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Union Budget 2013 expectations: Taxation reforms

Faiz Askari | The SupportBiz Bureau

There is no doubt that the Government of India is aggressively working upon establishing a robust support system for the growth of Indian MSMEs. The allocation of Rs. 5,000 crores to SIDBI to set up the India Opportunities Fund for investments in MSMEs was a step in this direction.

This was announced in the Union Budget 2012, and the MSME sector is hoping to see a continued commitment from the government towards it in the India Budget 2013.

Emphasizing the need for economic growth, Sanjiv Bhasin, General Manager & Chief Executive Officer, DBS Bank Ltd, said, "In this year's budget, I expect the Finance Minister to drive initiatives that address issues which have proven to exercise a detrimental effect on the broad-based economic growth of India. I expect that the budget will feature measures that rein in fiscal deficit, improve trade balances, encourage long-term investment climate, stimulate FDI flows, and have a sustainable effect on reducing inflationary pressures. Fiscal consolidation appears to be the imperative theme, with the focus being on bridging revenue-expenditure gap by expediting the disinvestment process, improving tax receipts, and reducing non-planned expenditure. I believe that these initiatives will also act as a catalyst, and provide support for a benign interest-rate environment, to support the fledgling economic growth."

Representing the telecom industry, Hariharan Iyer, Country Head for India and SAARC, DONJIN Communication Technology, highlighted the need for controlling the customs and import duties. He stated, "All the telecom equipments used in the industry are imported at the current exchange rate, and the custom duties on imports of these materials make these equipments costlier. However, with diminishing margins for the service providers, the expectations from them have also gone lower. The prices of hardware are lower. Hardware does not have the requirement of break-even volume, as is the case in software, since there is a fixed cost of raw materials. The end result is that even if vendors do manage to lower their manufacturing cost, the custom duties and, more importantly, the fluctuating exchange rates keeps the price unchanged for service providers."

He also added, "The Finance Minister should seriously look at custom duties, and come out with policies which can keep the exchange rate in check, so that service providers can become more competitive and provide better applications and management of systems."

Urging the Finance Ministry to ease the taxation structure on the telecom industry, Munish Dhingra, co-founder, Tri-O-Tech Solutions, stated, "If the government is expecting the telecom industry to meet the objectives indicated in the National Telecom Policy of 2012, it is very important to reduce the tax burdens on the industry. This will, ultimately, reduce the tax burden on end users. Service tax is a major component of tax, making survival difficult for the telecom industry, and also making service unaffordable for end users."

Dhingra also added, "We have still not reached 40% tele-density in rural areas, and are far behind in broadband access, which is not even 2%. Today, the government is introducing various schemes, such as subsidies for poor people in rural areas. The success of such schemes will be possible only when there is the reach of communication in the rural areas."

Another promising initiative is the roll-out of goods and services tax (GST), which is expected to gain more clarity soon. While the committee for GST set up by the Finance Minister is now evaluating an alternate model, industrialists would like to see a concrete proposal presented in the upcoming budget.

Khalid Isar, Country General Manager, Alibaba.com, said, “GST can go a long way in improving India’s industrial competitiveness and providing solutions to slowing industrial growth. Initiatives such as these that enable easy access to funds, ensure smoother cash flows, and provide useful training and development tools will help businesses scale up their operations with more efficiency. We hope that the government will initiate programmes that will help make Indian SMEs become more globally competitive, thereby improving export opportunities.”