



Quick Fixes to Rev Up the Country's Commerce, Trade and Industry

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ABSTRACT

The country's economy is at an inflection point, hopefully promising positive results and thus auguring well for the country's economy. A stable government at the centre and falling energy prices have imparted buoyancy to the capital market, the forex market and by extension, to the economy, to name only a few. The country's commerce, trade and industry look forward to better days after the rather long spell of de-growth apparently ended with the macro-economic figures suggesting that the country's economy did not do as badly as feared and the days ahead augur well for them and the country. But with most businesses reporting weak financials for the quarter-ending December 2014 and the resultant weak balance sheets ruling out investment by them either for capex or greenfield projects, it is time that the government of India chipped in by crowding in investment in the economy. The researcher concludes that the government has to initiate direct tax reforms, withdraw application of MAT to SEZs, see eye to eye with MNCs on issues like taxation, create an intermediary between trade and industry on the one side and the revenue on the other side and tap sources other than tax to raise revenue which can be used to fill the investment breach occasioned by the weak balance sheets of India Inc, amongst other things. Unbelievably, the government has failed to realise that the solution to the problem could be lying right in its own backyard!

KEYWORDS

Basel III, BEPS, MAT, MNCs, OECD, PSBs, PSUs, SEZs, transfer pricing.

INTRODUCTION

A change in government at the centre, assurance of stability triggered by the massive mandate accorded to the political party helming the government at the recently-concluded elections to the parliament and falling energy prices have imparted buoyancy to the capital market, the forex market, the economy and what have you. With their hopes renewed, the country's commerce, trade and industry look forward to better days after the rather long spell of de-growth apparently ended with the macro-economic figures suggesting that the country's economy did not do as badly as feared, after all. This is an opportune time to dispose of such sick PSUs since the proceeds can be immediately put to superior use by it. It can reduce its stakes in the public sector banks (PSBs) to 26 percent, the proportion required to block resolutions inimical to its interests. Further, this will also help the government infuse more capital into PSBs consequent upon the need for PSBs to adhere to Basel III norms. It has to ensure that the reporting requirements for filing tax returns conform to BEPS of OECD in the case of MNCs, at least in the medium term, if not in the short term, to promote foreign investments in the country. This will help in tackling transfer pricing issues in a manner that is satisfactory to the MNC concerned and the revenue.

STATEMENT OF THE RESEARCH PROBLEM

With most businesses reporting weak financials for the quarter-ending December 2014 and the resultant weak balance sheets ruling out investment by them either for capex or green field projects, it is time that the government of India chipped in by crowding in investment in the economy. Fortunately, its current account deficit (CAD) has become less of a burden thanks to falling oil prices, permitting it to consider ways and means of raising revenue leading to investment in infrastructure. If an economy as huge and as varied as India's has to be revved up after a prolonged period of stagnation for whatever reason, several steps have to be initiated, all at once, in all directions. Given the difficulties involved in firing on all cylinders immediately, it makes eminent sense to put in place a few quick fixes and follow them up with long-term solutions after a breather.

REVIEW OF LITERATURE

The Reserve Bank of India (RBI) will likely tweak priority sector lending (PSL) norms for banks by broadening the definition and including certain infrastructure loans (fe Bureau, 2015). Bankers have requested the RBI to take a relook at the norms and consider including loans given for the purpose of setting up rural infrastructure, such as rural roads, dams, warehouses and canals.

The Tax Administration Reforms Commission led by Parthasarathi Shome has asked the government to drop 23 pending tax disputes involving capital transactions similar to the controversial Shell and Vodafone tax cases, which the government has decided not to pursue beyond the high court (fe Bureau, 2015). In a set of recommendations Shome has suggested the finance ministry should launch a "special drive" to liquidate all tax disputes pending at department level for more than a year.

RESEARCH GAP

Well, the reviewed literature has hit the nail on the head. The country's tax department has incurred the wrath of investors, domestic as well as foreign, by resorting to what is called "tax terrorism" in industry circles. To make matters worse, many infrastructure projects are stuck for no fault of the promoters and unbelievably, for some fault of the government. The latter failed to provide the promised fuel linkages to the projects that involved huge outlays. The failure of the projects to take off led to time and cost overruns and hurt the finances of the banks that had financed these projects. This in turn left the banks concerned short of lendable funds to cater to the needs of fresh projects. . These are the gaps the present study seeks to fulfill and the reviewed literature does not cover adequately.

SCOPE OF THE PRESENT STUDY

The study confines itself to industrialists and consultants based out of Bangalore city.

OBJECTIVES OF THE STUDY

The objectives of the study are to:

1. Ascertain the quick fixes required to rev up the country's commerce, trade and industry.
2. Identify the measures needed to streamline the direct tax system
3. Identify the other options available for the government to

raise the revenue.

