Corporate tax cut will make India a global manufacturing hub: FM

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The main objective is to draw 'fresh investments' into the country.

Finance Minister Nirmala Sitharaman has asserted that the corporate tax cut bonanza, which would result in revenue foregone of ₹1.45 lakh crore, would help India become a "manufacturing hub" as it would boost new investments into the manufacturing sector.

The Minister said this while moving the Taxation Laws (Amendment) Bill, 2019 for consideration and passage.

The Lower House on Monday passed the Bill through voice vote. The Bill will next be taken up in the Rajya Sabha. It will replace the Ordinance promulgated on September 20.

Replying to over four-hour discussion in the Lok Sabha on the Bill, Sitharaman said it was too early to elaborate on the impact of the move, but added that already there were investment green shoots with several foreign companies evincing interest in the new regime that provides for 15 per cent corporate tax rate.

At this stage, the impact, although positive, is only anecdotal and will take some time before complete conclusions could be drawn on the move, Sitharaman added.

"The whole objective of reducing corporate tax was to drive and attract manufacturing investments from all over the world. This had prompted us to introduce a special rate of 15 per cent for new investments from new companies that go into operation between October 2019 to 2023," she said.

Sitharaman also rejected suggestion from a Member of Parliament that the concessional regime of 15 per cent corporate tax rate should be extended to existing manufacturing companies that want to undertake expansion.

"We don't want to complicate the system and so this cannot be extended to existing companies that want to go in for expansion. The intention of our September 20 move is to invite fresh investments," she said.

No cut in personal I-T

The Finance Minister also ruled out any cuts in personal income tax along with the reduced corporate tax rate regime, stating that she would rather like to deal with it separately on its merit.

She also ruled out extending the concessional corporate tax regime to limited liability partnerships or partnership firms, stating that their structure was different from a corporate vehicle and therefore do not merit the concessional tax regime.

On the nature of economic downturn, Sitharaman virtually parried a question on whether she saw the economic slowdown as a structural or a cyclical one. “I will spend more time (with experts and economists) to understand if this cyclical or structural.”

Asked about the impact of ?1.45 lakh crore corporate tax giveaway on the Centre’s fiscal deficit, Sitharaman said that ‘fiscal deficit’ was a justified concern, but asserted that the current ruling dispensation had a good track record in keeping a lid on fiscal deficit within manageable levels. “...We are known by the performance on this front and let the revised estimate stage come (before we look at it)”, she said, expressing confidence that slippages may not occur at the end of this fiscal.

Sitharaman rubbished reports and apprehensions of direct taxes collections decline during this fiscal. Traditionally, it is the last quarter in a fiscal year when tax collections pick up and one sees the best collection growth rate, Sitharaman said.

On the need for coming up with an Ordinance and not waiting for the Budget to announce the corporate tax rate cuts, Sitharaman said that the situation demanded a quick move from the government and this was warranted especially when several foreign countries, especially those in Asia, had gone about effecting a corporate tax rate cut.

Sitharaman said that ample steps have been taken to strengthen micro, small and medium enterprises and it would be wrong to say that the government was “indifferent” to this sector.