

7th NBER-NCAER CONFERENCE

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Fiscal Policy for Employment Generation

Inclusive growth

Employment generation with rapid & sustained growth



Growth of Manufacturing Sector Sustained above 10%



Critical Constraints

Infrastructure, labour laws, skills credit, technology

Infrastructure

- **Resource Constraint**

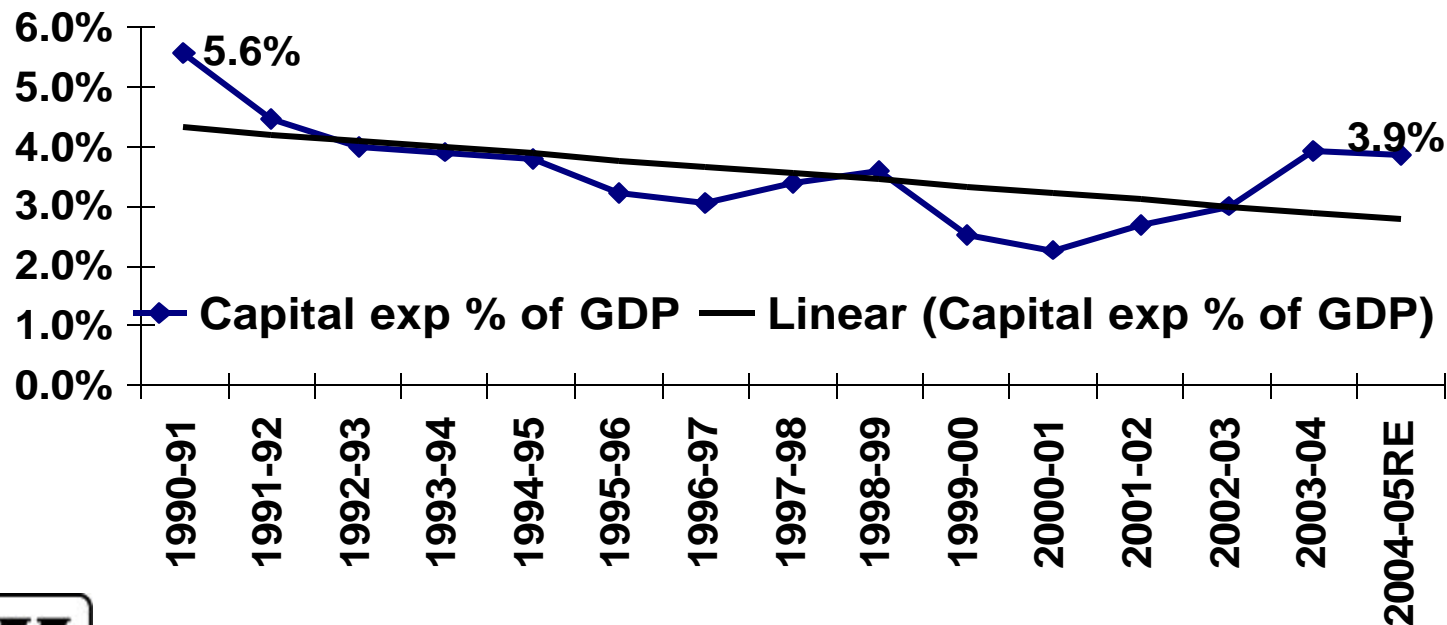
Fiscal Stress

- **Government capacity for project implementation**
- **Public Private Partnership**
- **Independent regulators in each key sector**
- **Targets for GCF in infrastructure**
- **Privatization**
- **Implement Electricity Act 2003 without amendment**

