BOMBAY CHAMBER

Bombay Chamber
of Commerce & Industry

PRE – BUDGET MEMORANDUM FOR ECONOMIC POLICIES 2022-2023

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FOREWORD

Much is being expected from the forthcoming Budget to be announced in the month of February, 2022 by the Hon'ble Finance Minister to kick-start the investment cycle so that the domestic economy transits into a higher growth orbit while remaining inclusive and sustainable.

The Union Budget is expected to be an agent of change in ushering India towards the 2022 goals often enumerated by the government.

However, on the economic front, the sluggish growth of industry and household demand suggest policy attention for Funding and Tax related facilitation. In the area of employment generation, as labour regulations get further simplified, more jobs are expected to be included and created in the formal sector. In addition to that, creating a market place for MSMEs and access to funding for Start-ups are going to be important factors for speedy economic revival in the near future. Some existing measures for economic policies also need to be revisited and revised in order to make them more effective.

In this backdrop, the Bombay Chamber of Commerce & Industry has prepared the Pre Budget-Memorandum for FY 2022-23. Recommendations are discussed in detail in the enclosed Memorandum.

While presenting this Memorandum the Chamber would like to place on record its sincere appreciation of the contributions, time and efforts of the members of the Economic Policy Research & Development Committee of Bombay Chamber.

Special thanks to the Advisory Committee Members in the completion of this task.

The Chamber would like to thank TATA Chemicals Limited and ICICI Bank for supporting this initiative.

We trust that our recommendations will help the Government to identify some emerging issues that need to be tackled by taking suitable measures.

Mr. Sandeep Khosla
Director General,
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PREFACE

The forthcoming Union Budget will be important from the perspective of cementing the growth turnaround after the induced stress of COVID-19 pandemic. There has been a spate of reformist announcements lately that include Gati Shakti, sale of Air India as part of the aggressive asset monetisation plan, scrapping of retrospective taxation, sector specific Production Linked Incentive (PLI) schemes and one hopes that the Budget will continue to impart momentum to the Infrastructure thrust. The government should follow these up with strict implementation measures so as to harness the best benefits of private sector investments and unleash the virtuous cycle of economic growth.

In the current FY2022, real GDP growth is broadly expected to be in the range of 9.5-10.5%, but this is on the back of a very low base of the last year. Even as the headline growth indicators have improved significantly, there could be fault-lines in the economy in the form of widening inequality of all forms – income, access to healthcare and education etc. Despite many policies directed towards MSMEs, they still suffer from significant pains that have been inflicted on them on account of stoppage of business activities due to COVID-19.

Having said that, the Budget will have to do a tight rope walk given the need to boost expenditures to support certain sections of the economy including the lowest income segment of the population with livelihood benefits amid the already high current high fiscal deficit and public debt. Given that monetary policy has reached its limits, the onus of sustaining growth will depend on the judicious use of fiscal policy space in the near term given that the net fiscal impulse is set to shrink beyond FY22 as the government will need to pare the deficit and debt levels along the consolidation roadmap to rebuild policy buffer.

While agriculture, rural development & infrastructure, can continue to remain the focal points, the other areas that should receive significant importance in this Budget will be Healthcare and Education. Note, the Healthcare budget was enhanced significantly in the last budget, but it was mostly for vaccination cost, water and sanitation. We evidence which shows that vaccine access, vaccination and effective policy support have been the mainstays of recovery elsewhere. Thus, in addition to continued focus on vaccination, the government needs to take a hard look at the healthcare infrastructure and put adequate funds for a time-based enhancement in the same, especially the primary and the tertiary healthcare. The government can also look towards tying up with the private healthcare providers to boost up healthcare facilities in the rural and semi-urban areas.

The other important area of focus should be the Education. There have been a significant number of students who may have not been able to receive education during the pandemic as it transitioned to online methods. The government should therefore envisage to come out with a clear strategy for inclusive digital learning that includes the use of mass media for dissemination of education. The budget should also stress on education outcomes and try to bridge the gaps in the same.

