'3rd Budget' In 8 Months – And The Biggest

HOWDY INDIA INC: In a bid to reverse a deepening economic slowdown and revive business and market sentiment, the Modi govt has unveiled one booster package after another in the past month– culminating, on the eve of the PM's high-octane US visit, in a bold move to slash corporate taxes to a historic low and woo back investors

FM Goes For Growth With One Of Largest Tax Giveaways Ever

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Panaji:

In one of its boldest economic initiatives— and easily one of the largest ever giveaways in India—the Narendra Modi government on Friday sought to reach out to investors and reverse the pessimism in India Inc with a massive Rs 1.45 lakh crore tax bonanza that will see the effective tax rate come down to 22% (effective 25.17% with cess and surcharge) from 29.5% for companies that do not seek exemptions, and to 15% (effective 17%) for manufacturing startups.

Besides, finance minister Nirmala Sitharaman sought to "stabilise the flow of funds into capital markets" and announced removal of the additional 20% tax on listed companies that had announced buyback before July 5, when the provision was announced as part of the budget proposals. Separately, enhanced surcharge will not apply to capital gains on sale of shares, units of equity oriented mutual funds or a unit of a business trust that faces securities transaction tax in the hands of high networth individuals, HUFs, association of persons and others.

The surprise announcements—the fourth in as many weeks—came hours before Modi boarded Air India One for the US. **With assembly polls due to be announced in states like Maharashtra any day, the government had a small window before the code of conduct kicked in** to rush the measures to revive the economy in the backdrop of a slowdown that saw quarterly growth rate moderate to an over six-year low of 5% in April-June.

It did so by promulgating an ordinance to usher in amendments to the I-T Tax Act and Finance Act, in what many billed as a "mini Budget", which has de-fanged claims about the government being in denial over the economy.

The decision came a day after the announcement of a scheme for generous disbursal of loans to farmers, retail borrowers and micro, small and medium enterprises(MSMEs). The sequencing of the measures makes political sense as Thursday's measures can help buffer government against the charge, levelled by Congress and Left, that the corporate tax package marked largesse to big money and foreign investors.

In any case, the summer verdict marked a repudiation of the 'crony capitalism' insinuation, and that must have given the government the required political reassurance.

The finance minister was earlier scheduled to only chair the GST Council meeting, where a reduction in indirect tax rates on a limited set of items was to be discussed. But she and her top officials flew in early

Friday morning after spending Thursday in a series of meetings, including with the PM, where the tax changes were finalised.

Although the announcements will put pressure on the fiscal deficit target of 3.3% of GDP, especially due to the slowdown, the government decided to focus on the immediate need to revive investment and create jobs, over bridging the gap between spending and revenue, sources said.

"The 15% tax rate is amongst the lowest in South East Asia," Sitharaman told a news conference as government officials said it would make India an attractive destination for foreign investors, many of whom are looking at relocating or redistributing some of their manufacturing from China, which is in the grip of one of the worst-ever slowdowns in decades. In recent years, global investors have flocked to countries such as Vietnam, which has offered attractive tax rates and good quality infrastructure.

As a possible counter, Sitharaman announced that the benefit of a lower tax rate would be available to manufacturing companies that are incorporated from October 1 and commence production by March 31, 2023. For them the effective tax rate would work out to 17% with the benefit of not having to pay minimum alternate tax.

"The tax rate is very competitive for new companies. Look at where we were and what we were talking about, a reduction from 30% to 25%. This is very big," said Frank D'Souza, who leads the corporate and international tax practice at consulting firm PriceWaterhouseCoopers.

"Hopefully, this should result in a virtuous cycle of increasing investments, consumption and growth. The new tax rates also catapult India amongst the most attractive investment destinations visa-vis many Asean countries, making India well-placed to avail of investment opportunities in the global supply chains being disrupted due to the ongoing tariff war between US and China," EY national tax leader Sudhir Kapadia said.

