Opinion

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ON THE JOB
Congress leader Rahul Gandhi

"Prime minister Modi had promised two crore jobs but last year our youth lost one crore jobs. Wherever the PM goes he talks of CAA and NRC but doesn't mention the biggest issue of unemployment"

RationalExpectations

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Budget must aim at regaining trust

When a former finance secretary details how Budget's big numbers were fudged, you realise why most don't trust govt

NO ONE READING former finance secretary Subhash Garg's blog (*bit.ly/2tUw-CnK*) can be anything but impressed. Garg has, over several posts, dissected the budget to reveal the actual deficit and debt numbers. In the case of the deficit, he catalogues four ways in which expenditure is often disguised; indeed, Garg adds that some of these (like the oil bonds) will not even show up in the debt numbers. He points out that, in FY18, as opposed to the headline fiscal deficit of 3.5% of GDP, the real number was 4.4%; it was 4.7% in FY19 versus the headline 3.4%, and for FY20, the real fiscal deficit is likely to be in the 4.5-5% range as compared to the 3.3% budgeted.

While most justify breaching the fiscal deficit to increase infrastructure investment, less than a fourth of the deficit, Garg points out, is "meant for productive economic investment in manufacturing, services or infrastructure capital investment". Indeed, for all the junk-the-deficit types, Garg points out that while the financial savings of households are just around 6.6% of GDP, a centre-state deficit of 6-7% means "it leaves little for the private sector or for productive investment in the economy".

There is just one problem: Garg was the finance secretary when this was being done, and in that capacity, he was defending government policy! The FY20 budget used the FY19 tax projections even though, by then, the actual tax collections for FY19 (*see graphic*) were out. Using the FY19 tax collection estimates—made in the February 2018 budget—gave a fairly reasonable 8.4% tax growth target for FY20. But, if you used the actuals, as you should, the targeted growth was a whopping 18.3%. How do you then trust the government?

In which case, the primary task of the budget later this week has to be to regain trust; not just trust in the numbers it uses, but also trust that the government will tell the truth, and that it will actually implement what it says. This is critical because, at many levels, investors have lost trust in the government's promises. Though not strictly related to the economy, when the PM expressed surprise that people were talking about an NRC even though, he said, there had been no such discussion on this, it really stretched credulity since the home minister had, on several occasions, talked of an NRC following the CAA.

While presenting the budget in July 2019, govt had the actual FY19 collections. Why did it use the wrong data to show FY20 projections were reasonable?

Total taxes (₹ lakh crore)

	FY19 Actual^	FY20 BE	FY19 BE	FY20 BE	FY20 likely*
Total taxes	20.8	24.6	22.7	24.6	20.9
	Implies FY20 tax growth of 18.3%		Implies FY20 tax growth of 8.4%		Implies FY20 tax growth of 0%

^(based on CGA) *Based on annualising of April-Nov FY20 data

Another example of why building trust is critical relates to the banking sector; as long as credit flows remain depressed, there is little the government can do to boost economic growth. Bankers remain unwilling to lend as they worry that, should a loan turn bad, the government and its investigative agencies will come down on them like a tonne of bricks. That is why, last fortnight, the government expanded the scope of its advisory board for banking and financial frauds. Under this, it said, no action could be taken against bankers, or the staff of other financial institutions until the high-level advisory board cleared it. In other words, the message was, bankers would be protected since the advisory board would figure out which decisions were kosher and which were not—a loan going bad wasn't enough to get bankers in trouble. But, there has been a similar advisory board in place since 1999; were all cases pertaining to bankers facing CBI charges vetted by this board first? Bankers who've seen their colleagues getting sucked into CBI cases aren't going to be convinced by the government just reissuing circulars and expanding advisory bodies.

