Syllabus subtopic: Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment.

News: The government’s decision to cut corporate tax rates for domestic companies, including new manufacturers, was taken in the context of companies exiting China amid the trade war between Washington and Beijing, finance minister Nirmala Sitharaman told Parliament on Monday.

Prelims and Mains focus: about the recent economic slowdown, Corporate tax cuts and other measures taken by the government

Remarks made by the FM

Sitharaman, who moved the Taxation Laws (Amendment) Bill, 2019, in the Lok Sabha for passage, said that several southeast Asian nations have lowered their corporate tax rates, while some were contemplating rate cuts. Singapore has a 17% tax rate, she added. The Lok Sabha passed the bill on Monday.

“Keeping in mind the trade war between the US and the People’s Republic of China and indications that many multinational companies wanted to get out of China, although the budget FY20 had been passed shortly before this, we thought of reducing the corporate tax rate. The ordinance route was taken because the House was not in session,” the minister said while placing the bill for the consideration of the House.

About the Bill

The ordinance promulgated in September offered a lower 22% corporate tax rate for companies that do not avail tax incentives and 15% for new manufacturers starting production before March 2023.

The move was aimed at reversing the economic slowdown. The government had also lowered the rate of minimum alternate tax (MAT) from 18.5% to 15% for businesses that continue to avail exemptions. The Bill clarified that the lower MAT rate of 15% will be applicable from 1 April, 2019, a move that tax experts welcomed.

The bill placed before the Lok Sabha on Monday also contains certain proposals that were not part of the ordinance. It clarifies that new mining companies, software producers, gas bottling plants, and book printers are not eligible for the 15% corporate tax rate announced in September. It allows companies indulging in other business activities along with manufacturing operations to claim the concessional tax rate of 15%, though the income arising on account of non-manufacturing activities shall be taxable at the rate of 22% on a gross basis without deduction of any expenditure, said Girish Vanvari, founder of advisory firm Transaction Square.
Concerns raised by the Opposition

During the discussion, opposition members accused the government of not being able to manage the economy well.

K. Subbarayan, a Communist Party of India member from Tamil Nadu, alleged the bill was pro-business. The MP highlighted the initial estimate of the ₹1.45 trillion revenue that will be forgone because of the reduction in tax rates.

India’s economic downturn deepened in the second quarter with growth losing steam to 4.5%, the lowest since March 2013, as manufacturing output contracted, official data showed last month. The economy had expanded at 5% in the first quarter. The slowdown has proved to be a weak point for Prime Minister Narendra Modi’s government, which has set itself the goal of doubling the size of the economy to $5 trillion over the next five years.