PRESS MONITOR

Financial Express, Chennai
Friday, 29th January 2021; Page: 6
Width: 51.24 cms; Height: 68.68 cms; a3; ID: 59.2021-01-29.8

Making India attractive to investors

In order to reassure existing investors, the government could identify stressed business segments and provide a package of tax support

N MADHAN

Partner -Tax & Regulatory, PwC India. *Views are personal*

"IN THE MIDST of every crisis, lies great opportunity."—Albert Einstein

In the wake of the Covid-19 pandemic, nations are reordering their priorities, focusing on public health and planning for economic recovery. The right set of fiscal measures can help economies restart and reconfigure themselves. While state aid is an important pillar of the economy, capital inflow would contribute to economic activity and develop the workforce, allowing the government to direct its attention and financial support to other aspects of the recovery.

Foreign capital gravitates towards the right market, provided it has a stable tax ecosystem that allows businesses to focus on growth. Hence, it is important for lawmakers to strike a balance between incentives and taxes, and between introducing innovative tax reforms and adapting to the existing set of tools to address the needs of the hour.

As the government aims to prioritise investment in the infrastructure sector, a lower tax rate benefit (17.16%) can be provided to the sector. Furthermore, the sunset period under the lower tax regime for commencing a business is only two years away (March 31, 2023). This needs to be extended to attract projects which require a longer duration for set-up.

A production-linked incentives (PLI) scheme has been announced covering 10 champion sectors including automobile, pharma, electronic/technology products and manufacturing of advanced chemical cells battery (for electric vehicles). While the details are awaited, it is expected to attract significant investments, specifically from MNE groups.

Export incentives can induce MNEs to set up a manufacturing hub in India for their global operations, especially MNEs migrating their manufacturing operations. Remission of duties or taxes on export product (RoDTEP) is the proposed replacement of the existing incentive for goods export (MEIS) and is expected to result in higher benefits. While an official notification is awaited, it appears that EOUs and SEZs may not be eligible for this benefit. Such exclusion could be reconsidered, as large-scale benefits should be made available to EOUs and SEZs focused on exports.

In order to reassure existing investors, the government could identify stressed business segments which need support to recover, and provide a package of tax support. This package could include increasing the period of carry forward of losses, carry forward or backward of IT/GST refunds at the taxpayer's choice to adjust tax liability, and relaxation of input tax credit provisions under GST. Such benefits would highlight the government's intention of sharing the burden of recovery with taxpayers and would make India a preferred jurisdiction for future expansion.

Foreign investment could aid in reversing the adverse impact of the pandemic on employment. Deduction for additional labour (section 80JJAA) is currently available only to the extent of taxable profits. Migrating this benefit to business deductions would help companies which are generating new employment during the set-up phase, when there is no tax profit. A tax benefit for employment generation would reduce the effective employee cost, thereby encouraging employment generation.

Upfront certainty is one of the pillars of a stable tax ecosystem. The advance pricing agreement and IT advance ruling mechanisms have not fully met the expectations of taxpayers from the timeline perspective. The longer waiting time has diluted the essence of the forum, which is to provide upfront certainty to taxpayers. A timebound approach would lead to more taxpayers opting for the forum. Similarly, expedited disposal of tax litigation should also be a focus area, which would greatly help in boosting investor confidence in the judicial system. With regard to GST, while the advance ruling process has ensured speedy disposal, the rulings are often adverse and also diverge across states. Since both aspects directly impact taxpayer readiness to opt for the advance ruling mechanism, they need to be addressed soon.

The government is ironing out teething issues related to GST. In doing so, to ensure the full benefits and truly make it a 'Good and Simple Tax', frequent changes to legal provisions, procedures, rates and the IT platform need to be avoided as they result in an enormous compliance burden and costs for taxpayers, diverting much-required attention from the business.

Lastly, the simplification of laws is also an expectation from the government. For example, currently, corporates have three tax schemes, aggregating to four tax rates. Individuals have two broad tax schemes with several slabs of taxation. Such unintended complexities may be simplified, ultimately leading to better compliance.

Union Budget 2021–22 is expected to be a comprehensive response from the government to stimulate a strong recovery from the pandemic. Tax proposals have a critical role to play in these efforts. While there are considerable expectations from taxpayers, whether the government has the headroom to cater to all of them remains an open question.