THE HINDU Business Line

Date: 28-Jun-2009 Edition: Hyderabad Page No: 4 Page Name: International

Taxes must be rationalised

The Government should push economic recovery by rationalising taxes, making a strong statement on economic reforms and increasing its focus on strategic areas such as infrastructure.

Infrastructure spending at 6 per cent of GDP remains much lower than the requirement of about $500 billion till 2012. About 20-25 per cent of the capital cost in the sector is due to various levies — excise, VAT, CST and service tax. Reduction and rationalisation of these would provide a good fiscal incentive.

Also important are strengthening the long-term fund market by easing restrictions on foreign capital, pursuing pension and insurance sector reforms and an incentivised approach towards institutions financing projects. Stimulating demand should continue to remain the focal point.

There appears to be further scope to increase income-tax exemption limits, reduce excise duties on key product groups, and rationalise the incidence of taxation by doing away with some of the surcharges and cesses.

The incidence of taxation on household purchases remains around 45 per cent which indicates that there is room to put more money in the hands of the consumer.

While in times of economic slowdown, some flexibility is required on the fiscal front, a large fiscal deficit remains problematic for various reasons.

Fiscal deficit inclusive of oil and fertiliser subsidies stood at round 7.6 per cent of GDP in FY09.

While revenue growth could slow significantly in FY10, other revenue sources could be tapped. Divesting of a minority stake in PSUs by tapping capital markets could be one such source. The potential of such divestment of minority stake in listed PSUs is around Rs 4.5 lakh crore.

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