THE COCHIN CHAMBER OF COMMERCE & INDUSTRY

Pre-Budget Memorandum 2021 - 2022

PREPARED BY:

The Research Wing of the Cochin Chamber of Commerce & Industry

Smt. Nirmala Sitharaman
Finance Minister,
Government of India,

Ma'am,

Sub: Pre-Budget Memorandum 2021-22

Greetings from the Cochin Chamber of Commerce and Industry!

The Cochin Chamber of Commerce and Industry, established in the year 1857, has completed 163 years of service to the region's commerce, industry and trade – this year. This Chamber, one of the oldest in the country, is a Promoter Chamber of the Associated Chambers of Commerce and Industry of India (ASSOCHAM), New Delhi, the oldest national Chamber in the country. Though we are a Chamber of Commerce in the traditional sense, we have always been looking out for ways to reinvent ourselves and make relevant contributions to the society that we live in. The Chamber wishes to engage with policymakers on public policy issues, providing independent critical analysis with recommendations for reform.

We take this opportunity to thank the Minister and the team for inviting us to submit our inputs for the Union Budget 2021-22. We find ourselves fortunate to be able to receive regular invites from the Finance Ministry to be a part of the Pre Budget Discussions. We were happy to note that some of our inputs had featured in the Budget 2020-21 and in the subsequent financial packages announced by the Government of India in the Atma Nirbhar Bharat packages. We have compiled a list of interventions focusing on Income tax, industry, trade, services, health, education etc. to aid the Ministry in the decision making process. These suggested interventions are supplemented with reasons and justifications to enable informed decisions from the Ministry's side.

We hope that you take our inputs into consideration, on merit, before finalising the budget. Our team will assist the Ministry with clarifications required, if any.

Thanking you in advance for your kind consideration.

Yours faithfully,

<table>
<tr><th>S. No</th><th>Theme</th><th>Suggestion</th><th>Justification</th></tr>
<tr><td>1</td><td>Income tax</td><td>Increase Income tax slabs</td><td>Suggested income tax slabs
<table>
<tr><td>Up to Rs 7.5 lakh</td><td>NIL</td></tr>
<tr><td>Rs 7.5 lakh to Rs 10 lakh</td><td>5%</td></tr>
<tr><td>Rs 10 lakh to Rs 12.5 lakh</td><td>10%</td></tr>
<tr><td>Rs 12.5 lakh to Rs 15 lakh</td><td>15%</td></tr>
<tr><td>Rs 15 lakh and above</td><td>20%</td></tr>
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<tr><td>2</td><td>Income Tax</td><td>Implement Direct Tax Code Reforms</td><td>In September 2019, the Akhilesh Ranjan Committee on Direct Tax Code submitted their report. The Direct Tax Code has been in the discussions since time immemorial. The government should consider placing the report of the Committee in public domain for public comments. After incorporating the changes addressing the concerns of the stakeholders at large, the same should be placed in the Parliament.</td></tr>
<tr><td>3</td><td>Industry</td><td>Reduce Corporate Tax</td><td>In September 2019, the Government of India slashed the corporate tax rates to 22% from 30% for existing companies and to 15% from 25% for new manufacturing companies. The effective tax rate for an existing company</td></tr>
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			including a surcharge and cess is 25.17%. Regions like Hong Kong and Singapore levy a corporate tax of 16.5 and 17 per cent respectively. To match their industrial climate we should reduce the effective corporate tax at least to 20%.
4	Industry	Setting up Invest India like Business Facilitation Cells in all states in collaboration with Industrial Associations	Most of the states in India have investment cells that are handled by senior bureaucrats without any involvement from the industry. Invest India was formed in 2009 under Section 25 of the Companies Act 1956 for promotion of foreign investment with 49% equity of the then Department of Industrial Policy and Promotion, Ministry of Commerce and Industry and 51% shareholding by FICCI. The current shareholding pattern of Invest India is 51 % of Industry Associations (i.e. 17% each of FICCI, CII & NASSCOM) and the remaining 49% of Central and 19 State Governments. Acknowledging the importance of their work, they were awarded the United Nations Investment Promotion Award 2020. States should be encouraged to set up Invest India like Business Facilitation Cells that have industry representation and participation. This could be achieved through DPIIT guided Ease of Doing Business reforms. At Least 50 percent of the shareholding in the Investment Promotion Entity should be from the Industries.

