

Budget 2013: Govt should widen tax base rather than raise taxes, says Keki Mistry, HDFC

In an interview with ET Now, Keki Mistry, Vice Chairman and CEO, HDFC Ltd [BSE 0.70%](#), shares his expectations from the Budget 2013. Excerpts:

There are major expectations riding on the budget this time. Most importantly on the fiscal front, but with elections fast approaching, there are a few who are worried that politics may take over economics. What are the key measures that you are hoping for?

No, the fiscal situation will be kept under track. The Finance Minister has gone and met investors in Hong Kong, Singapore, London and Frankfurt, and he has told everyone that the fiscal consolidation is something which is a priority in the minds of the government. So I am sure he will meet the fiscal target. The fiscal target for this year is 5.3% and for the next year it is 4.8%. So to my mind, that is going to be the single biggest driver of the budget.

The government has come under fire for running high fiscal and current account deficit for many years now. Do you see the government will be able to significantly reduce these deficits?

See there are two ways. You can cut the fiscal deficit and it is obviously very logical. Either you increase your revenue or you reduce your expenses. Now to increase your revenue, you either keep taxing the same people who have been paying taxes all these years, levy more taxes on these people at higher rates or you widen the tax base and I hope that the budget will be aimed or directed at widening the tax base. As far as expenses are concerned, there would be a fair bit of cut back on some of the expenses and we will have to wait and see what kind of expenses have been cut back, but I am sure that whatever measures are taken, the fiscal deficit target will be met.

One of the things which we could probably look at, though I do not know if that will ever get done, is that we know that there is so much of black money in India and why cannot we channelise that black money, make it official, get it back into the formal system, levy a tax on that black money, put a penalty on that money, but just bring it back into the formal system because today all that black money is sloshing around in the system and it is creating inflationary pressures. All the measures taken by the RBI are partly getting nullified with this huge amount of black money in the system.

One of the controversial measures that has been mooted of late is taxing the super rich. Do you subscribe to this idea?

I would certainly not subscribe to that. I would not subscribe to that for the pure and simple reason that whilst tax rates in India are much more moderate compared to tax rates in the western world, the fact is that in India we do not have a social security system. So, you may have paid taxes all your life, but the day you retire, the government is not there to look after you whereas that is not the case in the west.

In the west you pay more taxes, but when you retire, there is a social security system, you are taken care of. If you look at the UK, for example, I am told that after retirement,

you are paid something like £1000 per month. So, you pay taxes all your life and then later on when you retire, the government takes care of you, the system takes care of you.

In India, we do not have that and therefore necessarily, you need to save a lot more to take care of your old age and therefore having higher taxes is really in my view not a solution. We need to widen the tax base. Why in a country, as big as ours, we are having limited high income tax earners?

What measures do you see as critical for the banking and the financial services sector and do you expect any sops aimed at the housing or the real estate sector?

First of all, I am not speaking now as HDFC, I am talking as an individual. World over, we have seen that the housing sector contributes in a significant manner to the revival of an economy. When there is an economic downturn, you provide some boost to the housing sector and the whole economy starts getting back on its feet.

Therefore, some measures to assist the housing sector are something which will always be welcomed. There are statistics to suggest that there are 276 industries in India, big and small, which depend on the housing sector, on the construction sector. So, by encouraging the housing sector effectively, you are encouraging all these 276 industries. Now these industries are big ones like cement, steel, paint, and there are also smaller people, there are carpenters, there are plumbers and so on and so forth.

So, by encouraging the housing sector, you are generating so much more employment. Housing is the second largest employment generator in the country and again I believe there are statistics to suggest that probably with one rupee invested in the real estate sector, 78 paise gets added back. I would hope that there is some fiscal benefit to the housing sector. However, one must also keep in mind that there is a need to curb the fiscal deficit and therefore the Finance Minister may not be able to do as much as he would like to do.

Let us move from financials to education. Now education is another key sector that will find some mention in the budget. What do you expect to hear about education or education outflow from this year's budget?

There are already many measures which are being taken to promote education. I am not too sure if there are too many fiscal measures that can be suggested to help the education sector. It is more on the policy front, but on the fiscal side what we need to really address is how we mobilise household savings.

If you see, over the last one year bank deposits have been growing at a slow pace. Money is not coming into mutual funds, most mutual funds are actually losing money, and insurance companies are not really growing. So, where is all the money going? The money is going into gold and possibly into other hard assets and therefore measures are required to boost savings in the financial sector. I hope there are some measures that the government takes to boost investment in the financial sector.

As you mentioned, deposit growth has suffered a lot this year and banks have asked the Finance Minister to consider a preferential tax treatment for bank deposits. Do you think something on these lines would work out?

Given the fact that there is a fiscal deficit issue and we need to do fiscal consolidation, there is that much that the Finance Minister can do. Now whether it is in the form of encouraging savings, in the form of bank deposits, in the form of savings for people to invest in mutual funds or in insurance companies, some measures are required. But whether it can be all segregated and separate limits be set aside for each of these, whether a couple of these things can just be merged together, it is difficult to say.

You have one consolidated limit for investment in, let us say, mutual funds and insurance companies and another one for bank deposits. Today there is benefit under Section 80C which says that investment up Rs 100000 qualifies for deduction, but that investment of Rs 100000 comes through a whole variety of different sources.

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