In Govt's Growth Push, Some Fiscal Pain

Experts Feel Fiscal Deficit May Miss 3.3% Target, Slip To 4%

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New Delhi:

The sharp cut in corporate tax rates unveiled by finance minister Nirmala Sitharaman on Friday poses a risk for the fiscal deficit target, budgeted at 3.3% of gross domestic product.

The cuts in corporate tax rates have come at a time when collections of both direct and indirect taxes have been sluggish and the government estimates Friday's cuts will mean a revenue loss of Rs 1.45 lakh crore. The government has also foregone revenues in other steps announced earlier such as export incentives and scrapping the superrich surcharge on foreign and domestic portfolio investors.

Several economists **TOI** spoke to said they expect the government to overshoot the fiscal deficit target for the current year with former RBI governor C Rangarajan pegging it closer to 4% of GDP.

"It is a bold effort but the impact of the reduction may take some time. It may not really happen this year, but as a long-term goal, reduction of corporate tax rate has always been an objective," Rangarajan told **TOI**.

"The loss of revenue is estimated at roughly 0.7% of GDP. Since the revenues are sluggish now, it is more likely the fiscal deficit probably will go beyond 3.5% or closer to 4%," he said, cautioning that fiscal deficit cannot be overlooked and every effort must be made to adhere to the target.

Over the past few years, there has been a debate about the need to strictly adhere to fiscal deficit targets. Some experts have advocated relaxing the targets to boost growth but the government has preferred to go with the fiscal conservatives, concerned about the impact of a high deficit on interest rates and the overall economy. Against the backdrop of sluggish economic growth, concerns have grown about the government's ability to meet the budget's revenue targets. The government has estimated gross tax revenues to grow by 9.5%, slower than the 17.2% estimated for the previous fiscal year.

GST revenues are also expected to grow modestly due to the fine-tuning of the tax reform measure. The government has also estimated lower capital expenditure at 1.6% of GDP, marginally lower than the 1.7% in the previous year.

The government, however, expects Rs 1.05 lakh crore from selling its stake in staterun firms in the current fiscal year and is confident of meeting the ambitious target.

As a bonanza, it has received a surplus transfer of Rs 1.76 lakh crore, of which Rs 90,000 crore was accounted for in the budget. It also hopes to raise Rs 50,520 crore from spectrum sales, but this would depend on whether the government goes ahead with it and there is enough demand.

The government is unlikely to go for expenditure cuts to meet the deficit target. A pickup in growth and revenues in the second half of the fiscal year may help cushion some of the impact. Tax experts said that with the growth in tax collections being lower than budgeted, the actual revenue loss may be lower than the estimated Rs 1.45 lakh crore. Some of them even said they don't expect the corporate tax reduction to hurt the deficit target and a pick-up in economic activity would help.

"Reduction in tax would not automatically lead to tax revenue losses on a pro rata basis. We understand the cuts would increase the tax base by attracting more economic activity. Ideally, one needs to assess the net impact after taking care of positive knock-on effects of the tax reduction on the economy," said NR Bhanumurthy, professor at NIPFP. "It would help widen economic activity. I am more optimistic that this measure would create a positive impact," he said.

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