

Budgeting for a Viksit Bharat

BUOYED BY AN appetite for “minimum government, maximum governance” and a reformist approach for various rungs of administration, the Modi government has been bestowed with a historic third term. The mandate imbues a sense of responsibility combined with foresight, as the government casts to stone its first full Budget after the results. There’s a chorus of industrial and individual expectations from government directives and fiscal policies. As the nimbus of July descend, the anticipation surrounding the Finance Act 2 is palpable. India, in its quest to become *aatmanirbhar*, has often recalibrated tax reforms into a panacea for population and revenue administrations. Conversely, the initiation of roundabout tariff structures to address inverted duty structures, customs, compliance procedures, and multilateral tax treaty obligations places India uniquely on the map of being a beacon for tax right-handedness. Any potential policy on India’s custom landscape will eventually shape the country’s trade dynamics and bilateral/multilateral trade and investment treaties.

With a primary objective of substituting imports and strengthening the manufacturing capacity of India, the production-linked incentive (PLI) scheme has managed to gauge the attention of almost all the sectors with its success stories. The scheme, announced during the ravages of Covid-19 in 2020, set out to cover 14 sunrise and strategic sectors including telecommunication, speciality steel, high-efficiency solar modules, among others. It has grown from strength to strength in efficiency and enabling of these latent sectors. Case in point: the government’s reopening of the PLI scheme for “white goods”, with a prime focus on LED lights and air conditioners. Following this development, major industry associations have been expecting an extension of the scheme to the bur-

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geoning electronics sector. The Budget may potentially unravel reforms to tap this potential. However, one must exercise caution, especially vis-à-vis the need to streamline computation mechanisms and easing the processes of application and subsequent disbursement.

Along with fostering domestic manufacturing, there is a significant expectation that the Budget would incorporate farsighted measures to boost the export of manufactured goods. The PLI, while being noble and vaunted, may not be the be-all and end-all scheme. In the wake of a rampant proliferation of high-end technology and a Mayfair digital economy, global value chains (GVCs) elicit the attention of the government. This found a prominent mention in the National Democratic Alliance’s electoral manifesto. The India-China trade war has certainly disrupted the global trade map and affected the flow of goods between countries. While India aspires to compete with China and Vietnam as the global factory floor, the deliberative aspect lies in contemplating whether the laws are self-sufficient. The nation has adequate certainty in laws to promote free flow of raw materials into and manufactured goods out of India. India’s customs procedure, transfer pricing law, and source-based principles governing attribution of profits to the permanent establishment of non-resident foreign companies deserve a relook.

Budget FY25 holds promise for fostering a spirit of transformative transcendentalism, in which tax reforms remain the show-stopper

The cynosure of the Budget on making India central to all aspects of the value chain shall intertwine with envisaging an ecosystem conducive for the operationalisation of these large, thriving GVCs. The worldwide production of electronics, for instance, is highly consolidated among a group of nations such as South Korea, Taiwan, China, Vietnam, and Malaysia. Currently, India lags behind these nations in attracting large-scale manufacturing. For India to be at par, a

string of regulatory reforms for tax, tariffs, and labour, along with increased focus on introducing preferential incentives for production, infrastructure development, skilling, and R&D is sacrosanct.

The underlining objective behind executing free trade agreements (FTAs) was to harmonise standards of trade between participating countries.

With an aim to boost trade, India has inked deals and FTAs with Sri Lanka, Bhutan, Thailand, Singapore, Malaysia, Korea, Japan, Australia, the UAE, Mauritius, and the Association of Southeast Asian Nations. Consequently, these FTAs have opened new markets for Indian goods and services by eliminating tariffs and non-tariff barriers. However, complex certification requirements and exigent rules of origin under the FTAs have dawdled India’s overall import position. The CAROTAR Rules, 2020, which were implemented to protect the domestic

industry from misuse of FTAs by ensuring verification of the country of origin, has merely morphed into a draconian compliance measure for importers. The responsibility to prove the origin of goods now falls on these intrepid importers, which necessitates an urgent relook. Further, the drawback of export incentive schemes such as “Services Export from India Scheme” and “Merchandise Export from India Scheme” in lieu of the World Trade Organization dispute has left exporters hoping for new balancing measures. There is a significant anticipation that the Budget will finally develop clear and precise procedures for streamlining trade to realise aspirational goals.

Close on the heels of the amnesty strides for taxpayers during the Interim Budget in February, the government is expected to revitalise amnesty schemes for the resolution of lingering customs and goods and services tax litigations. Along the lines of past amnesty schemes such as Sabka Vishwas and Vivaad se Vishwas, such a roster will reduce the backlog of tax litigation in the country, which will otherwise waste precious revenue and time of the administration.

The upcoming Budget holds promise for fostering a spirit of transformative transcendentalism, in which tax reforms remain the show-stopper. “To tax, we are, and with tax, we grow” should be the halcyon call for finance minister Nirmala Sitharaman. Come July 23, the government initiatives this Budget shall indubitably gear towards reimagining and promoting India with a granular focus on ensuring efficacy and ease of compliance. It shall herald a progressive wave of development-centric transformation across sectors to propel India to glory.

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