HYPOTHESIS PROPOSED TO BE TESTED

The study proposes to test the following hypotheses:

“Application of MAT to SEZs amounts to the government going back on its word”

RESEARCH METHODOLOGY

Research Design

The study is descriptive in nature and has used the ‘fact-finding’ survey method Sources of data Primary data has been collected from the respondents, viz., industrialists (50) and consultants (30). Secondary data has been collected from portals and the financial press

Sampling plan

Industrialists: Convenience sampling under the non-probability sampling method was deployed to select the industrialists since there was no feasible alternative. Time constraints and the time limit for completing the study ruled out probability sampling. Duly completed Interview Schedules were collected from 50 respondents.

Consultants: Convenience sampling under the non-probability sampling method was deployed to select the financial consultants since there was no feasible alternative. Time constraints and the time limit for completing the study ruled out probability sampling. Duly completed Interview Schedules were collected from 30 respondents.

Data collection instruments

Interview schedules were administered to the respondents for collection of primary data.

Data processing and analysis plan

Non-parametric statistical units were used to test the association between some qualitative characters and conclusions were drawn on the basis of formation of H_0 and H_1 .

LIMITATIONS OF THE STUDY

Primary data has sometimes been deduced through constant topic-oriented discussions with the respondents. It is possible that a certain degree of subjectivity has influenced their views.

QUICK FIXES TO REV UP THE COUNTRY’S COMMERCE, TRADE AND INDUSTRY

The respondent’s replies to the query appear in the following Tables.

Table-1
Quick fixes to rev up the country’s commerce, trade and industry

Quick fixes	Number of respondents
Streamline the direct tax system	43
Government should raise revenue by considering other options	41
Bring more activities under priority sector lending	39

43 respondents suggest that the tax system be streamlined. 41 suggest that the government raise revenue by considering other options. 39 suggest that more activities be qualified for the purpose of priority sector lending.

Table-2
Measures to streamline the direct tax system

Measures	Number of respondents
Government’s collection target should be commensurate with the growth projections made by trade , industry and the service sector	43

MAT on SEZs should be rolled back since it amounts to the government going back on its word	43
An enlightened and neutral interface comprised of consultants and experts should interpose itself between the industry and revenue	41
Tax officers should be stripped of quasi-judicial powers	40

Table-3
Other options with the government to raise the revenue

Options	Number of respondents
Liquidate residual shares of the government in private enterprises	41
Take up strategic sale of loss-making PSUs	41
Speed up disinvestment	40
Reduce the government’s stake in public sector banks to at least 51 per cent.	34

Table-4
Qualifying other activities for priority sector lending

Other activities	Number of respondents
Advances to improve rural roads, warehouses, etc, should qualify as PSL	39
Advances to improve / install infrastructure should qualify as PSL	39
Advances to renewable energy projects should qualify as PSL	33

Table-5
Quick fixes to rev up the country’s commerce, trade and industry

Quick fixes	Number of respondents
Government should raise revenue by considering other options	30
Streamline the direct tax system	28
Bring more activities under priority sector lending	24

Table-6
Other options with the government to raise the revenue

Options	Number of respondents
Monetize the surplus land with railways, port trusts, etc and invest the proceeds in infrastructure	30
Realise the full potential of direct benefit transfer	30
Take up strategic sale of loss-making PSUs	27
Speed up disinvestment	27

Table-7
Measures to streamline the direct tax system

Measures	Number of respondents
MAT on SEZs should be rolled back since it amounts to the government going back on its word	28
The reporting requirements for filing tax returns should conform to BEPS of OECD in the case of MNCs	28
Transactions devoid of commercial character should be denied tax benefits under the domestic law	26

GAAR should not be used as a tool for posturing	25
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Table-8
Qualifying other activities for priority sector lending

Other activities	Number of respondents
Advances to improve rural roads, warehouses, etc, should qualify as PSL	24
Advances to improve / install infrastructure should qualify as PSL	24
Advances to renewable energy projects should qualify as PSL	21
Drop agriculture and allied activities from the PSL basket	19

HYPOTHESIS TESTING

Hypothesis:

“Application of MAT to SEZs amounts to the government going back on its word”

Hence H_0 and H_1 are as follows:

H_0 : Application of MAT to SEZs does not amount to the government going back on its word

H_1 : Application of MAT to SEZs amounts to the government going back on its word

On the basis of the primary data collected from the respondents, vide Tables: 2 and 4, a chi-square test was applied to ascertain the association, if any, between the two variables. The following Table reveals the computation made using MS-Excel:

Observed Values			
Category	Yes	No	Total
Industrialists	43	7	50
Consultants	28	2	30
Total	71	9	80
Expected Values			
Category	Yes	No	Total
Industrialists	44.375	5.625	50
Consultants	26.625	3.375	30
Total	71	9	80
	Yes	No	
o-e	-1.3750	1.3750	
	1.3750	-1.3750	

(o-e)^2	1.0000	1.0000	
	1.0000	1.0000	
((o-e)^2)/e	0.0225	0.1778	
	0.0376	0.2963	
CV	0.0601	0.4741	0.5342
TV			3.8415
P			0.9083

The calculated value of χ^2 is 0.5342, lower than the table value of 3.8415 for an alpha of 0.05 at one degree of freedom. Hence the null hypothesis is accepted.

