Govt may delay exporters' duty refunds to maximise revenue, control fiscal deficit

With the finance ministry being relentless about keeping tax revenues on course so that the fiscal deficit is contained at budgeted levels, exporters could be the next to feel the pinch after oil marketing and fertiliser companies.

Exporters are unlikely to get any more duty refunds for the rest of the year as field officials look to maximise revenues in the remaining three months of FY14.

P Chidambaram will meet chief commissioners handling both direct and indirect taxes on January 6 to take stock of mopup.

"There is no written directive but the message is loud and clear that there should be no letup in meeting tax targets," said an official who deals with indirect tax collections in the field. Going slow on refunds will help inflate collections as money that's due to exporters is pushed to the next fiscal. Exporters claim refunds on duties they have paid to import material used in the manufacture of goods that are then sold overseas.

As part of a clampdown, the Centre is also not likely to pay any fertiliser and oil subsidy remaining for this year, amounting to nearlyRs 85,000 crore, which would also then get pushed to next fiscal.

Chidambaram's message to chief commissioners when he meets them is expected to focus on energising collections in the last few months. With global rating agencies keeping a close watch on India, any slip-up will cost the country dear, not something the government may want to explain in the months leading up the general election. Any hitch in duty refunds would, however, be bad news for Indian exporters.

"Delay in refunds affects liquidity of exporters," said Ajay Sahai, director-general of the Federation of Indian Export Organisations (FIEO), a lobby group. "With interest rates being high, this is going to hurt exports."

Revenue collections have remained sluggish, in line with an economic growth rate that's been below 5% thus far. Gross direct tax collections rose 13.18% toRs 3.68 lakh crore in the April-November period while indirect tax collections were up 4.9% atRs 3,07,568 crore during the first eight months of 2013-14 compared with Rs 2,93,145 crore in the year earlier. Indirect tax estimates may have to be revised downwards by at least Rs 30,000-35,000 crore from the budget estimate of Rs 5.65 lakh crore. ..

Excise collections dropped 5.1% to about Rs 1,03,629 crore fromRs 1,09,180 crore while customs revenue rose 7% to Rs 1,11,844 crore. Only service tax managed double-digit growth, of 16%, toRs 92,095 crore during the period. The direct tax target of Rs 6.68 lakh crore also looks an uphill task. Although collections have picked up momentum, the growth rate is far from the required 19%. The story on non-tax revenues, especially disinvestment, also doesn't look encouraging. The government has raised only Rs 3,000 crore of theRs 40,000-crore disinvestment target and Rs 15,000 crore from residual stake sales in the current financial year.

Chidambaram, who unveiled a new fiscal consolidation road map in October 2012, is determined not to allow any slippage in the fiscal deficit target of 4.8% of GDP for 2013-14.

On the one hand, a spending squeeze is expected to provide some cushion on the expenditure front when he presents the revised estimates for 2013-14, while on the other, the focus clearly is to ensure that any shortfall in revenues is minimal. For exporters, this won't be the first time there have been difficulties with duty drawback refunds.

(Economic Times)