Union Budget 2011-12: Bold and Visionary

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Finance Minister Pranab Mukherjee's Budget proposals for the financial year 2011-12 laid down a roadmap, which was clearly seen to be inching towards growth rather than treading on a feared track of withdrawal of the stimulus package. To that extent, I must say, it was a clear relief. All the trade bodies had, in no uncertain terms, conveyed it to the Government that any withdrawal of incentives provided under stimulus could be counter-productive under the prevailing global uncertainties. It was not accidental that Pranabda started his Budget speech by saying, "In a globalised world with its share of uncertainties and rapid changes, this year brought us some opportunities and many challenges as we moved ahead with steady steps on chosen part of fiscal consolidation and high economic growth."

Pending reading of the fine print, which would take sometime, the general reception of the Budget proposals, has been one of welcome, though not quite warm.

Describing Pranab Mukherjee's Budget 2011-12 as a "balanced effort to maintain the growth momentum", Rajan Bharti Mittal, President, FICCI said that the Finance Minister has presented a forward-looking budget at a time when the global economy was still looking fragile. He pointed out that in the greater interest of economic growth; the Finance Minister has avoided the temptation of raising excise duties, as was widely feared. "The Finance Minister seems to be banking on the economy going well and therefore has placed his hopes on revenues rising on the back of overall higher growth of the economy." He added that the Finance Minister has also announced steps for roll out of the GST and DTC. These will create a favorable environment for the corporate sector. While the reduction in the surcharge on corporate tax from 7.5 per cent to 5 per cent would only marginally reduce the tax burden on the corporate, the FICCI president said that the surcharge and education cess should have been totally abolished. In this context, he emphasized that in the competitive global business environment, the corporate tax rate should have been in the vicinity of the global average rate of 24.99 per cent.

ASSOCHAM described the proposals of Union Budget for 2011-12 as positive and encouraging. The budget opts for bringing more services under the tax net and sets a clear direction for rolling out the Direct Tax Code from April 1, 2012, said its President Dilip Modi. There is no major increase in service tax and excise duties in view of buoyancy in Government revenues. However, all special economic zones have been brought under minimum alternate tax which may prove to be a dampner, he said.

Textiles and Garments Re-emerge in Budget

First of all, I must thank Hon'ble Finance Minister has made a departure-the first of its kind ever since UPA-I and UPA-II took over-by including the words "textiles" and "garments" in the Budget proposals, which have been missing ever since UPA took over the Government.

Nearer home, we may take a look at how the Budget proposals for 2011-12 would impact the textile and garment industry in general and their exports in particular.

The salient features of the Budget Proposals are as follow:

Exports:

i) Reduction of Transaction Cost

As our readers are aware that a Task Force on Transaction Cost has been constituted by the Department of Commerce, which had submitted its report recently in which 23 recommendations were made. (Of these, 21 suggestions are reportedly have already been implemented and action is to be taken on the remaining two suggestions. This will reduce the Transaction Cost by ₹2,100 crore.

ii) Self Assessment of Customs duty allowed

To quicken the clearance of the cargo by Customs authorities and further modernize the Customs administration, self-assessment in Customs has been allowed. Under this, the importers and exporters will themselves assess their duty liabilities while filing their declarations in the EDI system. The Department will verify such assessments on a selective system driven basis.

iii) Refund of Taxes paid by Exporters

There have been considerable difficulties in the sanction of refunds relating to tax paid on services used for export of goods. To alleviate these difficulties, a scheme is proposed to be introduced for the refund of these taxes on the lines of drawback of duties in a fore more simplified and expeditious manner.

iv) Mega Cluster Scheme to be extended for leather products. Seven mega leather clusters to be set up during 2011-12.

v) Jodhpur to be included for the development of a handicraft mega cluster.

Indirect Taxes

GST TO STAY ON COURSE

The Budget Proposals have reiterated "To stay on course for transition to GST."

