PSU banks, and the generally weak nature of contract enforcement discipline in the financial markets have become costlier as the economy gets more modern. The IBC was the first attempt to recognise that the financial markets are central to any economy and must be cleaned up. That effort has stalled, and the Indian economy is paying the price.

In earlier years, it was thought that the economy was driven by the government, which dragged the private economy along. Now, India has attained the stage where the economy is more like other capitalist economies, where the government can no longer drive it, but has to correct its course judiciously by using delicate, but effective, controls.

This means, that neither physical controls nor massive fiscal shocks are necessary, or desirable. The government needs to seriously rethink how the Indian economy in the last two decades has evolved to be a modern capitalist economy that needs sophisticated, but delicate controls. Old-style planning and intervention must be removed from the menu of policies.

The government has tried, once again, to initiate divestment, but the internal opposition it faces (Hindu nationalists are as statist as the Leninists) has stalled the process. Even Air India is still draining resources. I do not wish it, but, perhaps, only a more serious collapse will bring sanity on this score. Policies of labour and land market reforms are similarly no-go areas despite the old idea that BJP was a traders'/*bania* party.

I do not have much hope of the budget. As and when credit conditions improve, the economy will revive. Attempts to accelerate the recovery by fiscal stimulus when financial accounts are in a dire state (if we were told the truth) will not help. The Indian economy needs a bold monetary and a timid fiscal policy. Any hope we will get it?

LETTERS TO THE EDITOR

New BJP president

The elevation of JP Nadda as the national president of BJP is a foregone conclusion ever since he was made its working president. Under the leadership of Modi-Shah duo, BJP had not only expanded its electoral imprint in several states, but also strengthened its domination in areas where it was already a major force to reckon with. BJP's humungous mandate in both Lok Sabha polls, is perhaps one of the major reasons for its present renewed push of its core ideological agendas, manifested itself in its decisions such as abrogation of Article 370 and CAA. The ongoing vociferous protests involving students, youths and members of civil society against the divisive and discriminatory CAA in several parts of the country, and the resultant mass outreach programme by BJP leadership in support of CAA along with the reality of it ceding ground to oppositon in recently held assembly polls in states such as Jharkhand, Maharashtra reminds the challenge before JP Nadda, and his party, when it comes to boosting party's victory in electoral arena.

— M Jeyaram, Sholavandan

On CAA

Congress leader Kapil Sibal remarks that no state can deny the implementation of the CAA when the Parliament has already passed it suggests that the 'Grand old party' has climbed down from its earlier rigid stance. Sibal stressed that it would be 'constitutionally difficult' to refuse cooperation if upheld by the SC. While the left government in Kerala has approached the SC, the Punjab government has also planned to move the apex court. Though the rumblings over the CAA is disquieting, it must soon taper down.

