Marketing News

Publication: Economic Times Mumbai; Date:2007 Feb 20; Section:ET Budget; Page Number 10

From Think Tank 007

STRONGER, BOLDER, READY TO TAKE ON THE WORLD—THIS IS THE EMERGING FACE OF INDIA INC. NO LONGER WILLING TO PLAY SECOND FIDDLE, IT IS COMFORTABLE WITH LOWER DUTY LEVELS AND EXEMPTIONS. ALL IT WANTS IS BALANCE AND GROWTH

DUTY CUTS TO ASEAN LEVELS

SWAMI: India has cut duties over the last few years and is now at 12.5%, which is close to Asean levels of 8%. Should the finance minister go the full hog and slash it to Asean levels this time or later? Should corporate tax rates also be slashed?

ANAND MAHINDRA: One of the models which we could have followed was to build national champions for growth. But we departed from that model long ago. We have gone faster the other way around. So the faster you get to the end point, the better. So if we have to get to Asean rates, go for it although there have been vociferous complaints on Free Trade Agreements. Let the free market prevail and let industry compete. If carnage happens in some sectors as a result, so be it.

As far as corporate taxes are concerned, compared to the West we are now at a fairly good level. I have seen higher rates. So I don't know whether one can argue for a lower point.

NISHITH DESAI: I have a contrarian view on this. We have one of the highest tax rates in the world. It is 43 % not 33.6% if you take into account the corporate tax rate, fringe benefit tax plus disallowances. The effective tax rate goes higher if you consider the tax on distributed profits which is paid by companies so shareholders cannot claim credit on that. So your effective distributable profits are just 59%. In Singapore the rate is 20% while in Hong Kong it is 15.5%. Our rates are much more than them. We are not a low tax country. The effective tax rate of 17% which is talked of is based on historical analysis. MNCs say don't look at tax breaks when factoring in investment.

We need to bring accountability to tax administration. 80% of the tax cases which are taken to the court are won by tax payers. We need to take a bold approach and cut duties. Indian entrepreneurs are smart. So take away exemptions and bring down the corporate tax rates down.

KUMAR MANGALAM BIRLA: As far as indirect taxes are concerned, the burden in India is more than other countries of the world. It has a huge cascading impact.

We are an exporting country, so we are really exporting a lot of our taxes. Indirect tax is an area that we need to look at. If we are setting up a copper smelter costing Rs 4,000 crore then we have to set up a port worth Rs 1,000 crore to support it. Our competitors don't need to do that. And, we have to compete with them on selling price. There are a lot of non-tax barriers abroad, huge subsidies overseas. One needs to factor in global scenario beyond Asean. We need to look at the global context.

Corporate tax rates: It is very sexy to say lower direct taxes but it is not a level playing field yet. You can't price above competitors. Some caution in bringing down direct taxes.

AJAY PIRAMAL: We can go down to Asean levels on the duty front. There is also a scope for corporate tax reduction. Every year, you have some surcharge or the other. I am more concerned on administration of tax. There is a lot of corruption and there have been cases where demands have been made.

HABIL KHORAKIWALA : I agree with Ajay that we could bring down duties. As for corporate tax in a global sphere, if India has to remain attractive for both domestic and global firms, make corporate taxes attractive instead of making tax target. Multiple assessment forms are used, which complicate matters; a single form should be there. Multiplicity increases corruption.

KIRAN MAJUMDAR-SHAW: As part of Asean duty structure, there is no need to bring it down in three stages. The faster we bring it down, it is good for us. The weighted average deduction benefit should be extended to infrastructure too. We have to set up effluent treatment plants to ensure that we have zero effluent discharge. My competitors in other countries don't have to do that, the infrastructure is provided. The weighted average deduction on R&D should be extended to such infrastructure. In licensing, the dual tax structure can be quite detrimental to in-licensing and out-licensing of drugs.

ATUL SINGH: Need to make us globally competitive especially in food processing. India can be a global exporter in food processing.

KP SINGH: Take a bold approach. Scale is becoming bigger.

TACKLINGINFLATION

SWAMI: With high inflation, should we go for an austerity budget?

CHETAN AHYA: There is no single way out. Domestic demand is running ahead of capacity. There is no simple solution. We need to create conditions for productive capacity to be in line with demand. Focus on the long term measures. Don't lose sight of the 12 or 18 month solution while looking at short-term measures.