The ₹100 lakh crore infrastructure plan that has just been drawn up is, similarly, fraught with problems (*bit.ly/38JwMNv*), and who is going to believe the government is going to make contracts legally enforceable when its own agencies, like NHAI, or various SEBs, don't make payments on time; or how it plans to institutionalise dispute resolution when it doesn't respect arbitration awards that have gone against it? And, how will ministry-level committees come up with mediation mechanisms that work—this is an integral part of the plan, to boost investor confidence—when the government has failed to take so many decisions due to the fear that it would be seen as making concessions to industry—the *suit-boot-ki-sarkaar* fear. The government, to cite an example, didn't raise completely uneconomic gas prices for two years due to this reason, and this caused investments to dry up; the decision to hike power prices for the Tata power plant has been stuck for years—after the Indonesians raised coal prices—though its electricity would still be cheaper than that from competing power plants even after this.

Or, take the issue of the taxman harassing people, and the government giving reassurances, from time to time, that this will not happen in future. If this is to be believable, why don't the direct and indirect tax boards set up a mechanism to review every tax order/arrest and take corrective action immediately instead of waiting for it to snowball first? But, nothing of the sort has happened so far; and, how do you trust the taxman when, in a case where an international arbitration is going on—this is also a retrospective tax case which the BJP itself campaigned against!—the taxman seized assets worth $1.3-1.4 bn, and then sold most of them off?

And, while unleashing the CBI and the ED makes for great news, when is the last time the government looked at their track-record and took them to task for this, or set up a credible mechanism to ensure this didn't get repeated in case after case?

The budget will be watched for what it does to revive investor sentiment, but more than the tax cuts or policy plans, it would be good enough if the government just honestly implemented what it has promised so far; a new improved Uday is planned, for instance, without much thought as to why the previous one was a failure (*bit.ly/2Rzk2n0*).

MarriageEQUALITY

Kerala same-sex couple move High Court for marriage equality is fundamental to guaranteeing citizens' constitutional rights

THE SUPREME COURT decriminalising homosexuality in 2018 marked both a hard-earned freedom, and the start of the struggle for rights that are basic for heterosexual couples. Same-sex relationships still don't have the same legal standing in India as heterosexual ones. A gay couple from Kerala, married as far as the ceremony is concerned, has filed a petition in the Kerala HC as their marriage is not recognised by any of the marriage laws, including the Special Marriage Act, 1954.

Failing to get religious sanction for their marriage the couple realised that even the secular Special Marriage Act, contains no provisions to give same-sex marriages the legal standing accorded to heterosexual ones—Section 4 and Schedule 2-4 of the Act limit a marriage to existing between a woman and a man. Read against the SC judgment decriminalising homosexuality that held that sexuality was an important part of personal dignity, which, in turn, was a part of right to life, the Act fails to account for a person's sexual and gender identities. The petition highlights that this violates the dignity of LGBTQIA individuals and thus violates Articles 14 and 15 (1)—respectively, the right to equality before the law, and the right not to be discriminated by the state because of religion, race, caste, sex, and place of birth. Legal recognition of same-sex unions will uphold what is guaranteed to heterosexual married couples—spousal rights in terms of support, parcenary rights, visitation rights, etc. While the Kerala HC has sought the inputs of the Centre and the state government, it is necessary for policymaking to bear in mind that recognition of same-sex marriage is the next logical, and ethical step forward in guaranteeing constitutional, fundamental rights to all.

● REFORMS OR MANURE?

NUTRIENT-BASED SUBSIDY FOR UREA WILL FAIL TO INCREASE EFFICIENCY, REDUCE COSTS, AND MEET FARMERS' NEEDS UNLESS IT IS ACCOMPANIED BY SHIFT TO DIRECT TRANSFER OF BENEFITS

Half-baked fertiliser reforms won't deliver

UTTAM GUPTA
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Views are personal

REPORTEDLY, THE GOVERNMENT is likely to fix nutrient-based subsidy (NBS) rate for urea before rolling out the direct cash transfer (DCT) of urea subsidy to farmers' accounts. The subsidy, expressed as rupees per hectare, will be based on soil health, and size of landholding.