— N J Ravi Chander, Bengaluru

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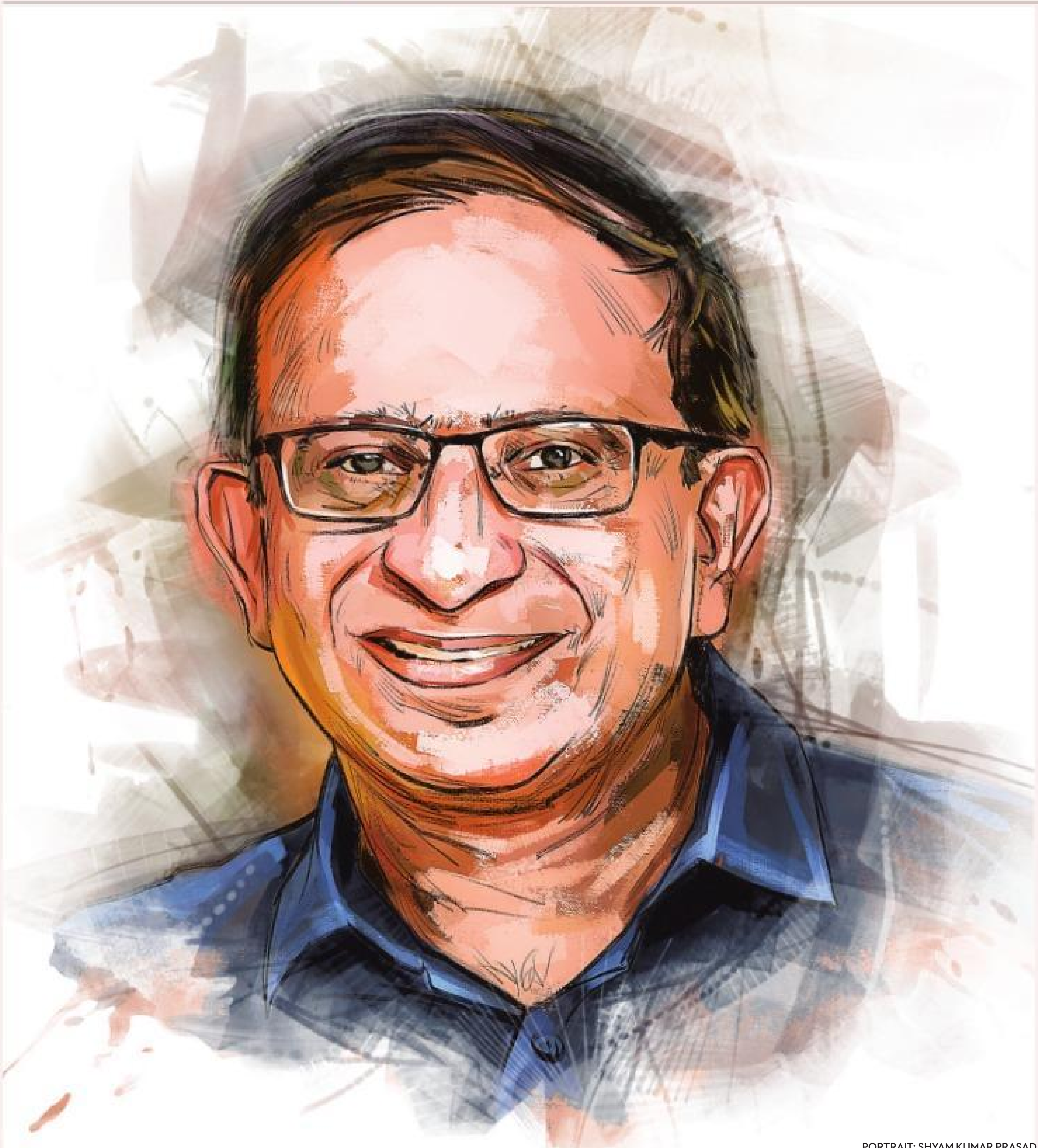

PORTRAIT: SHYAM KUMAR PRASAD

FOOD CAFE: SATYA PRABHAKAR

Growing by helping small businesses find their feet

The CEO of Sulekha.com shares with **Sushila Ravindranath** how the company's focus on expert service listings has pushed it headlong into competition with Google, and it is fighting a war without fighting to win. It aims to be the largest services marketplace brand for Indians all over the world

I HAVE MORE OR less met Satya Prabhakar, the CEO of Sulekha.com—which is one of the earliest internet companies to come up in the country—every four years, when he has announced something new. Unlike many other such companies that got started around the same time, in 2007, Sulekha has survived, kept up with fast-changing technology, and emerged as one of the leaders in its space.

The company's early-mover advantage began to fade with the arrival of specialised digital service players like Housejoy, UrbanClap, CarDekho, Ola, Amazon, Zomato and others, but Sulekha didn't give up. It started reinventing itself. Today, Sulekha.com is an AI-enabled platform for expert services. It has 73,000 paid service providers, and 2,05,000 unpaid service providers. All the paid service providers have recently successfully migrated from its platform to a dedicated business app; the company has a separate app for its consumers.

