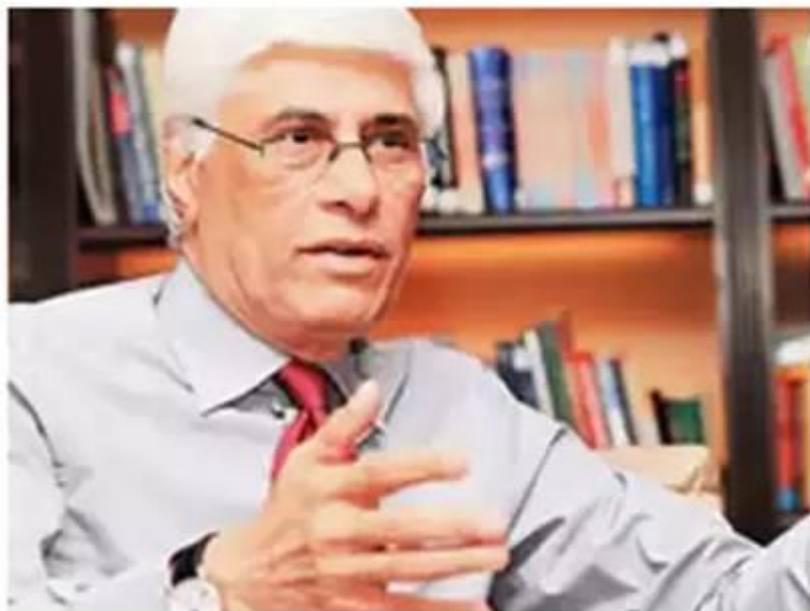


It is not healthy for us to flip-flop on taxation: Nishith Desai

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*They might ring-fence the FPIs somewhere and that may not include the category III funds which are also pension funds as that will affect the small person, even within India, says **Nishith Desai**, Managing Partner, **Nishith Desai Associates**. Excerpts from an interview with ETNOW.*

The Finance Minister is saying she is ready to hear out foreign portfolio investors (FPIs) and the surcharge issue, but stops short of promising anything and asserts that there is no rethink about overseas borrowings. What is your view?

She is drawing down. It looks like we made a blunder. As a country, we should have done all these things in a jiffy. It is very unfortunate. It has already dented our reputation as a stable taxation regime. It would be very useful in future if important tax changes are not brought along with the Budget. It can be brought in separately.

We have lost so much capital. The capital markets have been in such bad shape, especially on account of the surcharge. FPIs also withdrawn money. They have to come back and it is not very healthy for us to do all these flip-flops. Here we are talking about billions of dollars -- \$100 billion market cap is down. The FM knows better but this is not the way to bring laws. Every time, we hit a bad situation and then we start reversing.

She has actually said that she had never meant to target FPIs. She has said that this is still a dialogue and she has spoken about looking at the ease of conversion. A reversal may not entirely be on the cards. What do you think would be a constructive solution?

They might ring-fence the FPIs somewhere and that may not include the category III funds which are also pension funds as that will affect the small person, even within India. They just do not know that they are affected. The tax is taken up at the fund level rather than the investor level. But in pension plans, ultimately the money comes from the small investors.

So, it would be good to show some flexibility. So they might try to ring fence funds somewhere along the line, but for the FPIs, the question will still remain.