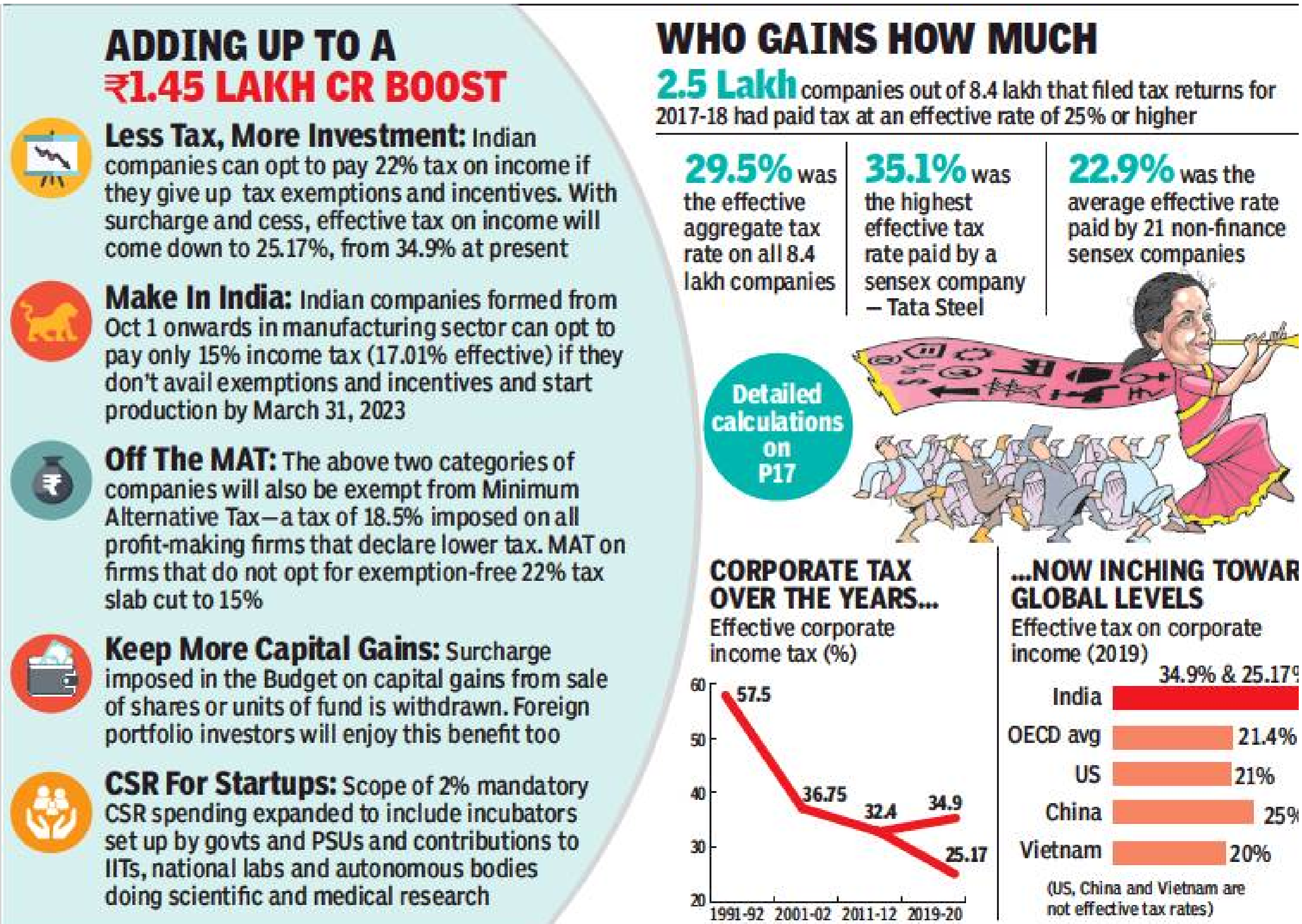
Several countries are seeking to attract investments, with Thailand too lowering its tax rate earlier this month.

Hotel stays set to become less taxing

The GST Council has slashed the levy on hotel rooms that cost more than Rs 7,500 a night to 18% from the current 28%. The slabs for cheaper rooms, priced between Rs 2,501 and Rs 7,500, have been reduced too, from 18% to 12%. However, caffeinated beverages will cost more as not only will the GST rise from 18% to 28%, they will also face a compensation cess of 12%. In a major relief for smaller businesses, the council dropped the need for entities with turnover up to Rs 2 crore to file annual returns. **P 17**

Effort to change political narrative

Faced with rising criticism on the economy, the government was under pressure to go beyond just sector-specific remedies and dramatically change the political narrative. It chose to risk the possibility of a widening fiscal deficit due to a big tax concession in the hope that higher growth would lead to tax buoyancy. **P 17**



PM used spl power to bring ordinance

PM Modi used his special powers to bring the ordinance to amend the finance bill to cut corporate tax rates before leaving for the US. Section 12 of Cabinet rules empowers the PM to use the power of the Cabinet under special circumstances. Decisions so taken are required to be approved by the Cabinet later.

Which firms will make the switch?

A simplified tax structure has been the holy grail of fiscal policy for decades. But while everyone wanted lower taxes, few wanted to give up exemptions. The FM has offered a choice: keep your exemptions at existing rates, or switch to a new regime. Who will choose which? A **TOI** analysis throws up interesting choices. **P 17**

Now, talk of an income tax cut

The corporate tax cut has triggered speculation about more measures, particularly on income tax— with an eye on boosting consumer sentiment and demand. The task force on direct taxes, which submitted its report last month, had recommended a reduction in top rates of both corporate and personal tax. **P 22**

Move a bid to clean up taxation maze

The FM’s announcement also signalled the government’s intent to clean up the existing taxation maze, which is full of exemptions, surcharges and cesses.

So, existing companies that decide to do without the benefit of exemptions can get away by paying 22% corporate tax, with the effective rate working out to 25.17%. Budget numbers showed that of the over 8.3 lakh companies paying tax, around 41% or 3.45 lakh companies had effective tax rate of over 25% during financial year 2017-18, the latest period for which data is available. “The larger idea is to simplify, rationalise and make the process simpler. Exemptions will be progressively reduced,” Sitharaman said.

Revenue secretary Ajay Bhushan Pandey suggested that for existing companies, the tax burden will fall by nearly 10 percentage points since they face 34.94% tax, including cesses and surcharges. In case of the new manufacturing companies, the decline, he said, will be sharper from the current levy of 29.12% to 17%, which will be the effective rate.

FULL COVERAGE: P 16-17, 18 & 21, 22 › Goa, PM’s lucky charm, P 22