FY16 fiscal deficit likely to come in at 3.9%: Dinesh Kanabar

The upcoming Union Budget could set the platform to simplify corporate taxation, eliminate exemptions and reduce corporate tax to 25 percent.

It will be test for Finance Minister Arun Jaitley, who has promised to bring down the fiscal deficit to 3.5 percent in the wake of global economic setbacks and at the same time wants higher government salaries and retirement benefits fo the armed forces.

Dinesh Kanabar, CEO of Dhruva Advisors told CNBC-TV18 that he projects the government's fiscal deficit to come in at 3.9 percent as direct tax revenues remain weak.

Pranav Sayta of EY said that the fall in crude oil prices and commodity prices should play in the FM's favour as he has got a 'big uplift' on the indirect tax side.

In the same interview, Nishith Desai, Managing Partner at Nishith Desai Associates said that the time has finally arrived to reduce taxes and remove exemptions.

Stating that, "What is not fair is not supposed to be in our laws," he further said that: "Today, laws are ambiguous, penalties are disproportionate to the offence committed and citizens don't know exactly how to behave."

Below is the verbatim transcript of Nishith Desai, Dinesh Kanabar and Pranav Sayta's interview with Menaka Doshi on CNBC-TV18.

Q: I would like to start by laying out what the macro looks like because tax policy can't work in isolation and the truth is and I am sure your clients will tell you that, that it is a very difficult business environment right now and the Finance Minister is facing that as well. He has like all of us know a very difficult fiscal balancing job to do. How would you describe the current environment as we go into the Budget?

Kanabar: We have a fiscal Budget projected at 3.9 percent this year. If you look at our budgeted collections this year, we have about Rs 6.5 lakh odd collections on account of indirect taxes where the government is running 30 percent ahead of the budgeted collections primarily on account of larger collections on account of oil revenues.

If you look at direct taxes which is key to what we are talking today, we are 10 percent ahead of last year but we still got to cover 40 percent of the Budget and 40 percent of the Budget with just one installment of advance tax to go looks like a very tough thing. As you mentioned, I would agree with you that we have the seventh pay commission, we have the army payments out, so, we have a number of things.

In fact if you look at what has been happening over the last few days virtually, there are interim dividends being announced by PSUs, there are buyback schemes which are announced. So, obviously collection and meeting the fiscal deficit is the key thing for the government.

Therefore I would agree with you that the Finance Minister has a very tight rope walk to do but that said probably one of the things which has emerged is that if one has to revive the investment climate in the country, simplification of tax clause is inevitable.

Q: When you look at the projected targets that he puts in for the next year, the next fiscal in this Budget what do you think he ought to be estimating the tax growth to really be?

Sayta: The one thing that he has to keep in mind is that now with the inflation rate having come down, the nominal growth and the real growth, the difference that he was seeing is not significant. So, in that sense the nominal growth not being so large, the corporate tax collection growth also has taken a beating. So, I do not think he is going to project a huge growth in the corporate tax collection in the current business environment or the less inflationary pricing power environment that we are seeing now.

However, yes, in terms of the meeting of the fiscal deficit, I certainly feel that he will want to try and meet it as much as possible especially given what Raghuram Rajan is saying. The big advantage that he has is because of the drop in crude prices, commodity prices, he has got a big uplift on the indirect tax side. So, in this year at least he has seen a big growth on the indirect tax collections and that might very well continue into the next year if oil prices and crude prices are going to stay the way they are going to stay.

I would feel that he has limited room when it comes to giving big fiscal sops but to revive the business environment. I think even reducing uncertainty, bringing clarities, simplifying the tax regime, reducing litigation will be big sops in reviving the investment environment.

Desai: I have two points to mention at this point in time. First of all, our room is very small possibly but heart should be large to get things in place. What is not fair is not supposed to be in our laws. Today, laws are ambiguous, penalties are disproportionate to the offence committed and citizens don't know exactly how to behave. So, the time has come to reduce taxes and remove exemptions; no doubt about it barring some exceptions.

Q: I want to argue that. I want to put that one question to all three of you as you jump into the debate and that is, I think if you look at the government's own data, it says that of the 5,64,787 corporate returns that they saw in the year FY14, a little over

3,00,000 companies reported any taxes paid because they reported profits. The rest were actually either not making profits or making losses and the effective tax rate of the entire sample was 23.2 percent. Now, that is what corporate India is paying today.

The Finance Minister has said that he would like to bring down over the next three to four years, the corporate tax rate to 25 percent from the current sticker price of about 33-34 percent and, do away with all exemptions and deductions. Will corporate India want an effective tax rate to go up from 23 percent to 24 percent or 25 percent if it means lesser \'jhanjhat\' with all the deductions, eliminations and is this the right economic time to do it given all the pain that industry seems to be going through? That is where I want you to start this.

Kanabar: The answer to that has to be an unequivocal yes. So, if you just come back to 22-23 percent rate of tax, what you are talking about is 33 percent stated rate of tax and you have a 21 percent which is your minimum alternate tax (MAT) tax and you are somewhere in between that because if you have booked profits, there is no way you are going to go below MAT tax by and large.

With that situation, if you look at corporate India, first of all most of the exemptions are dwindling down. There are very few of them remaining. Those which are remaining, if there is a sunset and they are eliminated, corporate India would rather not want to have litigation and I can give you 'n' number of examples. I will not take a lot of time on that, but effectively every corporate will come back and tell you that every time they claim a deduction or an exemption, there is paramount litigation with tax office being on the other extreme as if there is sort of evasion happening.

It is a stated deduction, then there are issues, so for example, you have SEZ, have you maintained separate books of accounts, is it a reconstruction? On one item you have virtually 80-90 items why tax benefit could be denied to you. On the other hand tax office comes back and says that corporate India is shifting profits only to those undertakings where profits are. So, the answer is somewhere in between and I would rather that those go away and you have a certainty on rate of tax.