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Incentivise Small Tech Cos

TECH TALK: Senior executives from across the technology spectrum urged the need for IT tax regime without any ambiguities and policy incentives for small and medium IT firms

Small and mid-sized technology companies not only need tax incentives but also need a simple-to-operate tax regime with no ambiguities for the Indian IT industry to be competitive on a global scale, a panel of experts concluded at a recently-held pre-Budget debate.

At The Economic Times Pre-Budget Panel Debate on Tax Holidays for Smaller IT Firms -- Do They Really Need It? held in Bangalore, KK Natarajan, Chief Executive Officer of Mindtree said, that like companies, nations need to have a vision to lead in a few areas and incentives must be aligned to the vision.

"Technology really provides a credible opportunity for India to say that we will be global leaders. Both industry and the government need to work on what is the best enabling ecosystem to make that happen," said Natarajan.

To encourage competition, innovation, and keep Indian companies competitive on a global scale, small and medium sized companies need to thrive, he said. "For the Indian technology industry to continue to be competitive, it is not enough to have four to five globally known names. You need to have a set of emerging companies that can create a sense of success which is what will drive the whole industry competitive and in that context, incentives become a means to



From Left: MindTree CEO KK Natarajan, Tejas Networks CEO Sanjay Nayak, QueST Global CFO Rajendra Shreemal and Deloitte, Haskins & Sells Partner KR Sekar at the ET Pre-Budget Panel Debate on the Need for Tax Holidays for Small IT Firms, held at ITC Windsor in Bangalore

CEO & MD - Tejas Networks. "There is a whole set of 'zero-cost' things government can do," he said and pointed out that countries like China are marching forward because they took policy decisions early on. "Policies and projects should get the approval, they can't stay on paper," he added. The next big wave of technology in India has to come from some amount of government support. Like it happened in services, it has to happen in products, argued Sanjay Nayak. "There many policies from the government side, it will be interesting to watch these policies actually get implemented," he said. Policies like the national electronics policy, the hardware policy and telecom policy are in the right direction but implementation backed up by "serious money" is necessary.

Rajendra Kumar Shreemal, the Chief Financial Officer of QueST Global Engineering said that the government needs look at incentives from more

than one angle. "Now you have to look at the ecosystem, fiscal incentive in one place and that does not have to be just profit-based incentive. You could look at non-profit-based incentive," he suggested.

"Lot of innovations come from the small companies and you have to create an ecosystem that can create more employment. The portability remains in India, large number people are passing out of colleges we should be able to give them good jobs and you have to play to your strength. You have built a great image as the IT industry. Now look at tax holistically, not just as the corporate, profit, income tax that you pay."

Sekar KR, Partner and Leader in International Tax, Deloitte Haskins & Sells, argued that government has its limitations with increasing fiscal deficit and meeting growing expenditure.

He argued the services sector has achieved its goal, but at the same time small players

and medium players are out of the policy radar. "If we need to prop up these sectors, I am not saying incentives, tax breaks and exemptions are the only solution to the problem. Make certainty for all these tax incentives that goes into any industry."

As a policy, if government says that it needs small and medium sized players, then we need to encourage them, he said. "If you look at the data and statistics, the Tier II and Tier III players significantly contribute to the services sector export but the margins in services is significantly low. If the margins are shrinking, if you are imposing tax on that margin, then certainly industry can not survive in that period of time. In that context, it is important to give certain incentives to small and medium players," he said.

The Economic Times Pre-Budget Panel Debate on the IT sector in Bangalore was conducted in association with Embassy Group.

IT CONCERNS

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There is a whole set of 'zero-cost' things government can do. Countries like China are marching forward because they took policy decisions early on. Policies and projects should get the approval, they can't stay on paper

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CEO, Tejas Networks



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CFO, QueST Global Technology



If we need to prop up these sectors (small and medium players), I am not saying incentives, tax breaks and exemptions are the only solution to the problem. Make certainty a must for all these tax sops that go into any industry

SEKAR KR
Partner, Deloitte, Haskins & Sells



For the Indian technology industry to continue to be competitive, it is not enough to have four to five globally known names. You need to have a set of emerging companies that can create a sense of success

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CEO, MindTree



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drive global competition," he added while pointing out that alternative methods of incentivising such firms must be explored. "The government could create a time-based incentive structure where size or profits are not the only criteria," he said.

There are many "irritants" to doing business in India which need to be removed so that the tax regime is simple and easy to operate in, said Sanjay Nayak,

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