ABOLISH SURCHARGE, EDUCATION CESS; MODERATE CORPORATE TAX; RETAIN PEAK CUSTOMS DUTY AT 10% & REDUCE CST RATE TO 1%, FICCI PRESIDENT URGES FM

NEW DELHI, January 11, 2011. Mr. Rajan Bharti Mittal, President, FICCI, has urged the Union Finance Minister, Mr. Pranab Mukherjee, to tailor the direct and indirect tax measures in the ensuing Union Budget to support domestic demand and ensure that there is no roll back of the stimulus measures at a time when the global economy is still not out of the woods.

In his pre-Budget meeting today with the Finance Minister, Mr. Mittal emphasized the need for incentivizing employment generation in industry and suggested abolition of surcharge and education cess, moderation of the corporate tax rate, removal of the cascading impact of Dividend Distribution Tax, rationalize MAT as a specified percentage, retention of the peak customs duty rate of 10%, reduction in the CST rate from 2% to 1% with effect from 1st April, 201, incentives for the private sector's contribution to agricultural growth, impetus to exports, IT and the software sectors, and tax breaks for large scale private investment in the social sector.

The following are the suggestions made by the FICCI President:

Direct Taxation

- Abolish surcharge and education cess. These have complicated our tax structure. Instead of education cess, you may kindly consider allocating a part of direct taxes collection for educational projects.
- Reduce Corporate tax rate to some extent. The global average corporate tax rate of 114 countries in 2010 is 24.99 per cent. In a competitive global scenario, we must be in tune with others.
- Remove cascading impact of Dividend Distribution Tax. DDT paid at the first level ought to be reduced in the hands of each subsequent level of holding subsidiary relationship, instead of restricting it only upto one level. Ideally, we may revive Section 80M, which we had till a few years ago.
- Rationalize the MAT as a specified percentage - 50 per cent - of basic corporate tax rate. Over the last four years, the rate has gone up from 10% to 18%, which has caused great anxiety.
- Make the investment-linked incentive really meaningful, by allowing the losses of specified business of the assessee to be set-off / carry-forward from his other profit-making businesses, instead of restricting it to only from his specified businesses.
- Restore withholding tax exemption on interest payable on foreign commercial borrowings, as also the tax exemption of interest income of an infrastructure capital fund/an infrastructure capital company. The restoration of these

exemptions, we believe, will reduce the cost of borrowing both from within and outside, and help in raising long-term funds at competitive rates for the crucial infrastructure sectors.

Indirect Taxation

- Peak customs duty rate of 10% be retained for sometime more.
- CST rate be reduced from 2% to 1% with effect from 1st April, 2011.
- Suitable mechanisms be evolved for expeditious refunds of service tax, SAD as also cenvat accumulations, which cannot be modvated.
- Weighted deduction benefit on R&D be extended to service sector as well.
- Kindly find out a way forward expeditiously to end the current impasse about the Goods and Services Tax (GST), which we are eagerly awaiting for. Our only apprehension is that too many compromises might not dilute the underlying objective GST.

Sector-specific suggestions:

Agriculture

- Grant fiscal incentives by way of 100 per cent depreciation on all investments in physical assets, like infrastructure development, by the private sector in agriculture and the entire agri-value chain and a tax holiday for period of 10 years.
- Provide a weighted deduction of 200 per cent on any expenditure incurred on R&D in agriculture & provision of extension services in transferring the best agriculture practices for various crops.

Exports, IT and Software – Of course, exports are now picking up, but only **with low margins**. We must provide more impetus and extend tax holiday benefit for EoUs and undertakings involved in FTZs for another 2-3 years.

Social Sector: To attract large scale private investments in healthcare, tax holiday benefit be made available for 5 years in any of the 10 years of its inception, and

- Government should formulate a National Policy for PPP initiatives in the higher education sector and private sector be encouraged to set up higher educational institutions as a Section 25 Company.

Cement: Excise duty on Cement be at ad-valorem rate of 8%, with abatement of 55%, as recommended by National Council for Applied Economic Research (NCAER).

Oil and Gas: Explicitly provide that the term "Mineral Oil" will include Natural Gas for all past and future rounds of production of Natural Gas for the availability of tax holiday, including to Coal Bed Methane (CBM).

Telecom: Telecom sector be classified as Infrastructure and tax benefits provided accordingly and tax holiday benefit be also made available to telecom companies starting services after 31st March, 2005.

Housing: Allow funding of township and residential/commercial buildings, by financial institutions and banks at concessional rates on the same norms as for infrastructure sector.

Charitable organizations, including inter-alia NGOs, Chambers of Commerce and Trade Associations, should continue to be explicitly tax exempt, so long the surplus generated are exclusively utilized by them over a certain period for the charitable activities rendered by them.

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