5	Industry	Inclusion of fundings to Chief Minister's Distress Relief Fund (CMDRF) under the ambit of CSR expenditure	The Ministry of Corporate Affairs in April 2020 issued a COVID CSR related FAQ clarifying the exclusion of contributions made to the Chief Minister's Relief Funds and State Relief Funds for COVID-19 from the ambit of eligible CSR expenditure under the Companies Act. A more liberal view should be taken of such provisions which are intended to benefit the lives of people affected by large scale disasters like COVID which require Corporates to wholeheartedly offer all possible support at both the national and state levels so as to be really effective and the eligibility for CSR should be extended to at least certain specified funds at the state level such as the Chief Minister's Disaster Relief Fund. Here, it must be noted that most of the state level crowdfunding initiatives are routed through the Chief Minister's Relief Fund, especially in Kerala where recurring calamities have made the fund the most popular way to support the rebuilding process. Similarly, many industrial organisations in Kerala have pledged their support to the Chief Minister's Distress Relief Fund. The inclusion of the state CM Relief Funds under the ambit of CSR expenditure will enable industries to contribute to the development and reconstruction of the state.
6	Industry	Reduce prices of Petroleum Products in line with the International Crude Oil prices	Although the crude oil prices have come down, the reduction has not been reflected in the prices of petroleum products in India. Reducing taxes and duties is the best solution

			and this would help to make India's exports competitive, bring down current account deficit and we may also no longer see the rupee depreciating. Higher crude prices adversely affect twin deficits – fiscal and current account deficits of the economy. The financial impact of almost all domestic industries also greatly depends on the prices of petroleum products. Therefore, reduction in oil duties will support the country's exports and will be a great impetus to the various industries in the country, as also to the public.
7	Industry	GST on Petroleum products	The government could also explore the possibility of placing oil products within the ambit of the Goods and Services Tax (GST) after proper consultations with experts and the State governments. The prices then do not have to be administered by the Government and people would treat oil as just another commodity, which depends on international prices.
8	Industry	Finalise a New Industrial Policy for Atma Nirbhar Bharat	In 2017, the then Department of Industrial Policy and Promotion , released a 'discussion paper on the Industrial Policy.' The paper outlined the need to formulate an outcome oriented actionable Industrial Policy that provides direction and charts a course of action for a globally competitive Indian industry which leverages skill, scale and technology. The Department is reported to have finalised the policy in November 2019

			based on the outcomes of deliberations with multiple stakeholders. We suggest a larger stakeholder and public consultation after circulation of the draft DPIIT approved version of the Policy. India's quest to become a 5 trillion dollar economy can be fulfilled only through effective participation of all the stakeholders. Placing the draft policy for stakeholder comments will definitely improve investor confidence in the Government.
9	Industry	Parliamentary Budget Office	Experience across the globe suggests that the establishment of a Parliamentary Budget Office has considerably improved the quality of budgetary processes. The Government should consult stakeholders and place a proposal for the same in the Parliament. Parliamentary Budget Offices in the United States, Australia, Canada etc. have shown that these independent setups attached with the Parliament can act as a forum for regular engagement on budget related research, information, activities thereby enabling better quality interventions from the Parliamentarians. The Government should request the Law Commission of India to prepare a report on this topic in consultation with all relevant stakeholders. This is a reform that Aatma Nirbarbharat should not hesitate to implement.
10	Industry	Public Procurement Law	We do not have an overarching public