Overall, this budget assumes importance in many ways and expectations can be many. However, the key will be to use the Budget to address the unevenness in recovery and the multiple divergences (k-shaped) within the underlying economy.

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REAL ESTATE

Rationale:

- Demand is getting suppressed due to mounting construction costs leading to inflexibility of developers to lower prices. Currently, there is a GST of 5 per cent for under-construction residential units and 1% for affordable housing, but without ITC. No GST is charged on completed units. The GST on cement and steel is 28% and 18% respectively and the tax outgo has spiked along with the rise in these commodity prices. As developers cannot claim tax credits for GST paid on input items, this leads to an escalation in construction costs. Further, it also negates the purpose of GST which was to remove cascading impact of taxes.
- As is well-known, retail and hospitality businesses have been severely impacted by the pandemic due to social distancing norms. These businesses provide huge employment opportunities and thus needs significant support.
- The 100% tax holiday for affordable housing projects under Section 80IBA was available for projects which are approved till March 31, 2022. This section allows developers to claim 100% tax exemption on profits subject to several qualification criteria including the approval deadline. COVID-19 has delayed the registrations process and projects that would otherwise have registered on time, might not be able to make the registration deadline.

Recommendations:

- Allow Input Tax Credit (ITC) to reduce tax burden on the developers. This will enable developers the room to lower end-user prices.
- Extend section 80IBA registration timeline by 12 months as this will help boost the viability of affordable housing projects.
- As per the current Income Tax provision only Rs 2 lakh is allowed as deduction for interest paid. We suggest this to be increased to Rs 5 lakhs.
- To ease the burden for developers, losses (audited) incurred during FY 2021 and FY 2022 should be allowed to be carried forward till FY 2024 and be allowed to be set off against profits in this time horizon. Alternatively, 100% Income Tax exemption should be provided for the same period.

HEALTHCARE

Rationale:

- The dependence of the Indian Pharma Industry remains very high on China & other countries for imports of Active Pharmaceutical Ingredients (API) & even devices.
- The COVID-19 pandemic has been a wake-up call for the Indian healthcare system. Lack of adequate healthcare infrastructure, demand-supply mismatches and shortages of basic supplies are some of the problems that came to fore during the pandemic. At a broader level, India lacks an all-encompassing public healthcare system; there is wide disparity between states etc. The number of tertiary care centers across major metros itself are extremely less and the situation is worse in Tier 1&2 towns.

Recommendations:

- Like in the case of clearly laid out strategies for the infrastructure sector, the government should announce a detailed roadmap for rectifying the gaps in the healthcare sector. While deadline oriented targets should be clearly laid out, the accountability for these targets should also be highlighted. In this effect, there is a need for sharp increases in healthcare spending (without accounting for outlays for water and sanitation) directed towards healthcare infrastructure needs to be presented.
    - We suggest increasing Healthcare spending from current 2-3% of GDP to 10% over the next 10 years. The government should earmark a certain proportion of disinvestment receipts to boost infrastructure in healthcare.
    - Like in the case of infrastructure sector, the government should look towards partnering with and incentivizing major corporate hospital groups to expand and offer quality affordable healthcare at tertiary level across the country. Partnering with the private sector could enable faster adoption of technology in healthcare services and thus improve operational efficiency.
    - A roadmap can be announced to ensure 100% health insurance coverage
- Need to make appropriate provisions for promoting & encouraging local resource in terms of enterprise to develop & manufacture these critical APIs.

EDUCATION

Rationale:

- The COVID-19 pandemic has not only widened learning inequality among children but has left many of them out of schools due to inadequate resources and digital illiteracy. Even as some of these issues seem more like near-term challenges, they call for a significant overhaul in India's education system. Additionally, school closures have disrupted school meal services (Mid-Day Meal), thereby hurting health and nutrition of children.

