

FICCI comments on Union Budget 2016-17

**A budget for ensuring economic stability through continuous focus on reforms:
Harshavardhan Neotia, President, FICCI**

New Delhi, February 29, 2016:. Commenting on the Union Budget 2016-17, Mr. Harshavardhan Neotia, President, FICCI said ***“Overall the budget proposals are in line with the development priorities of the nation. The Finance Minister has made a strong attempt to pump prime the rural economy and the infrastructure sector. This would yield dividends and we foresee a multiplier effect in the form of demand generation and employment creation over time. The state of the agriculture sector on account of two consecutive years of monsoon failure was precarious and it deserved the attention that was needed”***.

“Additionally, we see a lot of emphasis on affordable housing segment which will also result in forward and backward linkages and thus propel growth. Sticking to the fiscal framework is another major plus and should offer comfort to the international community. Attempts towards tax simplification and improving the tax litigation framework are also noteworthy”, added Mr. Neotia.

Union Budget 2016-17 presented earlier today has focused on ensuring long term sustainability of the agriculture sector of the economy as it still accounts for nearly half of the population dependent on it for its livelihood generation. ***“By committing itself to doubling farmer’s income in five years, the government has ensured that all steps will be taken that would fortify the viability of the agriculture sector in the coming years. Creation of a Long Term Irrigation Fund, a further push to the Soil Health Card Scheme, incentivising production of pulses, implementation of a Unified Agriculture Marketing Scheme and bringing on board more states to reform the APMC Act are encouraging initiatives. FICCI has been highlighting the importance of these moves for long and is happy to note that these will now be taken up in right earnest by the Government”***, said Mr. Neotia.

In the rural sector, we see the government enhancing allocation under MGNREGS and linking it with asset creation to address the issues of rural and farm distress. Additionally, under the Swacch Bharat Mission, the idea to reward villages that give adequate focus on sanitation. ***“There is a clear link between a healthy society and higher GDP growth as outlined in the Economic Survey and we are happy to see this thought process being carried in the budget”***, added Mr. Neotia. The Digital Literacy Mission Scheme for rural India and the revamping of the National Land Record Modernisation Program will also help strengthen the rural economy.

Taking forward the agenda to extend the social security net, Finance Minister has announced the introduction of new health protection scheme with additional coverage for senior citizens particularly from poor and economically weaker families. The setting up of a Higher Education Financing Agency for supporting improvements in infrastructure in educational institutions and leveraging the strength of Massive Open Online Courses for extending entrepreneurship education and training would help in having a better learning environment for students.

“Another key suggestion from the Economic Survey that mirrors in the budget is the focus on creating new jobs in the formal sector. Towards this the Finance Minister has announced that contribution towards Employee Pension Scheme for the first three years will be supported by the government. FICCI in its pre-budget consultation with the Finance Minister had suggested that contribution to PF and ESI for the first three years particularly for start-ups and SMEs should be contributed by the government and we are happy that a start has been made in this direction”, said Mr. Neotia.

Besides the rural economy, another area where the outlays have been significantly enhanced is infrastructure particularly in roads and highways sector. With private investments still on the side-lines, public expenditure is the key to keep the growth momentum going. Industry expected a major thrust on infrastructure and the Finance Minister has delivered on this front as well. Additionally, the three new initiatives announced for improving the operating framework for PPPs and offering flexibility for review of the contracts under disputes are welcome.

“In the financial sector, even as we take comfort from the fact that the government stands solidly behind Public Sector Banks and remains committed to enhance the capital outlay if needed during the year for recapitalisation of banks, we still feel that the case for a National Asset Management Company (NAMCO) is strong enough for government to consider. Likewise the announcement to consider taking government stake in IDBI bank to below 50% may also be looked at in case of some of the other PSBs where the capital requirements are mounting both on account of stressed assets as well the Basel III requirements”, said Mr. Neotia.

On the tax proposals as laid out in the Union Budget 2016-17, some of FICCI’s suggestions find a reflection in the budget. The measures announced to support start-ups either by way of 100% deduction of profits for 3 out of 5 years or through exemption of tax on capital gains will go a long way in promoting start-up activity in the country that is bustling with entrepreneurial energy. ***“Further, for driving innovation, FICCI had suggested a tax framework similar to the Patent Box regime as applicable in UK. We are glad to note that in this budget the Finance Minister has laid out a special patent regime with 10% rate of tax on income from worldwide exploitation of patents developed and registered in India”***, added Mr. Neotia.

On the phased removal of exemptions and simultaneous reduction in corporate tax rates, FICCI was expecting the government to also indicate a gradual reduction and ultimate phase out of Minimum Alternate Tax (MAT). We hope the government will look into this aspect favourably. Further, while FICCI welcomes the steps initiated to resolve pending litigation at the level of Commissioner (Appeals), we would also like to see measures announced to prevent litigation ab-initio.

The announcement of rationalisation of interest rates on indirect taxes is welcome. The reduction in the rate of interest for delayed payments from 18% (24% and 30% for service tax)

to 15% is a step in the right direction. There is a need to rationalise the rate of interest for delayed disbursement of refunds for indirect taxes just as it has been done in case of direct taxes.

FICCI MEDIA DIVISION



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