I am meeting Prabhakar to know about the changes he is making and how he is combating the competition for many of the service providers on his platform. We meet for an early morning breakfast at the Eco Cafe at Chamiers, a lifestyle store, as we always do. Chennai businessmen usually like meeting at the crack of dawn for breakfast, their favourite meal. Prabhakar orders a *masala* omelette with a lot of chillies, and I ask for French toast. We are also served fresh fruits and coffee.

Sulekha, when it was launched, was one of the most popular Indian internet media companies, connecting millions of Indians across 24 cities in India and the US. It integrated classifieds and yellow pages. At that point, it was also the largest online ticketer for Indian events and films in North America.

Although successful, it was a low-volume business, and not highly profitable. Prabhakar tweaked the business model several times. Sulekha then became a platform for trading products and services with classified advertisements. "We started focusing on small and medium scale businesses, which presented a huge potential."

Prabhakar tells me what Sulekha is not doing. "There are fulfilment focused vertical solutions such as ordering cabs, food delivery or handymen providing either products or low-value services. Online information and payment systems like ticketing are low-volume commoditised businesses. C-to-C and ticketing services are online demand-supply brokers. We don't compete in these areas."

He says these are all high-frequency, need-based businesses. "Here, people are sensitive to price and you don't have pricing power. You have to dominate your space to get attention. It is a global phenomenon."

He sees Sulekha as the provider of market-based expert services. "It's an intelligent matchmaker. There are MSMEs in the services space that do not have enough capital, enough business, no name recognition, no medium that will help them grow. They just don't have an accountable and marketing-driven channel. Customers who need them don't know whom to trust, don't know how to choose, and they are under time pressure," he says.

Small and medium businesses (SMBs), therefore, are ready for a digital disruption. That is where Sulekha comes in. As we get ourselves more coffee, he explains: "We address diverse needs across the hubs of home accommodation, business, events, training and lifestyle. We decided to focus on defined areas. Our customers' requirements are matched with the services they need. For example, if you want an event manager, we find one specific to your needs."

As we are about to finish our rather substantial breakfast, Prabhakar adds, "Business has to solve problems and people must pay for them. We have a value proposition for MSMEs to grow their business on our platform. They pay us, and it is not an expensive holding. We will tell them that they will get so much response. Sulekha provides verified matched service requests."

On competition, he says the company's focus on expert service listings has pushed it headlong into competition with Google. "In this case, we have to fight a war without fighting to win. We give differentiated higher value for the customer. You scratch a customer's problem, an innovation is hiding. We give an accountable, actionable, simple solution. It is AI-driven matchmaking."

Prabhakar adds the company has to move with the changes in mobile and digital technology. Sulekha's business app provides several advantages to service providers. They can manage their Sulekha account from the app without having to speak with any customer support executive. They can decide the volume and size of the business leads they want, depending on their business capacity and bandwidth at any given time. They can also manage their profile page, which includes contacts.

Due to the feedback system, service providers can give feedback and receive insights that can help in improving their leads into conversion. Payments and renewals have been made easy. Service providers can choose Sulekha campaign packages and opt for a range of payment options, from the app.

"We get 10 lakh service requests per month. We match them in the cloud with the service provider. Since we moved all our service providers to the app, there has been a significant increase in the conversion rate of service requests. This is due to rising smartphone penetration and greater uptake for business apps in metro cities as well as in tier-2 and tier-3 cities, amongst smaller businesses. In fact, 98% of paid service providers in the metros are using the app, and 93% in smaller cities," he adds.

As a result of all the paid service providers moving onto Sulekha's business app, there has been a surge in the number of paid service providers on Sulekha, a 30% increase was seen last year. "This move is in alignment with Sulekha's core philosophy of helping small businesses grow. We believe that digitally-engaged service providers are more likely to convert service requests," says Prabhakar.

