Retrospective change in tax laws hurt investments, CEOs tell PM

A group of CEOs has told Prime Minister Manmohan Singh that retrospective changes in tax laws proposed in the Budget have seriously damaged the country's credibility as an investment destination.

The CEOs, led by Godrej Group chairman Adi Godrej, communicated industry captains' concerns to Singh in a meeting on Wednesday. Godrej took charge as president of the Confederation of Indian Industry on Thursday.

The group said retrospective application of tax laws and provisions such as the General Anti-Avoidance Rules should have been avoided at a time when multiple scandals and frozen policy-making have tarnished the country's image. The government's decision to retrospectively tax Vodafone has created a huge international uproar.

"We have very clearly expressed our views to the finance ministry as well as to the prime minister," Godrej said. "The rule of law shouldn't be overcome by excessive recourse to retrospective legislative change. There must be belief in the Indian system, Indian laws and in India sticking to its assurances to both foreign and Indian investors."

Godrej said retrospective amendments have created a strong negative sentiment about investments in India, both internationally and domestically. "Therefore, such a negative sentiment, especially at a critical time such as now, is best avoided," he said.

Outlining the industry chamber's focus in 2012-13 on reviving growth through reforms and governance, Godrej said, "When the reform process has slowed down and when governance has been affected, clearly Brand India has suffered. We have suggested that both industry and government should work together to help restore India's image."

Urging industrialists to help rejuvenate India's global image rather than keep lamenting about the state of affairs, the new CII president said perceptions are unfortunately much worse than reality. "We must improve the reality to improve perceptions," he said.

In this endeavour, the industry body plans to help the government form a consensus with state governments and opposition parties on critical economic reforms that are hanging fire.

"Foreign direct investment in multi-brand retail is a supply side initiative that can help control inflation. It is an important reform as is FDI in other sectors like insurance and telecom," Godrej said, underlining the importance of liberalization by stating that foreign capital inflows would also shore up the weakening rupee.

The CII has told the government to open up multi-brand retail and let state governments decide if they want to introduce it.

CII vice-president and chairman of DCM Shiram Consolidated Limited Ajay Shiram said some states are keen on FDI in retail, so blocking it across the board doesn't make sense.

Godrej and his team, which includes Infosys co-founder Kris Gopalakrishnan, have also urged the government and the Reserve Bank of India to stop using monetary policy to rein in inflation.

"High interest rates have significantly affected investment into the industrial sector and has also negatively affected consumption of durables that are financed, such as consumer durables and houses," Godrej said, adding that rising global commodity prices meant that inflation wasn't controlled either.

CII has suggested that policy efforts should concentrate on growth and inflation must be contained not just by monetary policy, but also by supply side interventions. The industry body has suggested giving farmers direct access to markets, especially for perishable goods like fruits, vegetables and protein products that are seeing high inflation now.

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