Task Force on implementation of FRBM Act

2.41 Following the enactment of FRBM Act, Government constituted a Task Force headed by Dr. Vijay Kelkar for drawing up the medium term framework for fiscal policies to achieve the FRBM targets. The Task Force was also asked to formulate annual targets indicating the path of adjustment and required policy measures. The Task Force submitted its report in July, 2004. The Task Force recommended a path of fiscal adjustment that is front-loaded and mainly revenue-led, with complementary reform efforts on revenue expenditure and enhanced capital expenditure to counteract the possible contractionary effects of fiscal correction (Box 2.8).

2.42 The Task Force estimated that under the reforms scenario recommended by it, tax-GDP ratio of the Centre would improve from 9.2 per cent in 2003-04 (RE) to 13.2 per cent in 2008-09. Total expenditure is estimated to come down to 14.3 per cent of GDP by 2008-09 from 15.4 per cent of GDP in 2003-04 (RE). A revenue surplus of 0.2 per cent of GDP is estimated in 2008-09. Fiscal deficit is estimated to come down from 4.8 per cent of GDP in 2003-04 to 2.8 per cent of GDP in 2008-09.

Box 2.8 : Report of the Task Force on Implementation of the Fiscal Responsibility and Budget Management Act, 2003

Tax reforms strategy

- Widening the tax base through removal of exemptions and “grandfathering”.
- Few, but low rates to avoid the problems of bracket creep, classification disputes and lobbying for lower rates.
- Enhancing equity of the tax system, both vertical and horizontal.
- Shifting to non-distortionary consumption taxes to enhance efficiency in production and international competitiveness of Indian goods and services.
- Enhancing the neutrality between present and future consumption; forms of organisation; and sources of finance.
- Establishing an effective and efficient compliance system.
- Focus on buoyancy rather than immediate sources of tax revenues.

Tax measures proposed

- An All-India goods and services tax (GST), on the basis of a ‘grand bargain’ with States, whereby States will have the concurrent powers to tax services, subject to certain principles that will help foster a national common market.
- Income tax exemption limit to be increased to Rs.1,00,000.
- A two-tier rate structure of 20 per cent tax for income of Rs.1,00,000 to Rs.4,00,000 and 30 per cent for income above Rs.4,00,000 for individuals and elimination of standard deduction available to the salaried taxpayers.
- A reduction in corporate income tax to 30 per cent for domestic companies and a reduction in depreciation rates from 25 per cent to 15 per cent. All tax incentives for existing units to be ‘grandfathered’ but to be removed for new units.
- A 3-tier customs duty rates of 5, 8 and 10 per cent to bring down tariffs to ASEAN levels.
- *Ad valorem* rates of excise applicable to petroleum products to be converted into specific rates and the threshold exemption limit for small-scale industries to be reduced from Rs.1 crore to Rs.40 lakhs.
- Allocation of a greater portion of expenditure to legitimate public goods by revisiting the classifications of expenditure.
- Empowering panchayats /local bodies through resource transfer.