Recommendations:

- Increase budgetary allocation for Samagra Shiksha Abhiyan (SMSA) - aimed at providing holistic education from pre-school to senior secondary level. Have a more pin-pointed focus on outcomes of education at various levels.
- A blue print with implementation strategies could be devised to create a roadmap for inclusive digital learning, including the use of mass media for dissemination of education. Device methods to bridge the learning gap for school children who have not been a part of the education system due to the pandemic.

MEDIUM AND SMALL-SCALE ENTERPRISES (MSMEs)

Rationale:

- The pandemic has had a disproportionate impact on smaller companies and MSMEs. This is evident from corporate tax collections in FY21 which saw a substantial divergence between the listed and unlisted segments; higher contributions by large companies were also seen within the listed space, marking a clear distinction between the pandemic performance of corporates by size.
- All SME & MSME are facing liquidity crunch and many do not have enough working capital. The payment cycle with clients is around 60 days and non-adherence of the same from the client's side creates hindrances. Further, MSMEs have suffered huge losses since April 2020, resulting in reduced equity in businesses and excessive leverage. Thus, the sector is in need for equity capital that is not easily available from the market.

- The interest rates are also high, paperwork remains cumbersome and, in some cases, collateral requirements are irrational. Channel partners (distributors) don't have many options to borrow and limits are based on historical performances. The challenge is bigger in Construction industry due to NPA in the sector.

Recommendations:

For funding needs:

- The fiscal strategy of the government should reflect incremental support for MSMEs. Faster clearance of pending dues to MSMEs, rationalization of compliance requirements and a tailor-made fiscal package for first-time MSME borrowers to encourage entrepreneurship are some of the areas that the upcoming Union Budget should focus on to create an enabling environment for smaller businesses to thrive.
- The government should drive towards greater institutionalization of credit access for MSMEs, especially the smaller ones. The government can think of creating a centralized body that could adopt a larger view and extend working capital to small and mid-size proprietary companies, based on minimal collateral. Channel partners could also be incorporated within this.
- Government should design a scheme that helps unorganized players to graduate into organized players by lowering tax rates so that they can also avail institutional finance.
- An MSME Fund should be set up by Government with banks and corporate participation that can invest in Non-Cumulative Preference Shares issued for 7 years. Banks must treat such investments as Equity. Value of Issuance per equity and repayment mechanism can be drafted by Banks.
- Effective operationalization of the linking of the TReDS (Trade Receivables and Discounting System) platform with the GSTN network announced in the 2018 budget would create better credit discipline and reduce fears concerning fraudulent invoices.
- Loan Moratorium period needs extension; provision of tax incentives especially to MSMEs in non-metro cities.

For market access and ease of doing business:

- To enable market access for MSMEs, there is need to build a government supported bridge (a Web Portal for example) that can bring MSME closer to the large Original Equipment Manufacturer (OEM) which are looking for additional/alternate suppliers for components and devices. Buyers and sellers can also find each other and engage in business activity for mutual benefit. MSMEs also need support in their digital transformation. PLI scheme implementation must have provision for sourcing from MSMEs.
- GST refunds should be automatic and faster for all Export consignments.
- Government should extend Trade Infrastructure for Export Sector Scheme for a further 3-year period. Setting up of District Export Hubs to be prioritized.
- Remission of Duties or Taxes on Export Products (RoDTEP) to be announced; GOI to expedite announcing the rates and conditions for the new scheme so as to boost the confidence of exporters.

DEVELOPMENT OF CORPORATE BOND MARKETS AND EQUITY MARKETS

Rationale:

- The role of corporate bond markets in financing India's growth aspirations is well regarded, with its importance increasing manifold after the steepest contraction that India has seen since Independence in the last fiscal year. That said, the corporate bond market in India has remained shallow despite a long history, several committee recommendations, and continuous reforms. The problems range from illiquid secondary market, shallow investor base, crowding out by higher government issuances, information asymmetry, under-developed derivatives market and credit enhancement facilities. The need for deepening corporate markets and widening investor base has, therefore, become even more crucial now to revive the economy from an unprecedented slowdown caused by the pandemic.

