
ASSOCHAM recommends 2pct tax on foreign inflow

Saturday, 21 Nov, 2009

The Associated Chambers of Commerce and Industry of India has recommended to government to subject foreign inflows of economies of scale into Indian capital market to 2% tax rate until these start withdrawing their stimulus packages and hike interest rates to levels above Zero percent.

Excessive foreign inflows in Indian equities are gradually becoming cause of concern for policy makers including Reserve Bank of India as it is felt that without moderate deterrent in such inflows, Indian capital markets could overstretch, besides inflate rupee appreciation and create asset bubble. This will not only weaken domestic export competitiveness but further fuel inflation.

Therefore, imposing 2% tax on foreign institutional investors investments is recommended as has been done by Brazil in recent past so that possible imbalances in capital market are corrected and India doesn't repeat a history of 2007.

The ASSOCHAM reminded that in Brazil when foreign inflows were subjected to moderate taxation, it worked successfully without inviting any criticism from any quarter and the FIIs responded to the measure in a required spirit. There is no harm if India follows it at this hour of need, feels the Chamber.

In a statement, ASSOCHAM argued that foreign investments in Indian equities are likely to exceed record levels of close to USD 18 billion in current fiscal as until recently, their investments are measured at about USD 15 billion in Indian equities. This has been happening because FIIs in economies of scale are lifting money at zero interest rate and suitably parking such capital to Indian equities because of their potential factor and nature of free market economy.

If this goes unchecked neither the rupee appreciation be stopped nor inflation put to check and India's exports competitiveness would gradually fizzle out. Therefore, until governments in economies of scale start withdrawing their stimulus package and build pressures on their federal bank to increase interest rates, a recommended prudent step for government would be to subject inflows of foreign capital to a moderate tax regime of 2%.

According to ASSOCHAM, the suggested step would not have a cascading impact to arrest inflows of foreign capital towards India but send right signals among FIIs that India is not among the developed country where one can park once surpluses at any given opportune time.

The suggested proposal if positively considered by the government will help RBI manage rupee at reasonable levels to safeguard and support Indian exporters who have been badly hit in recent times by input cost and appreciating rupee.

Finally, the recommended measures will bring some sort of discipline in capital inflows without creating adverse impact, added ASSOCHAM further pointing out that there is a scope for further liberalization of foreign direct investment norms which would be more beneficial and long lasting step for capital inflows rather than increasing India's dependence on hot money.

For more news visit at www.steelguru.com