The idea of NBS for urea is not new. It was recommended, in 2012, by a committee under the chairmanship of then agriculture minister Sharad Pawar in the follow-up to a similar scheme for non-urea, or phosphate (P) and potash (K) fertilisers introduced in April 2010. After dilly-dallying for close to a decade, it has been resurrected.

The Union government controls the maximum retail price (MRP) of urea at a low level, unrelated to the cost of production and distribution, which is much higher. The manufacturers get reimbursement for the shortfall in realisation from sale as subsidy on a 'unit-specific' basis under the new pricing scheme (NPS). Further, they get reimbursement for cost of movement (this includes primary movement by rails from the plant, and secondary movement from the unloading rake point, by road, to the retailer) under a uniform freight policy. Invariably, the MRP is kept unchanged (today's price is the same as in 2002) even as all cost escalations are absorbed by increase in subsidy.

In case of P&K fertilisers, the government fixes 'uniform' subsidy on per nutrient basis for all manufacturers under NBS. The manufacturers are free to fix MRP, but are expected to reflect the subsidy in it. They are reimbursed for freight cost only towards primary movement on the basis of actual rail freight (as per railway receipts). Even as the government keeps the subsidy unchanged, increase in cost leads to an ever increasing MRP. The exclusion of secondary movement cost from the purview of freight reimbursement puts further pressure on MRP.

Juxtapose these varying policy dispensations for the two fertiliser types, and it follows that the MRP of urea has been consistently lower than that of non-urea fertilisers, prompting farmers to use more of the former and less of the latter.

This is at the root of increasing imbalance in NPK use ratio, declining crop yield, and deterioration in soil health. The introduction of NBS for urea is aimed at addressing this imbalance by aligning the policy dispensations for the two.

However, introduction of NBS *per se* won't achieve the desired result unless it is accompanied by other reform measures. First, the government will need to drastically reduce subsidy on urea and, simultaneously, increase subsidy on P&K so that the MRP of the former is lifted, and that of the latter lowered from current levels. This way alone can excess use of urea be curtailed, and that of non-urea fertilisers increased to reduce imbalance.

Second, P&K fertilisers should also be brought under a 'uniform freight policy' to provide for reimbursement of both primary, and secondary transportation cost—as applicable to urea. Alternatively, the subsisting scheme of freight reimbursement for both fertiliser types should be dismantled.

Third, considering that under NBS, all urea manufacturers will get the same subsidy (unlike under the present dispensation, where it is unit-specific), the government should ensure that they are not affected differentially by 'external' factors. In 2015, the government had introduced a system of pooling domestic and imported gas to ensure supply at a uniform price to all units. However, the delivered price at the factory tap varies.

This is because at present, gas is zero rated under Goods and Services Tax (GST), implying that it continues to be covered by erstwhile dispensation of excise duty (ED), and value added tax (VAT). While ED on gas is nil, VAT varies from state to state, with a low of 5% in Rajasthan, and high 21% in Uttar Pradesh (UP). Under NBS, a unit located in UP will be unduly penalised whereas one in Rajasthan will make fortuitous gain. Hence, the current zero rate tag on gas needs to go, and GST levied at an appropriate level (say 5%, which is also the GST applicable on all fertilisers). This will ensure that all urea units are uniformly affected.

> **With low-price fertilisers available at dealers' shops, there will always be an incentive to divert to chemical industries, or smuggle to neighbouring countries**

The NBS for urea, along with the above three reform measures, is undoubtedly an improvement over the present messy system. However, this will be a half-baked reform as subsidy continues to be routed through manufacturers. With low price (albeit subsidised) fertilisers available at dealers' shops, there will always be an incentive to divert to chemical industries, or smuggle to neighbouring countries. Besides, what the farmer buys will continue to be dictated by the quantum of subsidy the government gives on urea *vis-à-vis* other fertilisers.

