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UNION BUDGET 2013

'We Seek A Fair Tax Regime'

We seek a fair tax regime comparable to other industries which are key drivers of our economy from the government for the sector, says Aircel's Anup Vikal

The Indian telecommunication industry, having seen a period of unprecedented growth in the last decade, is experiencing a downturn in fortunes due to dynamic market conditions, limited growth in the mobile subscriber base and an uncertain regulatory future. In order to correct the course of the sector and re-instate its continued status as a key contributor to the nation's growth and GDP, it is important to work towards the following:

Build Consensus In Policy/Regulation Among Key Stakeholders

The need of the hour for the industry is to move beyond the current state of flux affecting the sector by establishing a stable policy regime through increased regulatory discipline. Post NTP'99, the industry experienced a remarkable phase of growth; but is now losing its sense of urgency and direction which has pitted all the stakeholders of the industry – the executive, the judiciary and the industry against each other. The divergence of opinions coming from each quarter has only served to increase chaos within the sector. It is important that the key decision makers in the industry and the government take a step back and rethink the direction the industry must take in order to achieve the level of success and integration with the socio-economic goals of the nation as outlined in NTP'12.

Make Wireless Connectivity For A Billion Indians A Reality

This can only be realised through cooperation between the government and the industry. The government must offer incentives like input tax credits for spends on infrastructure in order to encourage operators to take up initiatives like expanding their backbone networks in rural areas. There is also a real requirement for the government to re-look at the current policies governing sharing of spectrum. Currently, operators have to struggle with skyrocketing operational costs but rapidly declining profit margins. If operators are allowed to actively share infrastructure with others, telecom companies will be able to drive down costs, reduce investments and thus save money and garner increased value from their business.

Budget Wishlist

In terms of what the telecom sector needs from the upcoming budget, we seek a fair tax regime comparable to other industries which are key drivers of our economy from the government for the

sector. It is estimated that multiple taxes and levies account for as high as 30 per cent of telecom revenues whereas it is just 5 per cent for other Asian economies. We also recommend that end use restrictions for External Commercial borrowings (ECB) guidelines of RBI be liberalized to cover working capital and operations as well as opposed to only capex as it stands today. The industry's status as a critical infrastructure industry (which was removed in November 2012) needs to be restored to ensure its continued function as a key growth driver of our nation's growth and GDP. The industry must also receive regulatory support through policy changes and tax credits if it is to cater to the oncoming tsunami of demand for data across all platforms and devices (fixed line, mobile and dongles) through investments in increasing network capacity and backhaul.

It is also important that the recent retrospective amendments made to the definition of royalty be withdrawn. Characterising all revenue streams (such as roaming, interconnect charges etc.) as royalty requires a retrospective tax to be levied on these services. This would put a strain on the finances of all operators and negatively impact consumers through increased tariffs.

Also, specifying a format of TRC (Tax Residency Certificates) is proving to be counterproductive as the government of other nations does not issue TRC's in the format specified by INCOME TAX ACT 1961 through the Finance bill 2012.

Anup Vikal, Chief Financial Officer, Aircel