

SAITA Position Paper on Union Budget 2008



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New Delhi, 29 February 2008: The 2008 budget is highlighted by the single largest give-away in India's fiscal history – Rs 60,000 crore loan waiver for farmers. On one hand, assistance to small farmers by way of credit is a socio-economic necessity; the manner in which it is being executed displays a considerably abrupt response towards solving a dire social concern.

In light of the toughening global economic environment and Indian economy as a competitive driver within the larger global economic engine, the Union Budget 2008 is a smart budget but not sharp enough. The Finance Minister has tried to tread a middle path by keeping the common man happy through raising the income tax threshold limits.

The issues that the budget did not address, which have an impact on the robust economic growth are:

- Supply-side response to rising inflation
- Lack of measures to insulate Indian economy to global risks
- Impact of the sixth pay commission on the government's balance sheet

Small and Medium Businesses

The budget promises to support micro, small and medium enterprises. A risk capital fund in the Small Industries and Development Bank of India (SIDBI) has been proposed. SIDBI will also provide sops to SMEs. With new funds and no new taxes it is encouraging for SMBs especially as the exemption has been increased from Rs. 8 lacs to Rs.10 lacs. Entrepreneurship and Reverse Brain Drain will benefit if these ideas see the light in the spirit that they are visualized. The support to SMBs needs to be accentuated and taken up in a deeper manner. The needs and contribution of SMBs need to be assessed in detail and adequate mechanism to provide level playing field needs to be created. With the rise of entrepreneurship and grass root focus of development, it is imperative that Small and Medium Businesses get the attention they deserve.

Services

The budget recognized the importance of tourism in India's service-dominated economy and proposed the following sops:

- A 5-year tax holiday for 2,3 and 4 star hotels at UNESCO's heritage sites
- Soft Power: Rs 75 crore given to ICCR for promoting India's soft power music, literature, dance, art, cuisine and especially films

The attempt to tap into India's rising 'Soft Power' by providing culture and tourism services incentives is a welcome step. Against the larger tourism and hospitality industry, it is a very small step and will impact a tiny fraction of the industry. However, the critical and large issues of infrastructure, tourist facilities and safety need to be addressed with much more rigor.

Education

The government has decided to increase spend on education by 20 percent and proposes to build world-class skill development programs that will address the challenge of imparting the skills required by a growing economy. This will ensure that India reaps the benefit of its demographic dividend in reaching the 11percent growth rate. The move will encourage growth and development of India's Human Capital. The thrust on Skill Development is likely to improve the employability of the Indian workforce, which is an area most businesses are grappling with. The support for skills development and education across different levels should counter some fears of China, Philippines and Russia pulling off parts of the India story and help meet the demands of an emerging workforce for the global economic environment.

Following are some of the steps suggested in the budget in this direction:

- 3 new IITs in Andhra Pradesh, Bihar and Rajasthan
- 2 School of Planning and Architectures in Bhopal and Vijaywada
- Rs 100 crore grant to Mysore University, Delhi University and Mahatma Phule Krishi Vidyapeeth, Rahuri, Maharashtra
- Proposal to set up of 16 central universities
- Undertaking skill development by setting up a not-for-profit skill corporation.

Health

The budget allocation in healthcare has been increased by 15 percent. This is certainly a positive and welcome step and will provide the much needed impetus to India's Human Development Quotient. Some of the key steps in the healthcare space include:

- Five year tax holiday for setting up hospitals in tier-II, tier III regions.
- Insurance cover for workers in the healthcare sector
- Insurance for poor households; LIC to cover 1 crore landless households by September 30, 2008
- Exemption of excise duty on anti-AIDS drugs
- Reduction in customs duty from 10 percent to 5 percent as well as exemption from excise duty or countervailing duty on certain specified life saving drugs and bulk drugs used for manufacturing of such drugs.

The real emphasis on social sector lies in the fact that there is a 5 year tax holiday for private / corporate hospitals to enter into the non-urban parts of India, thereby widening the reach of quality medical services, it is again well supported by incentives for R&D in pharmaceuticals and tax announcements that would aid in lowering the costs of medicines.

Taxes

Fringe Benefits Tax: The bane of corporate India. The Budget clarifies certain employee welfare activities which do not fall under this.

- Crèche, guest houses facilities, sponsorship of an employee-sportsperson, and organizing sports events for employees

However, this doesn't really have a great impact on corporates paying taxes on other benefits, which form a major chunk of disbursements for them.

Direct taxes: The increase in IT exemption limit to Rs. 1.5 lacs per year will positively impact a large workforce and bring respite. It will bring in more money into circulation and therefore build purchasing power among the salaried class. The increase in the short term capital gains tax is a dampener but details are still awaited in fine print.

Indirect Taxes: There has been no change in peak customs duty; however there is reduction in CENVAT from 16 percent to 14 percent on all goods. The reduction in excise duty on certain products is a move towards rationalizing the indirect tax structure.

The cutting down of customs duty on steel melting and steel scrap cut from 5 percent to 0 percent is a positive direction for primary and secondary steel manufacturers along with the engineering industry. This move is also likely to effect the manufacturing sector including automobiles, construction, heavy engineering and infrastructure.

There have been a few IT, hardware components exempted from customs duty. One of the moves is aimed towards encouraging use of set top boxes. The reduction of excise duty on Convergence Products is a welcome step. It will help promote India's growing prowess in the global digital economy.

Green Products

As one of the fastest growing economies in the world, India's contribution towards climate change schemes cannot be undermined. The proposal to have a permanent institutional mechanism that will play a development and coordination role promoting clean technology products, replace wood by solar as the fuel of common use, encourage the use of gas, which is the most benign hydrocarbon and set up a trading platform for carbon emissions is a step in the right direction. The most crucial input in promoting green products and technologies will be setting up of a regulatory framework, especially in light of the growing carbon trading markets worldwide.

About SAITA Consulting

SAITA Consulting (www.saitaconsulting.com) is India's first General Management Consulting firm focused on Small and Medium Businesses (SMBs). As the service provider of choice to SMBs, SAITA Consulting provides transformative consulting solutions to businesses moving towards cohesive growth and excellence. SAITA Consulting assists, advises and implements key consulting solutions in order for organizations to achieve their strategic goals, meet profitability guidelines and human capital aspirations. SAITA Consulting provides its services through four key vectors - Organizational Transformation and Strategy; Communication and Brand Management; Research and Business Intelligence Services; Emerging Markets - Strategy and Support. SAITA Consulting services clients representing the following sectors - Steel, Telecom, Infrastructure, Education and Training, Tourism, Consulting, Communication, Media, Not-for-Profit and Publishing.

SAITA Contacts

Vidya Iyer / Sairee Chahal

B-10, 3rd Floor,

Greater Kailash I Enclave,

New Delhi 110048

t: +91 11 46566958 / 26242454/55

m: +91-9910286655 / 9810105861

e: connect@saitaconsulting.com

w: www.saitaconsulting.com