			procurement legislation in India. The previous NDA Government had solicited comments on the Public Procurement Bill, 2012. According to this, all Government Contracts above Rs.50 lakh were to be governed by this proposed legislation ensuring "transparency, accountability and probity" in state purchases. However, the Bill has, as yet, not been placed in the Parliament for consideration and passing. The Government should consider placing the draft version of the amended Public Procurement Bill for initiating stakeholder consultations.
11	Industry/ Governance	A law mandating effective Pre Legislative Consultations	There have been multiple disruptions in the recent past because of Laws that were passed in the Parliament. Experts suggest the lack of effective Pre Legislative Consultations as one of the major reasons for the same. We suggest institutionalising a Right of Citizens to Participate in Policy Making Act that lays down a clear framework for policymakers to facilitate pre-legislative consultations while prescribing punishments for defaulting officials etc. The Supreme Court of India in the Cellular Operator's case had recommended the Parliament to frame a legislation along the lines of the U.S. Administrative Procedure Act to facilitate transparent stakeholder consultation in rulemaking processes. This will also enable participatory democracy, evidence based policymaking etc. Having a

			structured consultation process will enable stakeholder confidence facilitating smoother transition to the newer regimes.
12	Industry	Independent Directors Examination	The latest Companies Amendment Rules requires all independent directors to undergo assessment tests organised by the Indian Institute of Corporate Affairs. As pointed out by Mr. Murali Neelakantan, an expert Corporate lawyer and ex global counsel CIPLA, this requirement is a unique one which finds no resemblance in any other part of the world. The necessity of Independent Directors who are known for their domain knowledge is also questionable. The government should reconsider this rule and consider repealing the provision mandating clearing of examinations.
13	Industry	Amnesty scheme for Legacy Disputes under Customs Law	The government could consider launching a scheme similar to Sabkha Vishwas (Legacy Dispute Resolution) Scheme 2019 covering litigations under various Customs Laws and Procedures. Various stakeholders from the industry have raised this demand in the past.
14	Industry	Adequate publicity for Unemployment Allowance	The ESIC, in its 175th meeting held on 18.09.2016, had formulated a Scheme christened as "Atal Bimit Vyakthi Kalyan Yojana" (ABVKY) to provide unemployment allowance to insured persons. As per this Scheme, the insured persons, with at least two years valid ESI coverage, will be entitled to unemployment allowance upto 90 days at 25% of their average daily wage.

			Many stakeholders are unaware of this scheme. The scheme could be relaunched with a new name and a proper marketing campaign to ensure that the benefit reaches every target stakeholder in this country. Some applicants have complained about the lack of clarity in claiming the allowance and sought more support from ESIC. These issues should be addressed immediately.
15	Industry	Incentivise employment generation by amending 80JJAA	Section 80JJAA of the Income Tax Act provides for deductions to incentivise businesses to employ additional employees. However, employees with emoluments of more than INR 25,000 per month are not covered in the definition of "additional employees". Increasing this to an amount of INR 50000 per month can motivate the private sector to hire more. Also, the employee who is employed for a period of less than 240 days during the year is not covered under this clause. Reducing the threshold to 140 days would be ideal considering the state of affairs.
16	Industry	Possibility of Institutionalising Development Impact Bonds	Development Impact Bonds (DIB), is a results-based development investment contract that involves three parties: a private investor, an outcome payer, and an implementing partner/service provider. The private investor invests money to carry on certain

			development projects that promises measurable social outcomes. On achieving these outcomes, the private player is paid back in capital along with interest. According to the India Development Review, the first DIB in India was launched by a non-profit, Educate Girls, in association with UBS Optimus Foundation and Children's Investment Fund Foundation, has surpassed both its targets (increased girls' enrolment and improved learning outcomes) by 116 percent and 160 percent respectively. A total of 768 girls were part of the experimental project initiated by Educate Girls. It was found that the learning outcomes were 28 percent higher than the girls who did not opt for the Educate Girls project. It would be fruitful to consider the possibility of a governmental level of institutionalisation/facilitation of Development Impact Bonds in India. A return on investment is expected to motivate more private players to the philanthropic sector.
17	Industry	Circulate Draft National Retail Trade Policy	According to the response given in the Rajya Sabha by Mr. Piyush Goyal, the Minister of Commerce and Industry, the Department for Promotion of Industry and Internal Trade is formulating a 'National Retail Trade Policy'. This policy is aimed at benefiting approximately 65 million small traders in India. The Government should immediately release the draft policy for soliciting comments from stakeholders and the public at