He adds the company is not starved of opportunities. "We have to build scalable, reliable, digitally-deliverable models. We want to be the largest services marketplace brand for Indians all over the world. Moving forward constantly gives you continuous low-burn anxiety," he says as we finish our coffee.

BUDGET 2020

Powering up electric vehicles

PANKAJ M MUNJAL

The author is chairman & MD, Hero Motors Company

Extending the subsidy benefits of FAME-II to e-bikes will help offer more affordable products to consumers

THE 2019 UNION Budget was a landmark one for electric mobility. Not only was GST on electric vehicles (EVs) slashed to 5%, the Budget also offered major incentives for buyers of EVs in the form of income-tax rebates on loan. These measures were designed to push the sale of EVs—on the top of the government's priority in recent years. These were in addition to the FAME-II scheme. However, the sale of EVs has remained largely muted; analysis suggest that 1,309 units of electric cars have been sold between April and November 2019. The industry needs a slew of measures, therefore, to address concerns on the demand and supply side. With finance minister Nirmala Sitharaman set to announce her second Budget, we hope more disposable income will be put in the hands of the consumers and there will be more sops for EVs. More importantly, the finance minister must seriously consider giving a policy push to electric bicycles.

In its annual review, the IMF said that declining consumption and investment accompanied by falling tax revenue have arrested India's once surging GDP growth. The IMF also called for "urgent" policy actions to reverse this slowdown. Cutting income tax rates and readjusting income tax slabs might be a tough call at a time when the government's revenues are shrinking, but it might also be the bitter pill the economy needs. In addition, the Indian economy needs a major fiscal policy push to increase employment and income. Also, revisions in GST slabs to create a low-tax economy need to be considered.

While the government has already announced a slew of measures to push EV production and sale, more might be needed to reduce the viability gap of EVs

Earlier this year, the finance minister had announced a scrappage policy aimed at shunting out old, polluting vehicles. The policy is aimed at serving the twin objectives of reducing emissions and boosting consumer demand. The government must ensure a quick roll-out and must also lay down positive incentives for customers. The incentives may include exemption on road tax and low interest loan schemes for purchase of new commercial vehicles.

According to industry body SIAM, the commercial vehicle industry suffered a decline of 22% in sales between April and November 2019. A supportive scrapping policy can help revive some of this lost demand.

Electric bicycles have recently been categorised as EVs for tax benefits. However, electric bicycles do not get the benefits designated under the government's FAME-II initiative. We hope the government recognises the need to promote electric bicycles as much as the need to promote electric cars. While electric cars address the problem of pollution, they do not address the rising concern of traffic congestion. Electric bicycles are both eco- and space-friendly. They also offer a viable solution to the problem of range anxiety that comes with lack of charging infrastructure, as they can be easily pedalled in case of battery discharge. Extending the subsidy benefits of FAME-II to electric bicycles will help manufacturers offer more affordable products to consumers.

While the government has already announced a slew of measures to push EV production and sale including subsidies to manufacturers and loan rebates to buyers, more measures might be needed to reduce the viability gap of EVs. For example, an analysis by SIAM in 2017 found that the current viability gap for electric buses is 1.7-2.5 times a regular diesel or CNG bus on account of low battery life and high cost of replacement. Logically, the viability gap is expected to reduce over time as technology evolves, leading to reduction in battery prices. Till then, the government must support the sector in different ways to make EVs more affordable and viable. These measures can include exemption on road tax, lower power tariffs for charging EVs, exemption of parking fees for EV users, exemption of permit costs, among others.

BUDGET 2020

Fixing India's Achilles heel?

There is a need to rationalise and recalibrate the existing I-T slabs

NAVEEN AGGARWAL

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DESPITE THE CURRENT slowdown, the India story still remains real and relevant. While a large part of this is attributable to global factors, the dwindling performance of certain internal factors seems to have added to the cause. The economy needs to be careful of not getting into a vicious cycle of decline in investment and retarding growth.

