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Tax break needed for 3G and 4G services

Anup Vikal
Telecom industry has been the flag bearer of the economic reforms in the country and one of the major contributors towards the socio-economic as well as GDP growth.

Even though operators reported an overall growth in subscriber base, the industry revenues did not grow adequately. In addition to these, the industry is now combating high spectrum auction charges, one-time licence fee and high spectrum usage charge.

The telecom industry is under a huge debt burden of around Rs 1.85 lakh crore which equates to a debt/EBITDA ratio of 4.87. It is no surprise that the operators are

finding it difficult to raise funds from the FIIs and banks that are shying away from the industry due to existing high exposure to the sector, policy instability and uncertainty. We earnestly urge that these concerns be duly considered through various fiscal reforms during this Budget. A few recommendations for the Union budget from telecom industry are:

- We seek a fair tax regime from the Government for the sector, which is comparable to other industries that are key drivers of our economy. 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. Also we recommend having end use restrictions for external commercial borrowings (ECB) guidelines of RBI liberalised to cover working capital and operations as well as against only capex as of now. This is necessitated by the fact telecom companies

continue to reel under losses and the domestic funding lines have completely dried up.

- Telecom sector should be viewed as a critical infrastructure industry in order to maximise GDP. This was withdrawn by the RBI in November last year. This has serious implications on long-term bank financing being available to the telecom sector. We seek an infrastructure status for the industry as it will boost significant investment in this sector, which will in turn help enhance quality of services and tele-density.

- Tax breaks for 10 years for the telecom sector towards 3G and 4G services. The tax

breaks would help the sector towards long-term viability and encourage further investment. Also, tax rebates on broadband services will help lower cost for the end consumer and would help achieve Government's objective of increasing broadband penetration in the country.

- Retrospective amendments to the definition of Royalty need to be withdrawn. This was introduced in the Finance Bill 2012. The amendment seeks to characterise almost all revenue streams of telecom operators, inter-alia, including roaming, interconnect, etc, as 'royalty' requiring tax withholding and that too retrospectively. This has severely

impacted the cash flow position of operators who are already under pressure due to various developments on the policy front.

- Also, specifying a format OF TRC (Tax Residency Certificates) is proving to be counter-productive 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. While we hope that this Budget will rationalise the taxes and other related issues, bring some cheer to the industry which is witnessing the downturn in the last few years.

(The author is Chief Financial Officer, Aircel.)