			large.
18	Industry	Approve National Logistics Policy	The Ministry of Commerce and Industry had circulated the Draft National Logistics Policy, 2019 on 5th February 2019, soliciting comments from the stakeholders and the public at large. The Budget 2020 also featured National Logistics Policy as one of the major promises. However, the policy is yet to be finalised. Necessary steps should be taken to provide a boost to this sector through clear policy outlines.
19	Industry	Infrastructure status to Real Estate	The stakeholders claim that according 'infrastructure' status to the real estate sector would enable more investments and result in more real estate activities in Tier 2 and Tier 3 cities. A government that is keen on urban housing and infrastructure investments should not delay this reform. This would result in lowering the costs for developers and price for consumers, giving rise to a win-win situation.
20	Industry	Clarification on capital gains on land acquisition	Land Acquisition and Rehabilitation and Resettlement Act 2013 has come into force from 1.1.2014. As per section 24 all proceedings after this date has to be under the new law. However many state governments have continued to issue proceedings under the Land Acquisition Act 1894 and consequently, Income tax officers have refused to grant the relief under section 96 of the Act, being exempt from Capital gains. It is submitted that

			necessary clarification be issued under the Income Tax Act, that all proceedings issued after 1.1.2014 in respect of Land Acquisition for the objects covered under new law shall be governed by the provisions of new law . This would bring closure to several litigations before CIT(A) and ITAT as the assessee would be granted the relief which the Government intended to grant.
21	Industry	Faceless income tax assessment to be standardised	The Government has brought in the faceless assessment scheme for all income tax cases since August 2020. The assessments which were currently done by various officers across the country is now to be done by a verification team consisting of various levels of officers. However, the notices so far fail to instill confidence in the business community since they continue to seek details as a roving enquiry of party wise purchase, sales, expenses ; reconciliation of turnover etc. It is submitted that in the case of assessee having turnover over 2 crores, are subject to tax audit, GST audit . Every special deduction is covered by a separate audit report. The tax audit report comprehensively covers all routine matters to be seen by an assessing officer. Roving enquiry seeking routine data does not enhance any quality in the assessment but only hampers the ease of doing business as the assessee are now required to scan and load huge volumes of details. It is suggested that the notice under section 142(1) should be

			based on the audit reports, accounting policies and other observations in the tax audit report which will help in making better quality assessments.
22	Industry	Manual matters pending in assessments to be cleared on a time bound basis	Consequent to moving to face less assessment schemes , only limited staff are deputed in income tax offices for pending matters which are to be completed under the manual mode. As a result, there is huge pendency of proceedings giving effect to appellate orders and reduction / enhancement of demands based on the same. This needs immediate attention as this will affect the figures of outstanding figures presently reported by various offices.
23	Industry	Coordination of works between CPC and assessing officers	Several demands have been raised on processing of return by CPC which was prima facie wrong. For eg: In case of charitable institutions demand is raised considering gross receipts as income; In several cases , the difference between income as per Form 26AS and return is considered as income without looking into the objections raised. As a result huge demands are raised. The AO even though is convinced that the demand is wrong is not able to initiate action as the CPC has not given access to the returns to the ITO and CPC refuses to rectify the assessment. There are several cases where the income as per 26AS and return overlaps a particular year

			especially where the recipients follows the cash system of accounting and payer follows mercantile system. Though section 199, 205 of the Income Tax Act and Rule 37BA are clear, these are not correctly followed by CPC and resulting in raising wrong demands. Necessary coordination to be made between CPC and AO to ensure that all such wrong demands are withdrawn before 31st March 2021. This would also help the assessee make options under VSV scheme in cases where the mistake is genuine.
24	Industry	Electricity policies	To make industries globally competitive, progressively reduce the permissions given to state governments to charge cross subsidy charges on electricity, and relook at the policy change initiated by CERC (Central Electricity Regulatory Authority) to transfer transmission loss to the buyer. These two policy changes will make electricity charges cheaper.
25	Trade	Circulate the Draft Foreign Trade Policy for comments	To make the process more participatory and effective, the DGFT should circulate the draft for stakeholder comments. This could ideally be placed on the DGFT website in the first week of February 2021, thereby providing a month's time for submission of comments. The Directorate may then invite select stakeholders for detailed discussions to facilitate informed debate and discussions on the proposed changes. The government may