Furthermore, this system is not amenable to targeting of subsidy. If the government wants to restrict subsidised supply only to small and marginal farmers having landholding size <2 hectares, this will require two streams of supplies in the distribution channels viz. subsidised, and the other unsubsidised/full cost based, the latter to cater to the requirement of farmers with landholding size >2 hectares. Any attempt to push for a dual-pricing regime will lead to utter chaos.

The only way to avoid diversion, target subsidy, and empower farmers (giving the freedom to use subsidy for buying fertiliser of his/her choice based on soil-crop needs) is to transfer subsidy directly to the account of farmers, even as they pay the full market price to the dealer or manufacturer. The government may decide on a fixed amount per hectare based on likely nutrient (N, P, K, etc) requirements for different agro-climatic zones. Further, the eligibility may be capped at the requirement corresponding to two hectares.

With this, and no need to route subsidy through manufacturers, NPS, NBS, and schemes for reimbursement of movement cost and associated controls will go. The resulting scenario will unleash the full potential of manufacturers by way of increased efficiency and reduced costs, boost to domestic production, innovative solutions for meeting farmers' diversified needs, and even savings in subsidy.

Instead of half-baked moves (NBS), Modi should go for holistic reforms.

Little room to cut income tax rates

Cutting personal income tax rates will lead to a larger fiscal deficit. Non-tax revenue sources, such as disinvestment, will likely take the centrestage in Budget 2020

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BUDGET 2020 IS scheduled to be unveiled soon, and it is going to be a tightrope walk for finance minister Nirmala Sitharaman. On the one hand, containing the fiscal deficit is a big challenge given the shortfall in tax revenues; on the other hand, the economy's growth rate is slowing down, exports falling short of target month after month. It is heartening to note that 2020 is the year in which India will witness the highest "demographic dividend", and every constituent of the economy is expecting something or the other from this Budget.

Speaking of tax revenues, the direct as well as the indirect tax collections have been much below the stipulated annual targets. In fact, the direct tax collections are expected to fall way short of the annual target—this would be a first in two decades. Further, given the shortfall in the GST collections, there has been an upward revision of the GST collection targets for the last quarter of this fiscal. Whether this will be achieved or not, only time will tell. Further rationalisation of the GST rate structure is in limbo. In the last (38th) GST Council meeting, history was made—it was the first time that the GST Council went ahead and voted on the proposal of levying 28% GST on all types of lotteries. While 21 states voted in favour of the proposal, 7 voted against it. It is not that important to know which states voted for and which against, but it is important to note that the first cracks have appeared in the federal co-operatism between the Centre and the states. Till this meeting, all the decisions taken by the GST Council were unanimous, and without the need for voting. Concern for the falling GST revenues is clearly playing on the minds of the members of the GST Council. Delay by the Centre in settling states' GST compensation claims is only worsening their already-strained financial relations. In hindsight, assuming a flat 14% growth in the annual revenue for each of the states, without any reference to the growth in the GDP in the corresponding period (five years), is proving to be stressful for the Centre. An amicable solution acceptable to both the Centre and the states should be worked out before it is too late.

> **Make-in-India can be made more attractive by reducing the customs duty on import of raw materials which do not have an indigenous source and are used only in manufacturing of goods in India**

The Make in India initiative, after its initial run, has not been picking up enough steam. It can be made more attractive by reducing the customs duty on import of those raw materials which do not have an indigenous source and are used only in manufacturing of goods in India. This will encourage Indian manufacturing, and make these products globally competitive. It will also enhance economic activity in the country, boosting employment, and, hence, consumption.

Exporters are facing a slowdown in their sales as well, and a comprehensive incentive scheme is expected to boost exports. The new Foreign Trade Policy (FTP) is expected to be unveiled in the near future given that the validity of the current FTP ends on March 31, 2020. A complete overhaul of the export incentive scheme is expected to make it WTO-compliant, and in sync with other central and state incentives.