Recommendation:

- Corporate borrowings for large companies were mandated to be 25% from the market. This recommendation could be followed up from this year. An extension for smaller companies could also be made, with the required allowances from RBI and other regulators to improve/allow demand.
- Deepen the investor base and liquidity in corporate bond markets by

  a) allowing corporate bonds as collateral in the RBI's Liquidity Adjustment Facility (LAF),

  b) increasing the scope of investment by provident/pension/gratuity funds and insurance companies by revisiting rating limits,

  c) incentivizing retail participation by doing away with capital gains taxes and bringing about a uniform tax treatment between debt mutual funds and direct holdings, and

  d) developing Credit Default Swaps (CDS) market by allowing more market participants.
- Development of innovative debt instruments to garner interest such as exchange-traded bond ETFs or thematic funds in sectors like infrastructure.
- Deeping the derivatives market by allowing active participation of domestic institutional investors. While MFs do transact in derivatives, insurance companies aren't, which could be done with necessary checks and balances in place.
- Increase in equity investment limit by Employees' Provident Fund Organization (EPFOs) which is currently at 15%.
- To incentivize retail participation in bond markets, the following tax incentives can be considered
  - Interest Income from Government, Public Sector Undertakings (PSU), Infra Bond up-to Rs50000 in a year may be exempt from taxes
  - For Senior Citizens this amount can be at Rs 1 Lakh.
- Long-term Capital Gain (LTCG) for Household, subject to certain restriction and conditions, can be tweaked to improve retail participation in equity market
  - Could be made available to Household whose tax filing is done, and with income not more than Rs.10 Lakh Including LTCG.
  - Half the LTCG after 5 years from the current rate.
  - Reduce LTCG to NIL if the holdings is beyond 10 years

COOKING GAS – PREVENTING DIVERSION DUE TO AFFORDABILITY

Rationale:

- India's cooking gas prices have seen a secular uptrend since late 2020, increasing from an average of INR 720 for a 14.2kg cylinder in 2019 to INR 870/cylinder by August 2021. This is hurting 290mn households who use cooking gas, the impact is more acute for the 80mn users who belong to the vulnerable section of society and are beneficiaries under Pradhan Mantri Ujjwala Yojana (PMUY) scheme and primarily include women members of BPL (Below Poverty Line) households. PMUY was launched to encourage households to reduce their dependency on fuel such as kerosene and firewood.
- To aid lower income households during the first wave of the COVID-19 pandemic, three free cylinder refills were offered to PMUY recipients, at a total cost of INR 81.62bn in FY21. With recent increase in prices, affordability has become a major challenge for such households for using cooking gas. Infact, a recent study conducted by Council on Energy, Environment and Water (CEEW) points out that 84% of households that use traditional solid fuels along with LPG cite high cylinder costs as one of their reasons for stacking fuels. CEEW found that a typical rural household would have had to spend 6.7% of its total monthly expenditure on LPG if it has to use it as an exclusive cooking fuel (at a subsidized LPG refill price of Rs 580 in 2020). This is around 40% higher than what rural households actually spent on cooking fuel at that time (4.9% of the total monthly expenses).

Recommendation:

- The affordability issue is acting as a deterrent towards use of clean fuel. The government needs to partially subsidize the usage of 6-7 cylinders annually to PMUY beneficiaries (say price in excess of INR 500/cylinder to be borne by the government). The fiscal cost is unlikely to be huge. For instance, if existing price is INR 1000/ cylinder, the subsidy burden is unlikely to exceed INR300bn per year (0.14% of GDP).

NATIONAL PENSION SCHEME:

Rationale:

- Government introduced National Pension Scheme in 2012, but the same is not so popular (especially among the young generation), as its withdrawals are not fully exempt. Further, the social security system of India is not so robust that it will take care of the individuals after their retirement.

Recommendation:

- To improve the participation under the NPS, withdrawals should be made fully exempt from taxation.

