Restore Exemption on Interest on ECBs & Exemption of Interest Income of Infrastructure Capital Funds: FICCI President to Revenue Secretary

Calls for Caution in Stimulus Roll Back & Tinkering with Excise, Customs, Service Tax Rates

NEW DELHI, December 8, 2010. In a bid to accelerate the pace of economic growth, FICCI has called upon the Finance Ministry to lower the cost of borrowing for industry and make raising of capital for investment in critical infrastructure projects. This should be achieved by restoring the exemption on interest in foreign commercial borrowings and restoring the exemption of interest income of an infrastructure capital fund/infrastructure capital company from investments in approved infrastructure and other projects to enable them to provide loans at a lower rate of interest.

In a pre-Budget meeting today with the Revenue Secretary, Mr. Sunil Mitra, the FICCI President, Mr. Rajan Bharti Mittal, cautioned the Government against rolling back the stimulus packages in the ensuing Budget in view of the looming threat of a double dip recession and another slowdown in western countries. He also emphasized not to tinker with the existing rates of excise and customs duties and service tax.

Mr. Mittal pointed out that owing to inversion in duty structure, corporates are faced with enormous cenvat accumulations which cannot be utilized by way of modvat. “We have to evolve a suitable mechanism to refund the same”.

He said Surcharge and Education cess have complicated the tax structure and needs to be withdrawn. The Government, he said, should allocate a part of Direct Taxes collection for educational projects, instead of having a separate levy by way of education cess.

The FICCI President said that the cascading impact of Dividend Distribution Tax (DDT), which has been causing great anxiety, should be avoided. It is well recognized that multi-layered corporate subsidiaries are key to corporate financial restructuring and engineering in today’s global business environment. The Finance Act, 2008, did provide a partial relief, by allowing holding company not to pay DDT on dividends received from its subsidiary company on which the latter has paid the DDT. The said deduction benefit should be extended and the amount of dividend on which DDT has been paid at the first level should be allowed to be reduced in the hands of each subsequent level of holding-subsidiary relationship. The ideal solution, he said, would be to revive section 80M, which was in force till March 2004.

About the investment-linked incentive, Mr. Mittal suggested allowing the losses of specified business of the assessee to be set-off/carry-forward from his other businesses, instead of restricting it to only from specified business.

He said that private sector investment in agri-infrastructure should be eligible for 200% weighted deduction as is the case with investment in R&D. The benefit should also be available for investments made in agri-R&D and extension services provided to the farmers.

He urged the Finance Ministry to avoid Retrospective Amendments entailing financial implications. At the bare minimum, demands created in respect of previous years arising from the retrospective effect of the amendments, should not attract penalty proceedings, as also completed assessments not reopened.

The 9-member FICCI delegation led by Mr Rajan Bharti Mittal, FICCI President, included Mr Ashwin Dani, Vice President, FICCI & Vice Chairman, Asian Paints Ltd.; Mr Yogendra Kumar Modi, Past President, FICCI and Chairman & CEO, Great Eastern Energy Corporation Ltd.; Mr Gaurav Taneja, Chairman, FICCI

Taxation Committee & National Tax Director, Technology, Communications & Entertainment, Ernst & Young Pvt. Ltd.; Mr O P Lohia, FICCI Executive Committee Member and Managing Director, Indo Rama Synthetics (I) Limited; Mr Shivinder Mohan Singh, FICCI Executive Committee Member and Managing Director, Fortis Healthcare Ltd; Mr Sanjay Bhatia, FICCI Executive Committee Member and Managing Director, Hindustan Tin Works Ltd.; Dr Amit Mitra, Secretary General, FICCI; and Mr S B Gupta, Advisor – Taxation, FICCI.