Customs Duty

India has a long term commitment to align its Customs duty rates to those prevailing in ASEAN countries. The peak rate of Customs duty has been reduced over the years and has settled at 10per cent. In view of the continued uncertainties in the global economy, Central Excise Duty has been maintained at standard rate of 10 percent with some modifications, as spelled out hereunder:

1. Central Excise Duty to be maintained at standard rate of 10 per cent.

2. Reduction in number of exemptions in Central Excise rate structure.

3. Nominal Central Excise Duty of 1 per cent imposed on 130 items entering in the tax net.

4. Lower rate of Central Excise Duty enhanced from 4 per cent to 5 per cent.

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6. Optional levy on branded garments or made up proposed to be converted into a mandatory levy at unified rate of 10 per cent

7. Peak rate of Custom Duty held at its current level.

Service Tax

The actual collections of Service Tax do not reflect the full potential of this sector. While retaining the standard rate of service tax at 10%, the Budget Proposals seek to achieve a closer fit between the present Service tax regime and its GST successor by bringing in a few new services into the tax net to expand the tax base while ensuring that the impact is predominantly on sections of society that have the ability to pay. The Service taxes proposed are:

On hotel accommodation in excess of declared tariff of ₹1000 per day with an abatement of 50% so that the effective burden is only 5% of the amount charged.

Service tax on domestic air travel at the rate of ₹50 and ₹250 on international journeys by economy class. Tax on travel by higher classes on domestic sector will be levied at the standard rate of 10% to bring it on par with the journeys by higher classes on international air travel.

The number of assesses in Service tax has grown manifold. A large number of them comprise individuals or sole proprietors with small turnovers. Any audit at their premises tends to dislocate their activities for the duration of the audit. The Budget proposes to free all individual and sole proprietor tax payers with a turnover up to ₹60 lakh from the formalities of audit. This will give relief to a large number of tax-payers. The Budget also intends to give all assesses with a turn over up to ₹60 lakhs the benefit of 3 percent points in interest on delayed payment.

To encourage voluntary compliance the penal provision for Service Tax are being rationalized. Similar changes being carried out in Central Excise and Custom laws.

Export Promotion

India aims at take to speedy road to advance fast and further in the world trade seeks to double its exports by the year 2014-15. In order to achieve this target, the Budget Proposals have provided for:

1. The list of specified goods, allowed to be imported duty free for use in the manufacture of leather goods for export is being expanded.

2. The list of specified goods, allowed to be imported duty free for use in the manufacture of textile and leather garments is being expanded by including anti-theft devices like labels, tags and sensors therein.

3. Description of some items is being changed in the list of items that are allowed to be imported duty free for manufacture of textile or leather garments and other leather goods for export.

4. Benefit of duty-free import on trimmings, embellishments, components etc. for manufacture of leather goods, footwear and textile garments is being extended to merchant exporters subject to certain conditions.

5. Specified tools used in the handicrafts sector are being included in the list of specified goods, allowed to be imported duty free to Handicraft exporters.

Support to Handloom Weavers

Handloom weavers have been facing economic stress. Consequently, many of them have no been able to repay debts to handloom weaver co-operative societies which have become financially unviable. The Budget Proposals propose to provide ₹3,000 crore to NABARD in phases for these co-operative societies. The initiative would benefit 15,000 cooperative societies and about 3 lakh handloom weavers. The details of the scheme would be worked by the Ministry of Textiles in consultation with Planning Commission.

Industry Reaction

Welcoming the Union Budget 2011-12, Ramu S Deora, President, Federation of Indian Export Organisations (FIEO) said that Budget provides a vision to Indian economy and rightly focuses on agriculture and infrastructure besides exports for long term interest of the country. He said that many of FIEO suggestions have been accepted by the Finance Minister including reduction of Customs Duty on raw silk, textiles intermediate, inputs for chemicals sector which will add to competitiveness of these sectors. Extension of Mega Cluster Scheme to 7 such clusters in Leather and one in handicraft will promote exports of these labour intensive sectors which are back on track after slowdown in 2009-10, said FIEO Chief.

FIEO recommended providing “All Industry Service Tax Refund” for Services used during the course of exports which has also been accepted. The Finance Bill has amended Section 75 of the Customs Act so as to pave the way for giving exemption to refund of duty drawback in case of genuine defaults. Deora. appreciated the move to allow self-assessment both for imports and exports which will greatly reduce transaction time and cost and will help the country to improve its ranking in” Trading Across Border” segment of “Doing Business 2012” Report. While complimenting the Government for increasing interest subvention for agriculture to 3%, Deora suggested re-looking into grant of interest subvention for exports sector particularly for SME sector as the cost of credit has already gone up substantially with the adoption of base rate and interest rates are further looking northward.