HARSH MARIWALA: A long term solution to tackling inflation is needed beyond a point, interest rate tightening won't help. But in the long run, increasing interest rates is not a good thing.

HABIL KHORAKIWALA: Primary articles inflation is higher than manufactured products inflation. Deal with that quickly instead of monetary tightening. It won't be good to press the panic button too early. **KP SINGH:** I remember during the time when IK Gujral was the Prime Minister, there was a slowdown in the economy. Interest rates were high. One of the measures taken then was to bring down interest rates. It came down. It is very important to provide an impetus to the housing industry, and that too mortgage finance. The lowering of interest rates helped growth.

Mortgage finance should be available at low rates at least for single home ownership. But if you keep on raising interest rates, there could be a downturn. We need to be careful. Address primary articles inflation. Why don't we increase supplies by doing heavy imports. Do it aggressively since we have a lot of foreign exchange reserves. Unless interest rates on investment are controlled, it may affect growth.

KM BIRLA: The quality of expenditure is more important. Need to address that.

PRUNINGTAX EXEMPTIONS

SWAMI: Which are the two tax exemptions you would like to see being knocked off?

AJAY PIRAMAL: Abolish most exemptions except that on R&D which ought to remain for industries across the board and to encourage innovation. Otherwise, you will remain a nation of copiers. R&D is no longer a tax fiddle and most good companies are doing cutting edge work in the field of research. That needs to be recognised. It is better to have a lower corporate tax rate and few tax exemptions.

KM BIRLA: Tax breaks for infrastructure should remain. All other exemptions can be done away with.

ATUL SINGH : I agree that exemptions should go except those that offer longterm benefits to be globally competitive. It is needed in R&D

and innovation. Create long term sustainability and competitiveness. Streamline and innovate, incentivise.
CHETAN AHYA: SEZ exemptions should be looked into. There are 400 SEZs that are being set up. Some of them are very small. The setting up of SEZs should be focused on delivering a particular objective.
ATUL SINGH: Why not provide incentives to cold storages and build value chains for farmers? Half of the solutions are sitting within. Build and incentivise the farm chain. There are incentives that are given to farmers, but there could be ways of corporate and farmer joint projects to also get incentives.
HABIL KHORAKIWALA: Tax breaks on research and development and innovation should continue. It is there in many parts of the world. Certain focus is required. Corrective mechanisms are required in certain sectors. The whole issue of exemptions is getting a political colour. That should
not happen as not all exemptions are bad.
SWAMI: Are area based exemptions bad? Should we do away with them since they are seen as a scam?
HABIL KHORAKIWALA: Providing it geographically is not right. But if we combine its multiple purposes, it should be fine.
KP SINGH: The policies for backward areas over the last 40 years have not succeeded. SEZs are important. You need to give exemptions but with the right balance.
KM BIRLA: If you are looking at equitable growth, well there is no problem in providing tax breaks for geographical areas. But it needs to be studied whether it is done well.
HABIL KHORAKIWALA: Ultimately, market dynamics will work.
I am worried about the SEZs as they will deprive domestic companies of an advantage. These were set up for exports but now it seems that they can sell their output in the domestic market as well, and still get benefits. The level playing field will not be there.
GITA PIRAMAL: The cluster approach has worked successfully in Uttaranchal. You should have clusters to get a competitive advantage.

GOODS & SERVICES TAX

CHETAN AHYA: We are pretty much on track as far as moving to GST is concerned. There is little scope to push further. The pace is slow because of the challenges involved, in other countries it has taken a longer time.
HABIL KHORAKIWALA: Three years ago, they said that central sales tax would be phased out. My view is that they should get rid of CST this year or they will not get to GST in 2009-10. For a pan-Indian market to take shape, there are octroi issues to be addressed.
KIRAN MAJUMDAR-SHAW: There are regulatory hurdles created by states. Like the US has a central regulatory body.
ATUL SINGH: Octroi is an issue. Different states have different rates. If a pan-Indian market is to come up and MRP is made uniform across India, then some states will be impacted.

SERVICE TAX

SWAMI: The present system of taxation of services is highly skewed, isn't it?
NISHITH DESAI: The services sector, whose share in the GDP is 54%, contributes to income tax also. There are very few write offs.
CHETAN AHYA: You need the goods tax to come down. I think the 12% rate is okay. Some more areas are not being taxed which need to be brought in. You still can't tax government services like transportation. The railways is out of it. It should be brought in.
Legal services are yet to be taxed.
KM BIRLA: We are underestimating manufacturing growth. Why should it subsidise services.