The yield after introduction of a new corporate tax rate of 15% for newly formed manufacturing companies is yet to be seen. The rates for personal income tax are also expected to be rationalised, with an aim to increase the disposable income in the hands of individuals. However, FM has limited options as far as the tinkering of the tax rates is concerned. Any further reduction in the tax rates would lead to an enhanced fiscal deficit. Hence, non-tax revenue, such as disinvestment, is likely to take centrestage once again to shore up the shortfall in the tax collections. The economic mood is not upbeat currently, and how much more revenue is expected to be collected remains to be seen.

Given this backdrop, Budget 2020 appears to be a classic case of being between the devil and the deep sea. The announcements to be made in the budget are certainly eagerly awaited as the circumstances in which they would be introduced are extraordinary. While trade and industry would welcome the steps taken for boosting consumption—and, hence, the economy—the common man would be more than happy if the tax burden is reduced. Fingers crossed!

LETTERS TO THE EDITOR

Selling Air India is unfortunate

One of the major components of neoliberal policies is privatisation—of public enterprises, resources, services, etc. Dismantling public sector means handing over our national assets—and wealth—to the corporates, domestic and foreign, on a silver platter. Given this context, the government has decided to sell Air India, with its fleet of 128 aircraft. The huge accumulated loss of Air India was the result of the bungling and misgovernance by successive governments. Now, when Air India has an operating profit, covering up over ₹2,636 crore of operating loss the previous year, the government has decided to hand it over to the private sector. This is nothing but an attack on the public finances—an onslaught on Indian society.
— SK Khosla, Chandigarh

On police brutality

Ever since Yogi Adityanath was imposed as the Uttar Pradesh CM, the state has witnessed anarchy, chaos, and confusion. It is heart-rending to see the police attacking the peaceful protesters against the CAA, NPR, and NCR in the most brutal manner, making one wonder whether it is a democratic rule or a jungle raj prevailing in the state. The incidents that have happened in the state—right from lynching of innocents to protect cows, frequent rapes and murders of women, particularly those from the Dalit community, to attack on students, and now the police atrocities against those who oppose the divisive CAA, NPR, and NRC—testify to the fact that the largest state of the nation is fast rushing towards a dictatorial regime, which is not good for a democratic country like India.
— Tharcius S Fernando, Chennai

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ORGANISED SECTOR

Has inequality come down?

In the last six years, there has been a rather sticky movement in pay packets for the class earning higher incomes

THE ISSUE OF equality has been debated for quite some time, and it is hard to get comprehensive data given the very large presence of the unorganised sector. One dataset that has a limited coverage, though nonetheless is very pertinent, is the one pertaining to income tax returns as it covers all tax assesses. This has limitation insofar as it looks at only income tax assesses and excludes a large part of the community such as agriculture or the gig workers who do not pay tax. But it is still indicative of income levels at the organised level of employment.

For FY19, there were 55.08 million tax assesses, which can amount to around 150-200 million of population depending on whether these tax assesses are single family income earners or dual income families. This number was 28.77 million in FY13, which is the earliest year for which data is available and hence grew at a CAGR of 11.4%. The total income of all assesses increased from ₹12.14 lakh crore to ₹34.14 lakh crore, implying a CAGR of 18.8% for the six-year period.

GDP in nominal terms increased by around 11.5% during this period, which indicates that those paying taxes had a more robust growth in income over the national average during this period. The average income of tax assesses hence increased from ₹4.2 lakh to ₹6.2 lakh, which is a CAGR of 6.6% as against growth of per capita GDP of 10%. Therefore, income tax assesses had a lower growth in average income compared with the national average.

To gauge the level of inequality in this sample of individuals, the following is examined. The income brackets are classified as under less than ₹5 lakh, ₹5-10 lakh, ₹10-20 lakh, ₹20-50 lakh, ₹50-100 lakh, ₹1-10 crore and above ₹10 crore. The share of taxpayers in these groups are juxtaposed with the share in total income as per the returns that were filed. The two points chosen are 2012-13 and 2018-19. The matrix will then throw light on how different classes of people control the flow of income in the six-year period.

