

Big Bang Reform that- will breathe new energy & momentum

The amazingly bold move by Narendra Modi led BJP government to slash corporate tax rate for domestic companies to 22% from 30%, and even lower to 15% for new manufacturing companies that will be incorporated on or after 1st October 2019 is a master stroke by any standard. Our existing tax rate (of about 34%) is relatively high compared to China at 25%, US at 21% and Singapore at 17%. The total effective tax rate inclusive of cesses and surcharges will now be at 25.17% for companies that pay a statutory corporate tax of 22% while the effective tax rate for new companies, that don't avail of any exemptions, will be around 17.01%, bringing it to the same level as Singapore. With this, the new tax level has made India one of the least taxed countries in South Asian region and in South East Asia". On the top of it, incentives have been given for new industries.

By slashing the effective tax rate to 17.01% inclusive of all surcharge and cess- for new companies setting up manufacturing operations after October 1, the government has rolled out a red carpet that would ensure hundreds of billions of dollars of FDI & FII flows over the medium term. Government's moves are unbridling animal spirits and we cannot compare move announced today with anything in the past.

The ongoing China-US trade war has led MNCs to look for an alternative to China as far as their supply chain is concerned. Now, the competitive taxation rate and ongoing efforts towards ease of doing business will help in India becoming a manufacturing destination of choice. India is going to leapfrog like Japan did in the 1960s when it went from a third world country to a developed economy. India will certainly be an economy of US \$ 5 trillion by 2025 and USD 10 trillion by 2033 bringing economic prosperity to the vast majority of common men. The fiscal package has proved that there is no better country for both global and domestic investors to invest other than India.

The big bang reform that will revive the animal spirits in the sluggish Indian economy, positioning India as one of the most attractive business destinations. There is a slowdown all over the globe. The central banks are cutting the rates to the lowest level. Henceforth whenever Fed reduces rates more and more global funds will enter India.

The steep cut in the corporate tax rate releasing Rs 1.45 lakh rupees every year, is a big booster dose for the Indian economy. Broadly speaking, top 50 Indian companies that paid a total tax of Rs 1.65 lakh crore for the year ended March 2019 will pay Rs 46,000 crore less in taxes in 2019-20, assuming, their profit and revenue levels stay the same. The substantial tax savings will provide more elbow room to companies to cut prices, stimulating the consumption, making them globally competitive, boosting the export opportunities, increasing the demand and igniting the capex cycle, -a welcome step to arrest slowdown.

Henceforth, enhanced surcharge will not apply to capital gains by FPIs and domestic investors like, individuals, local trusts and HUF. Withdrawal of surcharge will make FII (foreign institutional investors) to look at India closely as tax rates here are getting very comparable to global standards and will certainly encourage the flow of domestic savings to equity market.

A reduction in the minimum alternate tax (MAT) from 18% to 15%, broadening the CSR 2% spending to include government, PSU incubators and public funded education entities, IITs are heartening moves. With the slowdown in the growth already bottomed out in June quarter, these bold and pro-active steps will not only kick start the economy but also function as a rock solid foundation for the sustainable growth of India.

The optimism is reflected in the blockbuster rally in the equity market on Friday with the benchmark BSE index shooting up by 1921.15 points, or 5.32%, while the Nifty ended at 11,274.20, up 569.40 points, or 5.32%, -the biggest single-day jump in a decade! Investor's wealth rose by 7 lakh crore rupees in single day!

Dr S.Vishwanatha Bhatt

(Is a veteran economist, public policy expert & head of the BJP's Economic Affairs Cell, Karnataka)