The members of the delegation also made the following suggestions:

- **The rate of Income tax for companies** be reduced to 25 percent to make it compatible with the global average corporate tax rate of 24.99 percent (average of 114 countries in 2010).
- **The maximum rate of 30 percent for individuals** be made applicable over an income of Rs.12 lakh, instead of Rs.8 lakh at present, to make it again compatible with other countries where peak rate is attracted at considerably higher income slab.
- **Minimum Alternate Tax (MAT)** should be a specified percentage, say 50 percent, of the basic corporate tax rate. That means, it should be 15 percent based on the current corporate tax rate of 30 percent.
- **ESOPs** should not be subject to tax on notional perquisite value and taxed only on capital gains arising from the sale of shares, as was the position till 31st March, 2006.
- **Profit Linked Incentives** given for infrastructure, power and other crucial sectors be continued till the end of 12th Five Year Plan or at least till 2014.
- **Tax Treatment of Foreign Dividends and Capital Gains** – Our taxation law must provide that dividends received from as well as capital gains arising on the sale of shares in foreign companies in which an Indian company has an equity holding of 10% or more, will be tax exempt or concessionally taxed. This will encourage repatriation of dividend income of our subsidiaries overseas. In other words, we should evolve **participation exemption mechanism** as is in vogue in other countries.
- **Housing** – A critical issue with the people of this country. Hence, there is a need for strengthening the financial incentives for investment in one residential house property, by way of increased quantum of reduction for interest on loans taken for acquisition of house property, deduction under section 80-C on repayment of housing loan. Also, the realty firms be encouraged through fiscal incentives to construct small dwelling units at affordable prices.
- **Renewable Energy** projects should be promoted, given special status and brought under priority lending sector so that more and more entrepreneurs get involved in the promotion and use of renewable energy. Government should come with Green Infrastructure Bonds, which can provide funds to the Renewable Energy. 100 per cent depreciation be provided to industries installing solar systems. 2 per cent interest subvention currently available to certain export products, be also made available to the solar sector.
- **Exploration & Production of Mineral Oil and Natural Gas -** Tax holiday benefit under section 80-IB (9) with regard to natural gas should be made applicable for all pre and post NELP rounds as well as for Coal Bed Methane (CBM) blocks.
- **Tyre** – The Custom duty on Natural Rubber, which has remained unchanged for over a decade should be reduced from 20 per cent to 7.5 per cent. The customs duty on tyres already stands reduced to 10 percent.

- **Cement** - Excise Duty on Cement be at ad-valorem rate of 8%, with abatement of 55% as recommended by NCAER.
- **Telecom** – The new telecom companies should be made eligible for tax holiday benefit. Also, a single taxation regime for telecom sector be introduced to make the tax structure hassle free and investor friendly.
- **Healthcare** - In view of huge capital outlay for setup, typically hospitals may take 4-5 years to break-even, it is therefore important to extend the tax holiday period to 10 years (at present 5 years) or grant an option to the hospitals to select five consecutive years from initial 10 years of commencement.
- **Education** - Government should formulate a national policy for PPP initiatives in the higher education sector outlining standardized institutional arrangement across the country, and autonomy, commitment and responsibilities of both partners. Encourage private sector to set up Higher Educational Institutions (HEIs) as a Section 25 company. Currently, certain key regulatory bodies – AICTE, UGC etc. do not recognize a Section 25 company as a permissible form of organization to house HEIs, which may not be desirable.
- **Government should also provide 125% weighted tax deduction to all endowments to recognized universities. This wound encourage private sector to contribute financial resources to the universities for non-research purposes as well.**
- **Environment/Climate Change** - **100% income tax exemption equivalent to investment in Effluent Treatment Plant or Solid Waste Processing Facilities should be provided.** We should also create a fund for climate change, to enable Technology Upgradation and assistance to units to switchover to cleaner technology.
- **Service Tax** - To avoid cascading impact, and to be equitable, ensure that what is taxable by way of excise / VAT as goods / deemed goods, is not again subjected to service tax. In this context, service tax on Information Technology Software and on Copyrights, etc. is unwarranted, as these are already subject to excise / VAT and hence resulting in double taxation causing great hardships to the industry.
- **Small and Medium Enterprises (SMEs) -** SMEs are the backbone of our manufacturing sector. It is important to Upgrade the technology of this sector in order to compete with imports, and for this Create a Technology Acquisition Fund to enable SMEs to acquire technologies, wherever available.

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