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Chidambaram to present general budget today

UNI New Delhi July 7: Will the first budget of the United Progressive Alliance government, to be presented by the Finance Minister, Mr Palaniappan Chidambaram in the Lok Sabha tomorrow, meet the high expectations of the market, the farm sector, the industry, the salaried class and the vast sections of the poor, all in one go?

Certain signals are around as to what the budget holds for various groups.

For individuals, the speculation is that taxable income will be at Rs 1 lakh; higher tax breaks are expected for mutual funds; turnover tax could replace capital gains tax and there could be different provident fund rates.

The rich are mentally prepared to pay education cess. The Congress-led government is under pressure from its own party members to raise the floor level for income tax to Rs 1,00,000 from the current level of Rs 50,000 to satisfy the urban middle class. This section switched over its support to the new ruling alliance in the April-May Lok Sabha elections.

The Congressmen's plea is that raising the floor limit will reduce paperwork and the amount involved would be niggardly in terms of monetary giveaways.

Most salaried people in any case invest in saving bonds to ensure that their first Rs 1 lakh income is free of taxes. By making this easier, the government actually will be encouraging higher spending levels by middle-class taxpayers.

It has indeed become something of a consensus that lower rates of taxation, a broad tax base and simpler rules is the desirable policy package.

As far as the services are concerned, there is likely to be widening of the tax net. Everything could cost more!

The good news for the corporates is that there is likely to be a package for the small scale industry; lower customs duties on import of equipment and rationalisation of excise levies on power equipment.

At the same time, the market expectation is that there is not likely to be any big relief on taxes and duty drawbacks.

Experts say the government is likely to continue with the current peak rate of 20 per cent while moving towards a single-slab customs duty in the next few years.

To afford at least a temporary tariff shield to India Inc, it will continue to have differential slabs of duty for this year on raw materials, intermediates and finished goods. It also wants import tariffs on most 'universal intermediaries' such as non-ferrous metals, plastics and rubber to be half the peak rate.

However, north block is clear that any tariff wall will be temporary as global imperatives will force india to slash customs duties.

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Besides, global trade pacts enjoin member states to bring down tariff walls. India will need to slash customs duties in the coming years as it is trying to join various free trade and preferential trade pacts.

The economic survey presented today in the Parliament too stresses the need for lower customs duties to make industry competitive.

Major revenue generation measures are expected in the budget to fund commitments made towards programmes for the common minimum programme and lower receipts on account of slowdown in the disinvestment programme.

It is pertinent to point out that the former finance minister, Mr Jaswant Singh had taken credit of Rs 16,000 crore from disinvestment. Mr Chidambaram will have to significantly reduce the target in view of the changed priorities of the government.

According to informed sources, the cumulative effect of the two could be as high as Rs 30,000 crore, which could take the fiscal deficit up by one percentage point.

As per the fiscal responsibility and budget management bill, which has been notified, the fiscal deficit cannot exceed 4.4 per cent of the GDP in 2004-05, which clearly indicates that the government will have to garner huge resources to neutralise the impact of additional spending and lower revenue receipts from disinvestment.

Tax experts have been arguing that the Finance Minister will have to identify new sources of revenue generation which could include further widening of the tax base, such as bringing in new services under the tax net as well as measures to reduce expenditure.

The stagnancy in the revenue-GDP ratio presents the Finance Minister limited options to experiment with, says Dr Ashwini Mahajan, reader in economics at PGDAV College of Delhi University.

Says Prof J D Agarwal, director of the new Delhi-based Indian Institute of Finance, expenditure compression could come through subsidy rationalisation and pruning various small expenditures. There is also a case for transferring various centrally sponsored schemes to the states to avoid unnecessary expenditure.

Dr Agarwal says the Finance Minister's revenue mobilising capacity is also constrained by the fact that he is budgeting only for seven months of the current financial year.

A special package for the farmers has already been announced and the national employment guarantee act is to be legislated to provide employment for 100 days in a year to at least one able bodied person in each rural household.

Special packages for farm workers, health insurance for poor families and small scale industry are on the cards.

The budget for 2004-05 is to be presented in the background of a favourable economic environment. The unprecedented GDP growth of 8.2 per cent recorded during 2003-04 has brought hopes of a double digit growth being within the realm of possibility. The forecast of a normal monsoon this year has also buoyed sentiments and raised the possibility of high growth rate during the first year of the UPA rule. The sustainability of the high GDP growth will depend upon the signals that the budget will send out.

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