			then finalise the Trade Policy after incorporating these changes proposed by the stakeholders and the public at large.
26	Trade	Concessional tariffs on imports	Concessional tariffs are permitted for imports of products from certain countries based on trade agreements. The concessional tariffs vary from 0% to 1.4% as against peak rate of 7.5%. This goes against the spirit of Atma Nirbhar Bharat. To drive the growth in the manufacturing sector which is actually seeing a degrowth, concessional tariffs may be deferred by at least an year so that domestic industry can grow.
27	Trade	Clearing proposals on anti-dumping duties	The Finance Ministry is not issuing orders on proposals by the Ministry of Commerce to levy anti dumping duty . Proposals may be cleared so that the manufacturing industry can regain growth.
28	Trade	RoDTEP Rates	The rates finalised by the G K Pillai RoDTEP Committee or the Government should not be arbitrarily imposed on the stakeholders. The same could be avoided by placing the Report of the Committee for stakeholder consultation and inputs, creating scope for an informed debate on the topic. This would also increase the confidence of the stakeholders in the proposed changes.
29	Trade	Allocation of amount for RoDTEP	In September 2019, when the Finance Minister

		scheme	announced the RoDTEP scheme to incentivise exporters, the Ministry had estimated an annual cost of ₹ 50,000 crore for the exchequer. News reports suggest that the government has plans to reduce the allocation to ₹10,000 crore. NITI Aayog also made a similar recommendation wherein the think tank suggested revising the estimated outlay for RoDTEP scheme to 10,000 crore. This is an unfortunate development that will hamper the morale of the exporters who are trying their level best to recover from the disastrous impact of COVID 19.
30	Trade	Corporate tax like concession for MSMEs	It is indeed heartening to note the efforts by the Government for providing various incentives to MSME units across the country. It may be pointed out that many of the micro and medium enterprises are partnership firms with two / three partners. All the concessions / incentives offered are the same for MSMEs irrespective of their constitution. While the rate of income tax has been progressively reduced from the peak rate of 30% to 22%, no tax concession is granted to partnership firms who are still taxed at 30%. It is suggested that the reduced tax rate be extended to partnership firms also, which can be optional and with conditions like Section 115BAA for corporates.
31	Trade	Rationalisation of registration as MSME Unit	The criteria for identification as MSME unit was revised from 1.7.2020 vide notification [F.

			No. 2/1(5)/2019-P&G/Policy (Pt.-IV)]. As per the notification the classification is to be based on turnover and not on the investment in plant and machinery. However, this has not been implemented by banks and financial institutions where they continue to follow the investment in plant and machinery. As a result many MSME units especially partnership firms and proprietary concerns have not been able to take advantage of the revised norms. RBI may be requested to issue necessary directions in this regard.
32	Trade	Invoking Force majeure clause under Foreign Trade Policy	Covid 19 has made force majeure an important topic of discussion. The process related to invoking the force majeure clause should be simpler. 2.54 of the Foreign Trade Policy requires the exporter to approach RBI if the exporter is unable to realize the export proceeds for reasons beyond his control. It is to be noted that not everyone may be in a position to approach the Reserve Bank of India. For the same, regional accessible forums must be made available. The Reserve Bank should be approached only when there is a confusion in the adjudication process or as an appeal.
33	Trade	Inclusion of more trade organisations in the Board of Trade	The Directorate General of Foreign Trade vide. Notification No. 11/2015-20 dated 17th July, 2019 merged the Council for Trade Development and Promotion (CTDP) with the