The accompanying table presents interesting results. The first is that the number of tax assesses who earn less than ₹5 lakh has come down sharply during this period and, accordingly, the share in income has gone down. This implies that there has been a good movement up the ladder as a large population that was in this bracket has witnessed improvement in income levels and moved up. It is more likely that the new entrants into the organised workforce are in this bracket. Further, several organisations have increased their base salary, which has put employees in higher income categories.

Second, the above explanation fits well when the bracket of ₹5-10 lakh is looked at, where the share in total assesses has doubled from 13.8% to 26.7%. The share in income has been more modest by 2.7% points. This has been also the typical spending class in the economy where the younger population tends to be concentrated in the early years of the career.

Third, the next two categories of ₹10-20 lakh and ₹20-50 lakh accounted for 5.2% of assesses and 20.9% of income in 2012-13. BY2018-19, their share was 9.5% in the former and 26.1% in income. Here too, there is reason to believe that this is more of upward mobility where the existing workforce has witnessed relatively higher pay revisions and increments, and this has increased their income. This was also the most productive class with 5-10 years' of experience.

Fourth, the next three categories, which are actually very high income groups with over ₹50 lakh income, show a contrasting picture. These are the groups that are subject to the special income tax surcharge, which goes up further once the ₹1 crore threshold is breached. For the ₹50 lakh-₹1 crore bracket, the share in both the parameters has increased from 0.23% to 0.38% in number and 3.7% to 4.2% in total income, which is modest. But for those earning above ₹1 crore, the overall share in the number of assesses has gone up from 0.123% to 0.18%, but the share in income has come down from 8.2% to 7.9%.

The shifts in the highest three brackets are indicative of the fact that in the last six years there has been a rather sticky movement in pay packets for the class earning higher incomes. This can be linked with the economic slowdown, where the corporate sector has not performed too well on the top line and has compensated for the same by controlling costs, which include compensation. Hence, while the number of people who earn above ₹1 crore has increased from 936 to 2,764, their share in the overall income has come down marginally.

Putting these numbers together, the impression we have is that for this sample of tax assesses, there is no evidence of income equality increasing, and that both of the corollaries hold. First, the people in the lower income brackets have migrated to higher levels, and with more people joining the workforce have had an increased share in the total pie. Second, those at the highest income levels have witnessed more entrants, but the share in total has reduced marginally. Part of the reason is the economic slowdown where the salary component of senior executives becomes sluggish in the upward direction while there could be compensations in the form of stock options.

However, this analysis does not hold for wealth, as income is not reflective of wealth on which comparable data is not available. The income earned here is based on the returns filed by individuals on which there would be exemptions and hence make the taxable income of a lower order. This is also not a complete picture of inequality as it does not include the poorer people, which include farmers, daily wage earners, domestic help, self-employed with no taxable income and, more importantly, the unemployed. But it does indicate that once people join the organised sector (defined as those that involve paying income tax), a sense of equality has built up, with there being more competitive opportunity for individuals. Also, the fact that high income earners are financially more onerous to companies has meant that there has been a preference to hire at the mid-level and provide more attractive compensations. Those at the high level will have problems in leaving their jobs even if their pay packages do not increase, as the amount earned is relatively on the upper scale. These may be considered to be the factors that have led to this phenomenon of narrowing the distance between the lower and the higher income groups.

The individuals and income distribution matrix

Income group	2012-13 Share in number of assesses	2012-13 Share in total income	2018-19 Share in number of assesses	2018-19 Share in total income
Up to ₹5 lakh	80.7	45.2	63.0	32.5
₹5-10 lakh	13.8	22.0	26.7	29.4
₹10-20 lakh	3.9	12.4	7.2	15.5
₹20-50 lakh	1.3	8.5	2.3	10.6
₹50 lakh-₹1 crore	0.23	3.7	0.38	4.2
₹1-10 crore	0.12	6.1	0.17	5.8
Above ₹10 crore	.003	2.1	.01	2.1

Source: CMIE

Should dividend distribution tax be abolished?

