

Two Surprises for Fiscal 2014

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What has the financial year 2014~15 in store for the economy? The argument about growth rates seems futile.

Two issues are urgent and important.

First, Union Bank of Switzerland (UBS) says the total debt level of 10 corporate groups has jumped five times in the five years 2007~2012. By 2012, this equals to 13% of the total bank loans and 98% of the net worth of the banking system. These groups are Adani, Essar, GMR, GVK, JSW, Jaypee, LANCO, Reliance ADA, Vedanta and Videocon.

By 2012, they owe between Rs 94,000 crore (Essar and Vedanta) to the lowest figure Rs 21,000 crore (GVK). Indebtedness has grown every year between 2007 and 2012 for Adani (74%), LANCO (76%), GVK (65%), Vedanta (58%) and GMR (55%). The total debt for all 10 was Rs 539,500 crore (2012) compared to Rs 99,300 crore (2007). The groups' indebtedness grew by 40% every year while general bank lending grew only by 20%.

Furthermore, UBS reports: "Over the next three years, each of these groups has 2,000~4500 MW of capacity likely to be commissioned, much of which faces issues relating to coal/gas supply and PPAs. Note that these ten groups account for 70% of the private sector power capacity that is expected to come up by FY17." So we have four crises in one : (1) the survival of these groups (2) the stock market effect (3) the health of the banks and (4) a shortage of power. Not something to look forward to in 2014.

A happier scenario is a radical tax proposal which has caught the imagination of the BJP High Command. It is to abolish income, excise, service and sales taxes worth Rs 12,500 crore to Rs 14,000 lakh crore. Instead a transaction tax of 2% on all bank transactions is expected to bring in Rs 40,000 lakh crore.

What will this do? For a start, all taxation officials, auditors and tax "consultants" will become unemployed. It will substantially reduce black money, especially if Rs 500 and Rs 1,000 notes are abolished.

Who favours this scheme?

Former BJP president Nitin Gadkari ("those 3.5 lakh people (officials) will not be required anymore"), BJP president Rajnath Singh, Dr Subramanian Swamy ("Why should we pay income tax?"), Narendra Modi ("The present taxation system is a burden on the common man. There is a need to introduce a new system"), PHDCCI President Sharad Jaipuria ("The personal income tax should be reduced or abolished with alternate sources"),

KPMG's Girish Vanvari ("may reduce corruption and collusion with the Government agencies"), FICCI President Sidharth Birla ("concept is inspirational") and Baba Ramdev ("Modi should introduce it when he becomes PM").

Who is against it?

Yashwant Sinha ("We will have to go back to Vedic days if we abolish income, sales and excise tax"), Rahul Garg, PwC India ("abolition of income tax would be against the progressive system of revenue collection"), and ASSOCHAM Secretary General D S Rawat ("replacing income tax with expenditure or banking transaction tax will be anti-poor").

Not sure?

Arun Jaitley ("You cannot tax the rich and poor at the same rate" but "appeared inclined to give it serious thought"), Sudhir Kapadia, E&Y ("it is feasible to abolish personal income tax, but question is whether it is desirable").

Wait and see what 2014 brings—as usual good and bad!

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