MAT on SEZs:

Rationale:

- When the Government had introduced SEZs there were no MAT applicable on them. Accordingly, companies have made the investment in SEZs but later this benefit was withdrawn. Due to this investment in SEZs have fallen drastically.

Recommendation:

- In order to boost the exports and make India an export hub, Government should make the existing & new SEZs exempt from MAT.

INCLUSION OF SEZ & ADVANCE AUTHORISATION LICENSE IN RoDTEP

- The purpose of Remissions of Duties And Taxes on Exported Products (RoDTEP) scheme is that where the input credit is not available, Government will give adequate support to the companies to meet those deficiencies. Taxes on petrol/ diesel etc. are being levied but is also not creditable nor is exempt for SEZs.
- The benefit of the Remissions of Duties and Taxes on Exported Products (RoDTEP) scheme should be extended to SEZ & AA license.

CUSTOM DUTY ON POLYPROPYLENE

- After Covid demand of packaged food has increased and is likely to remain strong. To boost exports, import duty on the purchase of polypropylene, the key raw material for producing the packaging films, should be removed.

INVESTMENT ALLOWANCE FOR ADDITIONAL CAPEX

- In order to foster Atmanirbhar Bharat, this will enable companies to come forward with their investment. Re-introduce the additional deduction for the companies who make investment in the capex.

BOOSTING R&D EXPENDITURE

- In the current scenario companies needs to invest heavily on R&D for developing new products. Automotive industry is going through a major transformation due to Electrical and Autonomous vehicles and thus also need significant R&D investments.
- Restore the 150% Research & Development (R&D) spends benefit under section 35 of Income Tax Act.
- The government should provide for a weighted deduction on R&D expenditure, to boost investments by companies into R&D.
- The weighted deduction for R&D should be extended till 31st March 2025.

OTHER MEASURES AND SUGGESTIONS

- To ease out pressures on smaller manufacturers who are in the attempt of rebuilding businesses after COVID-19 disruptions, additional credit based on GST and Income Tax paid during 2017 to 2020 should be provided.
- Rationalize GST Provisions for Input Tax Credit; subsume all duties and cess on power in GST.
- Mandate easy process of refunds of GST.
- Special sops may be targeted for the export houses that are becoming non-competitive due to sky rocketing logistics prices.
- All the previous assessments of VAT should be closed suo moto or if complete closure is not possible then the assessment should be completed in a timely manner.
- Bulk Chemical Delivery (BCD) on bulk and specialty chemicals to be raised from 7.5% to 12%.
- Customs duty on import of power equipment for captive power plants should be reduced to NIL from the current 5%.
- Impose export duty on salt in view of severe domestic shortages and rising export demand.
- Schemes such as Seed Funding Scheme of the government may be allowed to be offered by existing corporate businesses.
- Government should take a look at the high fuel taxes and weigh the costs v/s the benefits of reducing taxes on petrol and diesel. Lower oil prices may be beneficial in boosting customer confidence, reduce transportation costs and thus reduce inflation pressures.

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ABOUT BOMBAY CHAMBER

Bombay Chamber of Commerce & Industry

The Chamber was founded in 1836 by seven Britishers and three Parsees; the Bombay Chamber of Commerce and Industry is one of the oldest Chambers in the Country. Bombay Chamber has an illustrious history of 184 years. It is registered under Section 8 of the Companies Act, 2013 (Section 25 of The Companies Act, 1956) a non-profit organisation.

The Chamber has played a significant role in supporting the development of the city. It was largely responsible for the first railway built in India-The Bombay-Thana railway completed in 1853, has representation on the Port Trust, relentless advocacy postal system led to the passing of the India Postage Act of 1854 and standardization of weights and measures, until in 1932, set up machinery for arbitration of commercial disputes in 1880, established customs of trade.

The Chamber currently has few thousand members, including a large number of SME's, most reputed large and medium, professionally managed, corporate manufacturing and commercial companies, financial institutions, multinationals, public sector companies, auditors, architects and chartered accountants who together contribute a significant portion of India's trillion-dollar economy.

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