In other words, application of MAT to SEZs does not amount to the government going back on its word

RECOMMENDATIONS

The following are the researcher’s recommendations:

- ✓ Government’s tax collection target should be as close to ground reality as possible. For example, if trade, industry and the service sector are not going to perform well during a fiscal year owing to reasons beyond their control (systemic risks), it is but natural that the government too brings down its tax collection target. This target can be forecast as close to the actual figure as possible by correlating the projected tax figures with the performance figures of trade and industry as projected by the respective trade body / industry association.
- ✓ Application of MAT to SEZs amounts to going back on a sovereign commitment, almost. It sows the seeds of suspicion in the prospective investors’ minds. Hence the government had better restore the status quo ante vis-a-vis the application of MAT to SEZs.
- ✓ The reporting requirements for filing tax returns should conform to BEPS of OECD in the case of MNCs, at least in the medium term, if not in the short term, to promote foreign investments in the country. This will help in tackling transfer pricing issues in a manner that is satisfactory to the MNC concerned and the revenue.
- ✓ An interface comprised of tax consultants and tax experts had better be created as an intermediary between trade and industry on the one side and the revenue on the other side. This will help in bringing down litigation and ensure objectivity in all the tax –related issues that crop up regularly in the country. For this to happen, it is necessary to first ensure that the tax officers are stripped of quasi-judicial powers.
- ✓ Given the weak balance sheets of India Inc, it is time the government of India crowded in investment by leading from the front. It has to raise resources at this crucial juncture by all means so it can invest the raised resources in the infrastructure of the country.
- ✓ It is not as if the government has to depend upon only taxes to raise resources. It can to liquidate the residual shares it still holds in private sector companies. With market valuations of these stocks ruling attractively high these days, this is the right time for the government to offload its residual stakes in the said companies. Such an opportunity may not arise at all in future. And never did the govern-

- ment need the money as badly as it needs now.
- ✓ Government has to unlock the value hidden in resources like land it owns. For example, the railways and port trusts own huge tracts of land which are lying idle now. Government can monetise the said tracts of land and use the proceeds realised to invest in infrastructure projects that badly need capital now. As explained earlier, many such huge infrastructure projects have suffered cost overruns owing to delay in issue of clearances by the various government agencies.
 - ✓ Government has to dispose of the sick PSUs it still owns. This is an opportune time to dispose of such sick PSUs since the proceeds can be immediately put to superior use by the government. Apart from eroding its capital base (read, the taxpayers' money), such sick PSUs become a financial burden for the government before long. In the circumstances, it is advisable for the government to take up strategic sale of such PSUs.
 - ✓ The government also has to reduce its stakes in the public sector banks (PSBs) to 51 percent. In fact, the researcher would go a step further and suggest that it reduce its stakes in PSBs to 26 percent, the proportion required to block resolutions inimical to its interests. With banking stocks doing well at the capital market, the government can realise much more than it has ever bargained for by unlocking the value of its stakes in PSBs. Further, this will also help the government infuse more capital into PSBs consequent upon the need for PSBs to adhere to Basel III norms.
 - ✓ In fiscal 2015, the government has, even by its own standards, made some significant progress in the area of disinvestment. But, the government takes disinvestment seriously only when the fiscal year is about to end. This is unfortunate. It has to be an ongoing exercise for the government. In particular, when the capital market is buoyant, the government should step on the gas pedal to fulfil its disinvestment target for the year. Any delay on its part may prove costly since the valuations may become less attractive sooner rather than later. Hence the government will do well to speed up the disinvestment exercise.
 - ✓ The concept of priority sector lending came into being in the 1970s. The intention at the time was that agriculture, being the country's primary sector in terms of its contribution to the GDP and its ability to keep rural India employed, should be promoted aggressively. Banks and other formal financial institutions were therefore mandated to fund the requirements of agriculture and allied activities, the small-scale industries, the exports sector, etc, at competitive interest rates on a priority basis. Agriculture accounted for 75 percent of the country's GDP at the time. Today, agriculture hardly accounts for 13 percent of the country's GDP. Hence the activities that qualify for priority sector lending have to be redefined in keeping with the ground realities. The so-called agricultural labourers have been migrating to semi-urban and urban pockets in search of factory jobs. In other words, their dependence on agriculture and allied activities has come down drastically and agriculture no longer creates jobs as it used to, in the past.
 - ✓ India has been focusing on renewable energy projects given its massive dependence on imports for its energy requirements. Presently, energy prices are pleasantly affordable but before long, they may go up again and hover around USD 100 levels. India's fossil fuel reserves are nothing to write home about and hence the need to focus on development of renewable energy projects hardly needs any emphasis. To promote investment in renewable energy projects makes eminent sense. The researcher therefore

suggests that the government include renewable energy projects in the basket of activities that qualify for priority sector lending.

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