			Board of Trade (BOT) while retaining the name Board of Trade (BOT). The objective of BOT is to have regular discussions and consultations with trade and industry and advise the Government on policy measures related to the Foreign Trade Policy in order to achieve the objective of boosting India's trade and to bring about greater coherence in the consultation process. The presence of National Level Trade organisations like ASSOCHAM, CII, FICCI, FIEO etc. as ex officio members will definitely boost the morale of the industry players. We request you to consider the inclusion of reputed trade organisations from individual states to improve the quality of discourse. This will also be in consonance with the BOT's mandate to provide a platform for State Governments and UTs to articulate their perspectives on trade policy.
34	Trade	Establishing DGFT funded Trade studies research centres	The Ministry of Education under the scheme of Intellectual Property Education, Research and Public Outreach (IPERPO) has set up IPR Chairs in various universities and institutes to promote IPR Education, Research and Training. The scheme was supposed to promote scholarships and fellowships for conducting research in economic, social, legal and technological aspects of the World Trade Organisation. Currently, twenty IPR Chairs have been set up so far in premier institutes such as Indian Institutes of Management,

			Indian Institutes of Technology, National Law Universities etc. However, Centres focussing on WTO studies are limited to a few institutions like Indian Institute of Foreign Trade (IIFT), Central University of Kerala etc. This represents the lack of institutional arrangements for the promotion of trade research. The DGFT should consider setting up research institutes across the country to promote and engage researchers and academicians working on trade policies. These can also serve as a platform for undertaking empirical research that can be used as evidence for policy making processes. These institutions could also complement the works of IIFT, Centre for Research in International Trade etc.
35	Health	Place India's Vaccination Strategy in public domain	According to a survey conducted by the World Economic Forum in collaboration with IPSOS, the confidence in taking a COVID-19 vaccine has dropped since August 2020, with less people globally saying that they would get themselves vaccinated. The survey results released in November 2020 suggests that 73% of adults in 15 countries strongly or somewhat agree with the statement "if a vaccine for COVID-19 were available, I would get it". In the month of August, the percentage of respondents who agreed with the statement was 77%. Indian respondents have maintained highest confidence in the system

			with 87% saying that they will get vaccinated. However, the confidence levels are expected to reduce considering the panic created by the reporting on vaccine trials and other campaigns. The lack of clarity and widespread apprehensions about the vaccine could be addressed effectively through proactive transparent communication. The United States Centers for Disease Control and Prevention (CDC) has released vaccine strategy documents in the public domain to communicate to the Americans that they can trust their country's best public health and logistics experts who are working towards an effective-safe distribution and administration of vaccines as soon as possible. Various agencies like the Ministry of Health and Family Welfare, NITI Aayog, State Governments, State Planning Boards etc. should work together in coming up with the best strategy for vaccination. The same should be placed in the public domain and disseminated to the public at large.
36	Health and GST	Reducing GST rates for Health Insurance policies	During a global pandemic that has crippled business, lives etc. it is unfair to collect 18% GST on Health Insurance Policies. The Insurance Regulatory and Development Authority of India (IRDAI) had approached the Finance Ministry with proposals to reduce the same to 5%. The proposal for the same should be urgently placed before the GST Council and the GST rates should be minimised or nullified.

			There are widespread complaints about the non reimbursement of claims which should be addressed.
37	Health	Increase Budgetary allocation for health	The impact of the Pandemic on the health sector is clearly evident. India's spending just 1.6 per cent of GDP on health makes it one of the worst in the world. The Government should increase the budgetary allocation at least to 3 % of the GDP at this juncture where the future of the country and humanity significantly depends on the investment in the health sector.
38	Education	Access to quality internet	The pandemic has exposed the fault lines in the system. The shifting of classes to online platforms has increased the load on the existing telecom infrastructure. The government should collaborate with telecom sector players and regulators to ensure that the quality of internet services available to the students or anyone for that matter is adequate. The quality of the internet will be a huge burden when E-invoicing becomes mandatory for all transactions.

E-mail: cochinchamber@cochinchamber.org;
secretary@cochinchamber.org
Website: www.cochinchamber.org
Whatsapp: 6238383922