Infrastructure

- Resource Constraint

Declining public expenditure

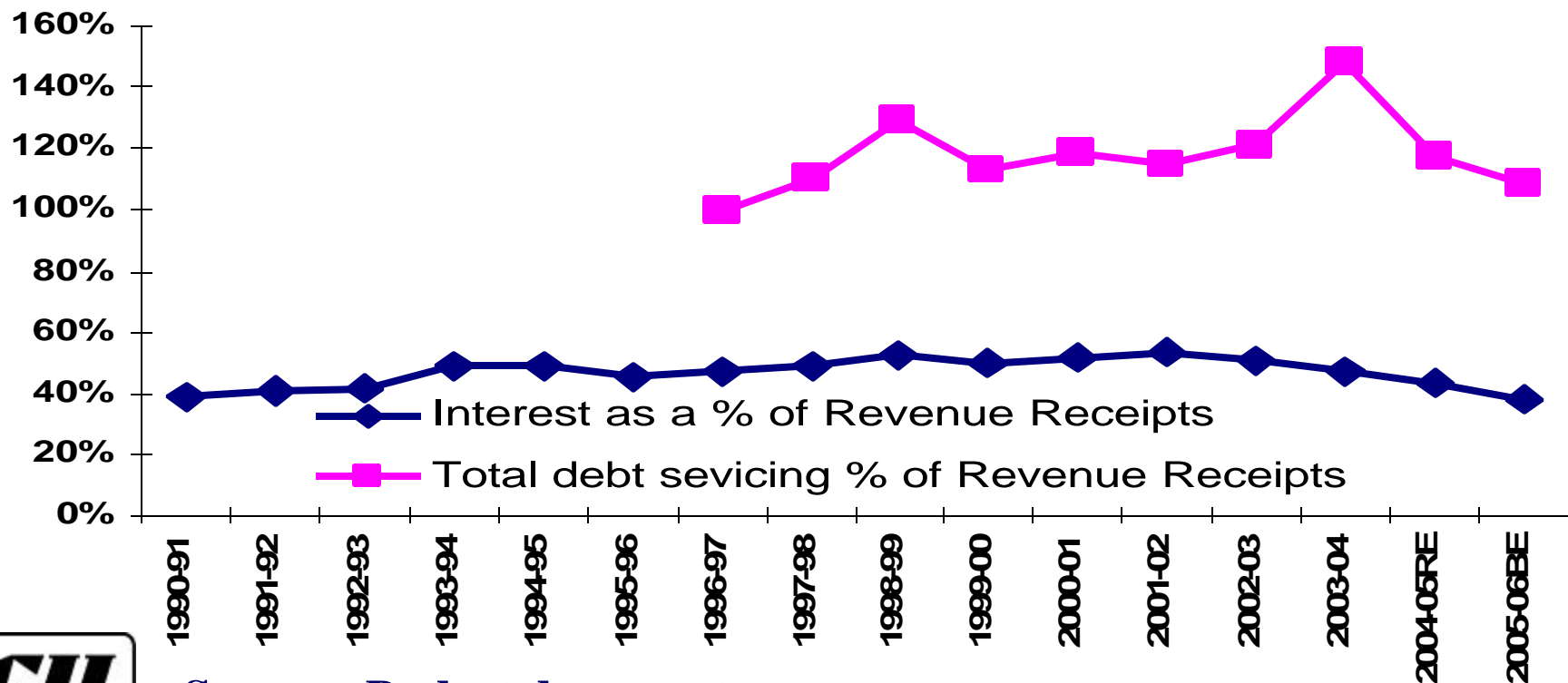


Source : Economy Survey

Infrastructure

- Resource Constraint – Fiscal Stress

Rising debt burden

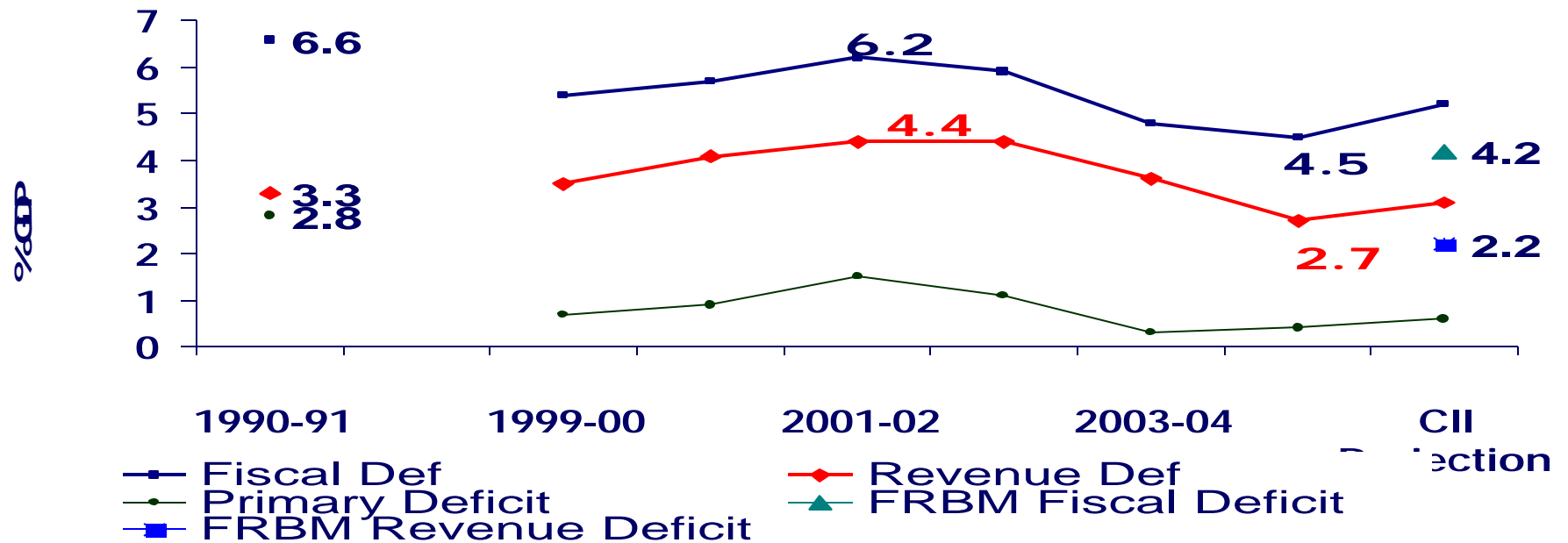


Source : Budget documents

Infrastructure

- Resource Constraint- Fiscal Stress

Deficit scenario



Source : Budget documents

Indirect Taxation

Customs Duties

No further duty reduction to 5%, 8% and 10% unless

- **VAT implementation by all states and Union Territories.**
- **CST reduction to 2% with effect from 1st April 2006 and to NIL from 1st April 2007**
- **Full implementation infrastructure reform specially implementation of Electricity Act 2003**

