GS-III: A Deep Cut.

News

Tax cuts have enthused Corporate India, but there is the fiscal problem to deal with. Finance Minister announcement of deep cut of corporate taxes and roll back of some market unfriendly proposals in the budget she presented in July.

Corporate Tax Cut:

Finance Minister Sitharaman’s announcement to cut corporate tax rates was a welcome surprise for the Indian economy that has been struggling with growth deceleration.

The government has cut the corporate tax rate for domestic companies to 22 per cent (inclusive of all cesses and surcharges) for domestic companies from the existing 30 per cent.

New tax rate will be applicable from the current fiscal which began on April 1.

The move is a lift for the Modi government who was facing increasing pressure to relight once-stellar economy after five consecutive quarters of slowing growth saw India this year loses its status as the fastest-expanding major economy to China.

Finance Minister announcement:

- New provision inserted in the income tax act with effect from fiscal year 2019-20, that allows any domestic company to pay income tax at the rate of 22% subject to condition they will not avail any incentive or exemptions
- Manufacturing companies set up after October 1 to get option to pay 15% tax. Effective tax rate for new manufacturing firms to be 17.01% inclusive of surcharge & tax.
- Listed companies that have announced buyback before July 5, 2019, tax on buyback of shares will not be charged
- Higher surcharge will also not apply on capital gains on sale of security including derivatives held by FPIs
- Enhanced surcharge will not apply to capital gains arising on equity sale or equity-oriented funds liable to STT stabilise flow of funds into capital markets
- To provide relief to companies availing of concessions and benefits, a MAT relief by reducing it from 18% to 15%
- CSR 2% spending to include government, PSU incubators and public funded education entities, IITs.

Benefits:

- Essentially, a lower corporate tax is aimed at boosting investment by the private sector.
- The continuing deceleration of the Indian economy was being blamed both on depressed consumption by private individuals and decline in investment by private businesses.
- The two other factors contributing to growth — government expenditure (where the fiscal deficit is under pressure) and exports (which have been stagnant), both have little space to boost growth.
- The cut in corporate tax chooses to single out private investment.
This is a long-term measure that would make it more attractive for existing and new businesses to invest and increase production will create employment.