Chasm between rhetoric and reality

Mr. Yashwant Sinha has sought to justify the harsh measures in the Budget by stressing the need to rein in the galloping fiscal deficit. But the areas that really needed belt-tightening — disinvestment/privatisation and downsizing of the government — have been let off lightly. Unless these problem areas are tackled with seriousness and alacrity, successive Budgets will impose an ever-increasing burden on the common man without making any dent on the overall fiscal situation, says **Uttam Gupta.**

THE consensus arrived at during the Chief Ministers' conference in November 1999 on rationalising and standardising the sales tax regimes in the States had generated much hope. Industry and trade had looked forward not only to the smooth flow of goods and services, but also to lower production and distribution costs, crucial to enhance competitiveness. These expectations have been dashed.

Thus, even as the States charging high rates have stuck to those levels, others at the lower end of the spectrum have

raised the sales tax steeply to match their counterparts. For instance, in petrol, Delhi moved up from 11 per cent to 20 per cent, even as Gujarat stuck to a high of 20 per cent. In automobiles, Delhi increased the rate from 6 per cent to 12 per cent, while the western States brought about a much steeper increase, from 4 per cent to 12 per cent.

Clearly, broad uniformity on sales tax has been achieved at the cost of the consumers. Ironically, trade and industry have not had the benefit of smooth flow of goods and services, as the States also have a plethora of other imposts. For instance, purchase tax in Gujarat on inputs/raw materials used in production of finished products sold outside the State; turnover tax in Karnataka; and additional sales tax and sales tax on Central government subsidies in Tamil Nadu. So much for the States' promises.

At the Centre, the Finance Minister, Mr. Yashwant Sinha, promised substantial progress on rationalising and restructuring excise and Customs duties to reduce the costs to industries and make business transactions easier. A close look at the key proposals reveals that the Centre has not kept its promise, either.

On the excise front, the Finance Minister promised to unify the existing three rates — 8 per cent, 16 per cent and 24 per cent — into a single rate. On the face of it, by introducing CENVAT at 16 per cent, it would seem that he has abolished the other two rates. In reality, however, all the three rates have been retained under a new nomenclature — special excise duty. Considering that various commodity groups will attract different rates of special excise duty, the effective rates will continue to vary.

Consequently, in the majority of cases, consumers will end up paying more. Indeed, Mr. Sinha has ensured that the effective rate of duty is higher than under the existing dispensation. Petrol will attract CENVAT at 16 per cent plus special excise duty at 16 per cent. This makes the effective rate 32 per cent, against the existing 30 per cent. Several items will attract 24 per cent special duty in addition to 16 per cent CENVAT, thus leading to an effective rate of 40 per cent.

As in excise, rationalisation/restructuring of the Customs duty has led to an increasing burden on the common man. Here too, the modification in the various categories of duties — the basic rate, surcharge, CVD, and special additional duty (SAD) — has led to a higher burden under the new dispensation. Thus, though the peak duty has fallen from 40 per cent to 35 per cent, with the surcharge of 10 per cent and the SAD of 4 per cent, the effective rate now comes to 42.5 per cent.

The import of plant and machinery for fertiliser projects earlier attracted a basic rate of 5 per cent which, together with the 10 per cent surcharge and 10 per cent CVD, resulted in an effective rate of 16.05 per cent. Now, the CVD has been jacked up to 16 per cent, leading to an increase in the effective rate to 22.38 per cent. Likewise, imports for the revamp, renovation and modernisation of existing plants attracted an effective rate of 20.05 per cent (basic of 5 per cent, surcharge of 10 per cent, CVD of 10 per cent and SAD of 4 per cent). The CVD on such imports has been raised to 16 per cent, resulting in an increase in effective duty to 26.38 per cent.

In view of the above, anyone wanting to set up a new project or undertake the modernisation of an existing plant would shudder at the very thought, not to mention ensuring the viability of operations in a highly competitive environment. The maintenance of plants will continue to be highly expensive, as the import of general machinery spares continues to attract a basic rate of 25 per cent, surcharge of 10 per cent, CVD 16 per cent and SAD of 4 per cent (amounting to a whopping effective rate of about 52 per cent).

The duty on import of finished fertilisers, such as urea, DAP, MOP, and raw materials/intermediates, such as phosphoric acid and sulphur, has been retained at 5 per cent along with the surcharge of 10 per cent (introduced in the 1999- 2000 Budget). For the import of rock phosphate and ammonia (used to manufacture phosphatic fertilisers, including complexes), SAD at 4 per cent has been introduced. While, on the one hand, the Government bemoans the high fertiliser subsidy bill, on the other, such import duties only increase it.

The Finance Minister has reduced the import duty on crude oil from 20 per cent to 15 per cent and on petroleum products from 30 per cent to 25 per cent. The reduction in the duty on crude will enable refineries cut the cost of producing petroleum products. However, it is unlikely that the benefit will be available to consumers, as the prices of the majority of petroleum products are linked to their respective international parity prices. Rather, the Government is waiting for an opportunity to raise the prices of diesel and LPG.

Thus, in the garb of rationalisation and restructuring, both the Central and State governments have made the hapless consumer spend more for goods and services. At the same time, one cannot fail to take note of the Government's actions aimed at undermining their purchasing power. The increase in surcharge on non-corporate assessees from 10 per cent to 15 per cent — thereby raising the effective marginal rate from 30 per cent to 34.5 per cent — is a clear manifestation of this.

More significantly, the Government had already reduced the interest rate on public provident fund (PPF) and small savings by 1 percentage point (ironically, the majority of the banks/FIs did not reduce lending rates, which could have benefited the common man, albeit indirectly). As if this was not enough, in the Budget, the Finance Minister reduced the interest rate on the general provident fund (GPF) by 1 percentage point.

The common man invests in equity to augment his meagre income. Much has been made about not taxing dividends in the hands of shareholders. But distributed profits are taxed. Though the tax is paid by corporates, it is suitably factored in while deciding on pay-outs to shareholders. The steep hike in this tax from 10 per cent to 20 per cent will ultimately hit the shareholders.

The allocation of foodgrains from the public distribution system to people below the poverty line has been raised from 10 kg per month to 20 kg per month. But the price has been hiked by almost 100 per cent (in the case of rice).

Even the Railway Minister has resorted to quite a bit of financial engineering to garner disproportionately higher resources from the common man, without explicitly giving such an impression. For instance, in respect of several items, such as DAP, MOP, complex fertilisers and rock phosphate, the tariff classification has been changed, resulting in a whopping 48 per cent increase in the freight, against the nominal hike of 5 per cent promised in the speech.

Mr. Yashwant Sinha has sought to justify the harsh measures in the Budget by stressing the need to rein in the fiscal deficit, which was getting out of hand due to various events — the Kargil operations, the Orissa super-cyclone, the interim award of the Finance Commission, and so on. Unfortunately, in areas where he needed to be really harsh — disinvestment/privatisation and downsizing of the Government — he has been soft. Unless these issues are addressed with seriousness and alacrity, successive Budgets will continue to impose an ever-increasing burden on the common man, without making any dent on the overall fiscal situation.

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