

Legal Update

February 16, 2009

INTERIM BUDGET 2009: "TAX RATES MUST FALL", SAYS FM

These are truly testing times. Within a very short period India may have seen it all: from what initially seemed like an economic boom to the downward spiral of recession, eroding credit, bankruptcies, failure of corporate governance, stagnation in industrial growth, ground level inequities and the dark hand of terrorism.

Against this backdrop and with a view to meet the projected expenditure for the first 4 months of the next financial year after which the term of the current government would come to an end, the Finance Minister of India has today laid before the Parliament for a vote on account, the interim budget for the year 2009-10.

Recognizing the impact of the global economic crisis on India, the Government has relaxed the Fiscal Responsibility and Budget Management targets set out in the earlier budget. The fiscal deficit is expected to go up to 6% of the GDP. Notwithstanding this, the policy behind the interim budget may be easily inferred from the Finance Minister's reference to Prof. Amartya Sen's suggestion of supplementing 'growth with equity' with a commitment towards 'down turn with security' in the light of recent global socio-economic trends.

The Government has increased the budgetary allocation towards rural infrastructure. A number of reforms have been suggested on the social welfare front, which include employment generation and increased access to education for weaker sections, subsidies in relation to essential commodities, enhanced disbursement of low cost credit to labour intensive sectors. An increase in the allocation for defence has also been proposed.

However, the absence of any significant fiscal sector reforms is likely to raise several concerns. Admitting that "[i]n the days of financial stress, tax rates must fall and our ability to pay taxes must rise", the Finance Minister highlighted some of the reforms carried out over the course of the last four years, which included rationalization of direct and indirect tax rates, expansion of the tax base, modernization of the tax enforcement machinery and other administrative reforms. The Finance Minister also alluded to the economic stimulus package announced in December 2008 and January 2009 for bringing about certain reforms in the tax regime. However, being an interim budget, the Government seems to have abstained from suggesting any changes in the existing direct and indirect tax framework.

Many industrial players have voiced their expectations on the ushering in of sector specific tax incentives and other fiscal reforms through the interim budget. The Government, while noting that tax rates should fall further, has desisted from bringing about any such changes, leaving it for the newly elected government to take such decisions.

One may in fact discern a clear difference in the approach of the Indian Government to reduce taxes, and that proposed by the new Obama-led government in the United States which is poised towards increasing the tax rates. Given that democracies around the world are now directed by the common object to ensure stable growth and development, we will have to wait and see how our policies shall get us there.

- The International Tax Team

DISCLAIMER

The contents of this hotline should not be construed as legal opinion. View detailed disclaimer.

This Hotline provides general information existing at the time of preparation. The Hotline is intended as a news update and Nishith Desai Associates neither assumes nor accepts any responsibility for any loss arising to any person acting or refraining from acting as a result of any material contained in this Hotline. It is recommended that professional advice be taken based on the specific facts and circumstances. This Hotline does not substitute the need to refer to the original pronouncements.

This is not a Spam mail. You have received this mail because you have either requested for it or someone must have suggested your name. Since India has no anti-spamming law, we refer to the US directive, which states that a mail cannot be considered Spam if it contains the sender's contact information, which this mail does. In case this mail doesn't concern you, please unsubscribe from mailing list.

Research Papers

FAQs on Setting Up of Offices in India

December 13, 2024

FAQs on Downstream Investment

December 13, 2024

Gaming Law 2024

December 12, 2024

Research Articles

The Revolution Realized: Bitcoin's Triumph

December 05, 2024

The Bitcoin Effect

November 14, 2024

Acquirers Beware: Indian Merger Control Regime Revamped!

September 15, 2024

Audio

Securities Market Regulator's Continued Quest Against "Unfiltered" Financial Advice

December 18, 2024

Digital Lending - Part 1 - What's New with NBFC P2Ps

November 19, 2024

Renewable Roadmap: Budget 2024 and Beyond - Part I

August 26, 2024

NDA Connect

Connect with us at events, conferences and seminars.

NDA Hotline

Click here to view Hotline archives.

Video

"Investment return is not enough" Nishith Desai with Nikunj Dalmia (ET Now) at FI18 event in Riyadh

October 31, 2024

Analysing SEBI's Consultation Paper on Simplification of registration for FPIs

Scope of judicial interference and inquiry in an application for appointment of arbitrator under the (Indian) Arbitration and Conciliation Act, 1996

September 22, 2024