

# Tax tweaks can spur economic revival

VIKRAM KIRLOS KAR

With most economic activities in pause mode due to the Covid-19 contagion, businesses are expected to be hard-hit for at least a few quarters before operations return to normal. The humanitarian crisis is leading to huge demand disruption, which may persist and change habits overnight. The government is taking all necessary steps to ensure that the country and people of India are well prepared to face the challenges and threats posed by this pandemic. The tax regime will be one of the key systems impacted by the emergency situation, and it can also be a potent instrument for supporting economic revival.

The immediate impact was felt in terms of compliances with statutory requirements as well as in reduced ability to pay taxes. The relaxation in statutory and regulatory timelines in the taxation regime by the finance ministry was indeed a welcome relief for taxpayers. The move to reduce corporate tax rates from October last year could not have come at a better time, as it imparted confidence to businesses.

The two key issues being faced by industry in this challenging period relate to compression of fund inflows, which is combined with the necessity of continuing to pay for fixed costs. One of the key asks of industry has been that such extraordinary circumstances require unconventional measures. While companies are willing to pay the taxes due, we would request the government to consider extending the timelines for payments. All tax payments should be deferred until September 30, 2020. All payments of tax due till then should be deemed to be paid. This will go a long way in adding extra liquidity in the hands of enterprises.

The government has made donations to the PM CARES Fund eligible under the corporate social responsibility (CSR) obligations. Medical relief contributions by industry would gain considerably by adding donations of masks, personal protection equipment, testing kits, and ventilators under the CSR-eligible expenditure. Other relief measures can also be considered for full deduction under this head.

Many companies have come forward to convert their plants into producing critical care items. This can be further incentivised with full depreciation for machinery used to manufacture such items or any

equipment used for combating Covid-19.

Tax provisions could also be made for certain stressed sectors where demand needs to be revived. For example, vehicles are often purchased in March to avail of depreciation benefits, and this could be extended until June. For machinery purchases, accelerated depreciation could be provided for one year.

With the need to preserve export markets and prevent flight of buyers to other countries, it is important that export procedures be facilitative. One suggestion is to provide direct benefit transfers to all exporters as well as manufacturers of exported products, instead of issuing duty credit scrips. Input tax credit should be allowed for deposit of countervailing duty or special additional duty for regularisation of the advance authorisation/export promotion capital goods (EPCG) scheme. Also, export of alternate products should be allowed for fulfilment of export obligations.

A lot of cash is held up under goods and services tax (GST) payments. Interest rates under GST should be reduced and tax rebates

can be introduced for making early GST payments in cash, which will be a win-win for both governments and industry. The accumulated input tax credit can be allowed to be utilised for payment of GST liability under reverse charge as well,

which would help unlock cash. Further, all blocked electronic credit ledgers should be immediately unblocked until normalcy is restored in business operations.

There are several other inconveniences which changes in tax could address. In the medium term, simplicity of GST structure would go a long way towards easing the coming pain. There is need to converge GST rates to three slabs and also include some exempted sectors, such as fuel and alcohol, within the system. Some key sectors, such as health care, would benefit from being able to avail of input tax credit, which is currently not available to them due to non-applicability of GST.

These are extremely challenging times, and collective efforts by the government and industry would be required to bring the country back on track. It is important that Indian industry is encouraged to support the government in all possible ways to combat the Covid-19 pandemic.

*The writer is president, Confederation of Indian Industry*