Fiscal consolidation remains the key challenge

Bringing down fiscal deficit will require strong course corrections

New Delhi, Mar 13, 2012: Declining receipts, sticky expenditure, stubborn deficit and a revival in growth prospects remains the key challenge for the Government, as it prepares to unveil the Union Budget for 2012-13. Based on detailed Government revenue expenditure trends, FICCI estimates that the fiscal deficit in 2012-13 may be close to 5.2% of GDP as compared to a likely FD of 5.7-5.8% of GDP (FICCI projections) in 2011-12. However, FICCI believes that the Government will possibly peg the fiscal deficit at below 5% of GDP in the next fiscal. But for that to be achieved, apart from fiscal consolidation, the Government may have to resort to some revenue mobilisation measures that may be one off in nature.

It may be recalled that in 1997, the Government had mobilised Rs 10,000 crores through VDIS scheme. Interestingly, FICCI research shows that a revenue mobilisation of Rs 40,000 –Rs 50,000 crores and upwards will bring down the fiscal deficit from 5.2% (as estimated by FICCI) to below 5% in next fiscal. Alternatively, the Government can hope for some buoyancy in non-tax revenue through 2G /4G. We therefore believe that clearly there is some food for thought for the same.

As per FICCI estimates, the total gross government borrowings based on the estimated deficit in the next fiscal may be close to Rs 5.4 lakh crores. The net government borrowings may be upwards of Rs 4.5 lakh crores (Rs 4.3 lakh crores in current fiscal). This implies that both the private sector and the Government will compete for funds and the liquidity may continue to pose a hindrance. This requires all the more efforts by the Government to reign in the burgeoning fiscal deficit.

FICCI believes that an increase in indirect taxes will be inflationary, and the Government should, therefore, avoid taking that route. At the same time, it is important that we must strive to expand our direct tax base now. As a case in point, consider the following facts. The total no of assesses expanded at a measly 3% for the 5 year period ended 2009-10, the no of returns in excess of Rs 1 crore is only 0.06% of 34 million assesses and the no of PAN card holders was 96 million for the year ended 2009-10 (hence the filing gap is more than 60 million).We must therefore expand our direct tax base immediately, for any meaningful revenue mobilisation efforts in the next fiscal.

An important measure for expanding the direct tax net is for the Government to revisit the long debated issue of taxing agricultural incomes. It is both unfair and inefficient for agricultural incomes to be completely left out to the tax net. Given the higher cost of collecting agricultural taxes and the need for encouraging agriculture, the Government may decide to have a higher base for bringing agricultural incomes in the tax net (could be double of the non agricultural incomes).

It is well known that declaring a part of individual total income as agricultural income is widely used for tax evasion. It is, therefore, suggested that the government can consider taxing all incomes whether income from agriculture is only the part of total income. This will contribute to the widening of the direct tax net and avoid tax evasion.

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