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Since the rate of 20.56% is extremely high, taxing shareholders at a flat rate of 10% or 15% could be considered

THE DIVIDEND DISTRIBUTION tax (DDT) has been a part of the income-tax statute for over 20 years. The primary objective behind introducing the DDT in 1997—and consequently exempting the shareholders—was to encourage investment in shares of domestic companies. Additionally, it resulted in huge administrative convenience for the government in as much as the tax on dividends could be recovered from a single source as against from several assessees.

When the DDT was introduced as an additional tax on domestic companies, one of the stated objectives was also to reward companies which invested in future growth by ploughing their retained earnings into fresh investments.

In other words, the DDT was intended to act as a deterrent to distribution of profits to the shareholders, and was capped at 10% of dividends declared. Fast forward to today, it appears that the objectives behind its introduction have been achieved, but at double the tax cost to domestic companies—from a moderate 10% in 1997 to 20.56% currently.

Since the DDT is applicable only to domestic companies, other entity forms such as limited liability partnerships gained popularity. Of course, the recent corporate tax rate cut has partly offset the advantage in favour of limited liability partnerships, but, nevertheless, the DDT remains a sore point for companies. This issue gets further aggravated with the introduction of 10% tax on individuals earning dividends over ₹10 lakh.

It appears that the objectives behind the introduction of DDT have been achieved, but at double the tax cost to domestic firms—from a moderate 10% in 1997 to 20.56% currently

According to certain estimates, the DDT collection for the government is approximately ₹60,000 crore, which is just about 5% of the total income-tax collection. Therefore, it will be interesting to see if the government decides to abolish this tax, with a hope that similar collections could be done from the shareholders. Where the shareholders are Indian resident individuals, the taxability of dividends in their hands would depend upon factors such as slab rates and availability of loss to be set off against the dividend income. Likewise, where the shareholders are non-residents, the taxability of dividends would depend upon the tax rate prescribed under the dividend article of the relevant tax treaty.

Further, individual shareholders with incomes below the basic exemption limit will be obligated to file their tax returns to offer dividend income to tax. This may result in expansion of the tax base.

It appears that the principle of equity can also be restored if the DDT is abolished and, instead, the shareholders can be taxed on dividend income directly. To ensure the interest of the Revenue is protected, the tax deducted at source (TDS) on dividend can also be reintroduced. Since the rate of 20.56% is extremely high, taxing shareholders at a flat rate of 10% or 15% could be considered. This will not only encourage more distribution of profits by companies, but also increase the purchasing power in the hands of the shareholders.

ALUMINIUM

The real steel

Curb aluminium scrap imports, and provide level-playing field to primary manufacturers

ANSUMAN DAS

The author is former CMD, National Aluminium Company

ANY COUNTRY that has abundant reserves of bauxite and coal has a comparative advantage in producing aluminium. India has fifth largest reserves of bauxite and coal, the key inputs. Aluminium is the metal of the future because of its versatility and high-technology use. As India gears up for the Fourth Industrial Revolution, a strong domestic aluminium industry is critical for growth. Remarkably, although India has built up sufficient capacity of primary aluminium (4.1 MT) to cater to domestic demand (4.0 MT), the industry is suffering because of a number of policy issues that affect its competitiveness. The government must address these.

The continued heavy regulation of the mining sector has meant that the country's bauxite and coal reserves are not fully explored and mined. Ironically, for a country so abundant in both raw materials, it is a net importer. The recent reform of the coal sector through an Ordinance will help. A similar expeditious approach is needed to bring in more bauxite blocks for auction. But there is a gestation period.