ROOTING FOR GROWTH

SWAMI: Three years ago, would you have anticipated the kind of growth now? Is it a miracle economy?

KM BIRLA: Two reasons are: Corporates have built healthier balance sheets. Two, interest rates have come down over the years, which has reduced the cost of capital. That has helped growth.

KP SINGH: There was a fantastic entrepreneurial class. Of the lots of business in the SSI sector, 30 or 40% survived and their kids have gone to top class institutions and come into action. We are able to compete with the best. We need to lower interest rates, give a push to the housing sector. There is much room to grow. It is not a miracle which has taken place. We need to push infrastructure and a pro-active government.

AJAY PIRAMAL: Because of the opening up of the economy, industry and services are becoming world class. In many industries, there is a shortage of quality talent. We are able to supply quality products and services at a much lower cost.

ATUL SINGH: There are predictions that we would have a capability shortage. How do you start building pipeline to services.

KP SINGH: What happens if this growth doesn't take place? We are in a transient stage. In case the government takes wrong policy decisions, growth could slow down. There will then be an impact on employment, leading to a hue and cry. It will mean more opposition to reforms in the future that is my fear. Growth must take place in India.

HABIL KHORAKIWALA: With less of government in some of the economic sectors, maybe low interest rates and if we usher in more reforms, growth will continue.

CHETAN AHYA: The biggest change was triggered off with portfolio flows from April 2003. Over the last three years we have seen a sharp drop in cost of capital. There has been a negative risk premium. We had an advantage. Interest rate sensitive sectors have grown than non-sensitive sectors. We need to keep the cost of capital low through sustainable measures such as FDI than portfolio flows. We need to make the transition from global capital flows to FDI as the latter signifies sustainable flows.

KP SINGH: It is not a miracle, the Indian growth story. Can India not afford not to have growth?

KM BIRLA: Give corporate sector tax breaks for investment in education. FDI in education is important. More vocational institutions are needed.

AJAY PIRAMAL: More needs to be done for education. It is the most regulated sector and the whole curriculum is outdated.

HABIL KHORAKIWALA: Change procedures and the processes in education. Restructure your ITIs. The curriculum is useless. Have public-private partnerships. Follow the European curriculum model where there is a good deal of shopfloor training. Revamp the ITIs to make them industry specific. There is no one-stroke solution.

KP SINGH: Your policies are wrong especially your location policies. Take tourism. You can't be given land in Rohini and then expect tourists to come in. Policies have to change.

SWAMI: What is your wish list for the budget?

KP SINGH: Nothing should be done to hamper growth. The budget must aim at growth.

NISHITH DESAI: Accountability, accountability and accountability.

KM BIRLA: In most Asean countries, budget is a non-event. Policy making happens outside of the budget. Budgets need to be like that. Not a nail-biting suspense once a year.

CHETAN AHYA: Don't throttle demand by interest rate management. Supply side response, FDI and disinvestment are important.

AJAY PIRAMAL: Unless we do something on R&D, we will be in trouble.

HABIL KHORAKIWALA: Expand the tax base.

ATUL SINGH: No radical changes needed. Just manage inclusive growth.

If we have to get to Asean rates, go for it...Let free market prevail and let industry compete. If carnage happens... so be it.

ANAND MAHINDRA

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AJAY PIRAMAL

There is no need to bring duties down in phases. The faster we bring them down, the better it is.

KIRAN SHAW

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KM BIRLA

POWER PACKED: Anand Mahindra with Ajay Piramal & Habil Khorakiwala

MAKING A POINT: KP Singh, Kiran Mazumdar-Shaw & Harsh Mariwala

TUNED IN: Habil Khorakiwala with Atul Singh & Swaminathan Aiyar

MEETING OF MINDS: (Clockwise) Kumar Mangalam Birla pats Ajay Piramal as Habil Khorakiwala and Chetan Ayah look on. Nishith Desai, KP Singh, Kiran Mazumdar-Shaw and Harsh Mariwala are all ears. Chetan Ayah, Anand Mahindra, Ajay Piramal and Habil Khorakiwala listen intently to the roundtable participants.