Customs Duties

- **Duty rates above the peak rate may be collapsed into 3 major rates such as 20, 40 and 80%**

- **Impose a CVD equivalent to 4% of CST and prevailing VAT rates (on directly consumed) imports**

Customs Duties

- **Reduce customs duty to 5% or lower on major inputs required for manufacture products covered in Early Harvest Scheme of India – Thailand FTA**
- **Eliminate 0% customs duty except for life saving drugs and security related items**

- **Announce road map for implementation of fully integrated Goods and Services Tax (GST)**

Central Sales Tax

- **Reduce CST from 4% to 2% from 1st April 2006 and eliminate from 1st April 2007**
- **Compensation package to states to neutralize the revenue impact of CST reduction should be announced.**

Excise cuts and some investment incentives for:

- **Textiles**
- **Electronics**
- **Automobiles**
- **Food Processing**

Direct Taxation

Corporate Taxation

- **FBT to be abolished.**
In case FBT remained : give option to tax paying firms to pay additional 1% corporate tax .
- **Remove Surcharge on Income Tax**
- **Remove Education Cess**

Corporate Taxation

- **For business modernisation through M&A remove condition of holding 75% of assets and continuing the business or put 51% instead of 75 %.**
- **Centre should take initiatives on uniform rate of stamp duty & bring down to 5 % throughout India.**
- **Increase fiscal incentives for R&D- 150 % weighted allowance to all sectors and applicable for 10 years**
- **Raise depreciation rates from 15 to 25% as long as**
the rates are actually charged.



Thank You



Receipt Detail

(Rs. Crore)	2004-05 RE	2005-06BE
Revenue Receipts	300904	351200
Tax	225804	273466
Non-Tax	75100	77734
Capital Receipts	204887	163144

Tax Break-up

(Rs. Crore)	2004-05 RE	2005-06 BE	Current realized	% realized of 2004-05
Income Tax	15399	13879	20.95	31.87
Corporation tax	6059	13337	12.06	7.25
Customs	19775	25526	48.00	23.28
Union excise	29504	31363	25.81	27.17
Other tax (majority service tax)	4677	8772	47.42	28.71

Expenditure Detail

(Rs. Crore)	2004-05 RE	2005-06 BE	Projected
Non-plan	368404	370847	393098
Revenue	296396	330530	337141
Capital	72008	40317	55957
Plan	137387	143497	146367
Revenue	89673	115982	114822
Capital	47714	27515	27515

Education Sector Reform

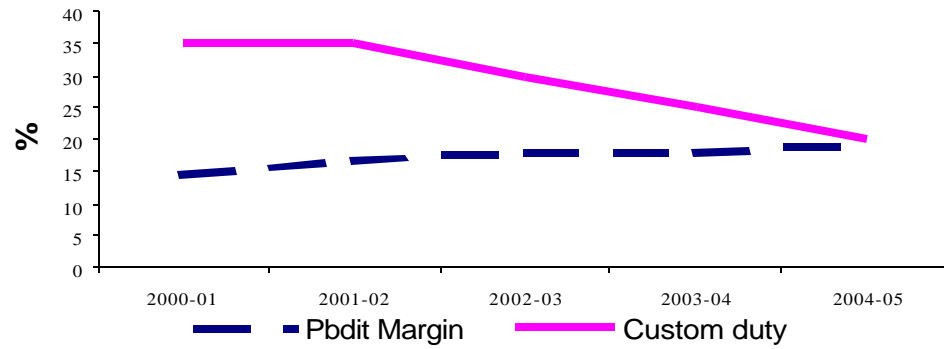
- **62% of the population working age**
- **Knowledge Economy Index gone down**
- **6% of primary enrolments reach the tertiary level**
- **Public expenditure on education is 4% GDP**
 - **Increased from 0.7% in 1950**
 - **Malaysia 6.2%, Thailand 5.4%**
- **Each Year 50,000 cr. spent by Indians on education abroad**
- **More investment required despite the additional cess**

- **Extension of VAT implementation**
- **GST**
- **Removal of border tariffs and barriers**

Subsidies

- **Petroleum sector subsidy**
- **Power sector subsidy**

Auto Ancillaries



Automobiles