The country is currently importing 60% of its aluminium requirement despite sufficient capacity. Domestic producers are forced to export their material at lower price realisations. That global commodity prices, including those of aluminium, are subdued has only added to the challenge. The US-China trade war, which has resulted in these two economies imposing higher tariffs on aluminium and various restrictions on scrap imports, has meant greater dumping of aluminium into India and diversion of global scrap value chain towards India being a natural market for aluminium consumption. China has excess capacity in this sector. India cannot be a dumping ground for China-made aluminium, compromising its own economic security.

The other challenge to domestic industry comes from the import of scrap, particularly from the US and other advanced economies. Overall value addition using aluminium scrap is 4-5%, i.e. melting scrap and casting in other form/products. The primary aluminium production value chain entails 100% value addition from mining of ore to refining, smelting and further casting into various products, generating substantial employment at each

stage. There are strong output and employment multiplier effects.

Curiously, amongst major economies, India is a rare one that imposes less duty on scrap (2.5%) as compared with primary aluminium (7.5%). China has a 14% duty on both primary aluminium and scrap. For scrap from the US, it is 25%. China is also imposing quantitative restrictions on scrap. Russia has a duty of 10% on both primary aluminium and scrap. In both cases, not only is the duty equal for scrap and primary, it is higher than the one levied on primary in India.

Of course, aluminium is a green metal and has the potential for recycling. But there must be stringent standards for what kind of scrap can be put to what use. Advanced countries recycle and utilise some of their domestic scrap and then dump the rest in emerging economies like India and China. The BIS must work on scrap because the consequences for environment and health are serious. Low quality scrap with high lead content and presence of radioactive particles is particularly dangerous in consumer durables, and can cause serious problems in electrical equipment. Needless to say, India must work on creating an appropriate system for a circular economy that uses scrap generated within the country, as opposed to 100% imports of scrap of questionable quality, which leads to foreign exchange outgo of billions of dollars.

Given our natural endowments, the size of the domestic market and future potential, a thriving primary aluminium industry can be a major contributor to manufacturing and economic growth. The economic imperative is for the government to provide it a level-playing field.

A tale of two sectors

Making India a global hub for chemicals and textiles

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THE ROAD TO $5-trillion economy needs efforts at promoting ease of doing business to attract more investments. The upcoming Budget is an opportunity to undertake industry-specific initiatives rather than announcing a single big-bang reform and expecting a positive cascading effect on all sectors. New areas have to be identified and targeted changes instituted to boost GDP from $3 trillion at present to the targeted $5 trillion. Chemicals and textiles are two industries where a positive budgetary intervention will deliver considerable dividends to the economy.

FM Nirmala Sitharaman should take initiatives to make India the global hub for chemicals and textiles manufacturing sector. India's share in the global chemicals industry is 2%, and there are opportunities for companies to grow, given the right support. Cheap imports from Turkey, the US and China for products such as soda ash stress the industry and the government may raise import duty from 7.5% to 15% to restrict imports and boost Make in India.

FTAs need to be done with care and deter dumping of cheap goods into India. Chemicals is a heavy capital-expenditure industry and would welcome some capital expenditure-based incentives to facilitate fresh investments for capacity enhancement. Likewise, textiles is one of the oldest sectors, which adds much economic value, both in the form of a 2% contribution to GDP as well as generating employment. It accounts for 7% of the total industry output in the country and adds much stimulus to imports. Thus, it works well for the government to ensure stable growth of the sector. Cut in import duties on sustainable fibres will ensure an array of eco-friendly textiles that will attract environmentally-conscious consumers. Investments are needed towards developing skills of the existing workforce and updating curricula of textile institutes so that the skill sets of the employable youth stay relevant.

Given that both short-term and long-term measures are needed, it is essential that in addressing short-term challenges the larger goals are not compromised. The Union Budget is a capable instrument that can sustain long-term goals while effectively addressing short-term challenges.