However, AEPC has a different take on the subject. The Budget 2011 has left the garment export industry under severe shock with the announcement that the optional excise duty regime has been converted into mandatory route at a unified rate of 10 per cent for branded garments or made-ups, says AEPC. The Budget has proposed an excise duty of 10% across all branded garments. The provision is aimed at bringing the branded readymade garments under the Excise net. Earlier, the Excise duty on branded apparel was voluntary. But with this announcement, henceforth, the branded apparel manufacturer will have to mandatory pay the excise duty of 10%. Said Premal Udani, Chairman of Apparel Export Promotion Council, "Under the new regime as suggested by this Budget, though CENVAT credit of inputs and services would be available and exports would continue to be zero rated, the factories will have to register themselves with Central Excise, increasing the net transaction and administrative costs. This will severely impact industries with higher requirements of outsourced processing and other services like the knitwear industries, embroidered or other value added garments."

With this new regime, the garment exporting units in Tamil Nadu and West Bengal will be badly hit. Tamil Nadu, as a whole, provides around one fourth of India's garment exports. Given the complex value chain, it is requested that garment export industry should be provided with optional excise duty regime as given earlier to protect large number of units. Udani added further, "The industry is thankful for the reduction in custom duty for technical yarn and other inputs announced in the Budget, but will require the flexibility in Excise duty to improve its value addition capabilities and in–time deliveries to global markets."

Expressing disappointment for lack of any special provision for the garment sector in Budget proposals for 2011-12, Rakesh Vaid, President, Garments Exporters Association regretted that the Budget has proposed to convert the optional levy into a mandatory levy at a unified rate of 10 per cent for readymade garments and made-ups of textiles which were earlier under an optional excise duty regime, which would adversely affect the garment sector of the textile industry. Although, CENVAT credit of inputs and services would be available, the garment factories will now have to register themselves with central excise, increasing the transaction and administrative costs. It would also lead to unnecessary harassment and delays in handling time bound export shipments, said Vaid. Although, the Finance Minister has dexterously handled the tedious task of striking a balance between the needs of development and social and political compulsions of the UPA Government and the present economic situation, the exporting community feels being left in the lurch without an adequate fiscal relief in the Budget proposals.

Vaid pointed out that GEA Pre-Budget recommendations requesting the Government to grant necessary fiscal and commercial relief to garment sector of the textile industry have not received favorable response in the Budget proposals announced by the Union Finance Minister. Garment Exporters were in fact expecting major policy initiative and adequate fiscal relief to enable them to overcome the present crisis being faced by them. The Budget proposals are therefore, very much short of exporting community expectations. However, he welcomed the proposals to reduce the basic Customs duty on certain textile intermediates and inputs and specified inputs for manufacture of certain technical fibre and yarn. He has also welcomed the proposal to introduce scheme for refund of taxes paid on services used for export of goods and new initiatives to reduce the transaction time and costs for exporters as recommended by the Task Force on Transaction cost in Exports.

Our Views

The Finance Minister Pranab Mukherjee must be credited with providing Budget Proposals that are positive and have a growth vision yet based on the ground realities. He started his Budget Speech by referring to "globalised world with its share of uncertainties and rapid changes", which is what was the main burden of our Cover Story in the previous issue, where we had captioned and concluded our assessment on Budget Expectations by saying that the "Balance Lies in Continuity" after taking into account the uncertainties that surround the world. His decision not to withdrawal the incentives provided in Stimulus Packages was prudent.

In fact, he has gone beyond the usual rut of accepting humungous demands being made on him by a number of lobbies including those of trade bodies, who roll out a long but not necessarily well thought out wish-lists. He has taken bold steps like reduction in transaction costs and self assessment of Customs duty, which a few could conceive, was likely. The Budget Proposals also speak of “considerable difficulties in the sanction of refunds elating to tax paid on services used for export of goods and promised to shortly introduce a scheme for the refund of these taxes on the lines of drawback of duties in a far more simplified and expeditious manner. He has also reiterated that GST will stay on course and pronounced it with actions, as stated above. A more valid comment on the proposal to withdraw the exemption on 130 of such items that enjoy exemption from the Central Excise duty, but are chargeable to VAT, will be justified on going through the details, though a nominal Central Excise of 1% seems reasonable.

The Finance Minister has also taken a benign view of the problems being encountered by individuals or sole proprietors with small turnovers, by exempting them from formalities of audit.

We have been highly critical of inaction on the part of the Government from time to time; be it on the Budget Proposals or announcement of Foreign Trade Policy, but always with justification, but we are equally unequivocally recorded our deep sense of appreciation of the policy formulation this time, notwithstanding what different angularities might pronounce. We give him eight out of ten marks for these Budget Proposals for 2011-12 which are marked for their vision, dare and commitment to growth.

The views presented in article are of the author; based on the latest verdict of Budget 2011-12