The encouraging part of the story is that the government acknowledges the current demand and supply challenges triggering the fall, and seems undeterred in pulling the levers to revise consumption and drive growth and investment. If one was to go by the current mood in the North Block and the recent prime ministerial consultations with industry and academia, policymakers seem determined to fix structural weaknesses—the genesis of the country's current economic predicament.

On the demand side, the government is on course to boost consumption. From a supply perspective, one can expect higher investment outlay in health, education and infrastructure. A critical growth engine will be direct taxes. One can expect measures to provide additional focus on widening the tax base, ensuring compliance, easing administration and augmenting revenue.

Corporate tax rate cuts: It is a welcome step to put India on a competitive level with other global economies. That being said, if taxes payable on shareholder profit distributions are included, on an overall basis, India continues to be a high-tax country. These rate cuts do not actually translate to an effectively low tax rate owing to the levy of the dividend distribution tax (DDT). India levies DDT at an effective rate of 20.56% on the company declaring dividends. After receiving their share of profits, post DDT, the woes of Indian resident shareholders (individuals/trusts) are aggravated by an additional levy of 10% on dividends earned greater than ₹10 lakh. For foreign investors, the 20.56% DDT becomes an additional cost as the tax is not creditable in most jurisdictions. There is a need to relook rates or replace DDT with withholding tax.

Cut in individual tax rates? There is an impending need to look at rationalising and recalibrating the existing income tax slabs to achieve the objective of a more progressive tax rate structure, in line with many developed nations. To this cause, the government should look at raising basic exemption limit from ₹2.5-5 lakh and reintroduce a rate of 10%, while recalibrating other slabs. With escalating costs of education and borrowed capital for homebuyers etc, the government should consider increasing the limits under Section 80C. While the challenge of limited fiscal bandwidth remains, the government needs to bite the fiscal slippage bullet.

India is seen as a pioneer in enacting legislative changes such as the introduction of the equalisation levy (EL) in 2016 and Significant Economic Presence (SEP) in 2018. However, these provisions are still plagued with ambiguities. The SEP provisions, instead of limiting to digital transactions, suggest a broader application to physical transactions/goods. Some of the terms used in SEP have an expansive scope and the undefined revenue threshold and user base create uncertainty for investors. That apart, there is also duplicity of taxes with SEP, EL and software royalty operating simultaneously. The government needs to address some of these ambiguities and consciously align domestic provisions with the ongoing progress in the OECD Unified Approach and the consensus that will emerge eventually.

The ever-burgeoning litigation pendency has shown little signs of abatement. As per the FY20 receipt budget as of March 31, 2018, a total of 4,62,824 direct tax cases were pending before various appellate forums involving a tax demand of almost ₹6.23 trillion. While providing a minimum tax threshold for filing appeals by the I-T department is expected to marginally bring down pending litigation, radical measures may be required. Adding rigour to clear the backlog of pendency before the Authority for Advance Rulings (AAR) and advance pricing agreements (APAs), coupled with the introduction of negotiated settlement by way of mediation/conciliation, is expected to go a long way in achieving this objective.

On the back of the success witnessed by the Sabka Vishwas Amnesty Scheme introduced last year for past service tax and excise disputes, the FM may play to popular expectation, and also consider introducing an immunity scheme for direct tax disputes on similar lines.

The government has showed its intent to ease processes by maximising e-filing and minimising taxpayers' physical presence. However, more work is needed on the ground to ensure a seamless experience where routine processes such as rectification of apparent mistakes, appeal effect orders of higher authorities, processing of tax refunds, and lower/nil withholding tax certificates are done within reasonable timelines.

In summary, amidst all the burden of a slowing economy, dampened job growth and private investments related challenges, the FM has her job cut out in this Budget to focus her energy and the government's resource to fix the Achilles heel of the Indian economic growth story.