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Budget 2019: Big companies don't get the tax cut

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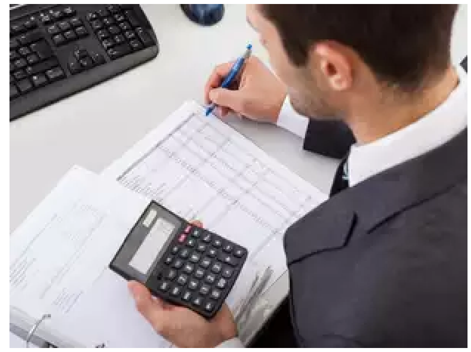
The tax relief for companies is confined to small and mid-tier businesses, with the minister choosing to lower the corporate tax rate to 25% from 30% for enterprises with a turnover of up to Rs 400 crore.



Collections from corporate tax have improved considerably in FY19 due to widening of tax deducted at source, anti-tax evasion measures and an increase in the effective tax-payers base, providing leeway for such a cut.

“This is a forward and backward budget. Personal taxes going as high as up to 50% takes us back to bad old socialist days, but an increase in the turnover threshold for lower corporate tax rate is welcome,” said Nishith Desai , founder of Nishith Desai Associates.

Shefali Goradia, partner, Deloitte India, concurred but said that for large companies, India will remain less competitive as the total effective tax rate, including the dividend distribution tax, is as high as 48.31%. “In comparison, China has a 25% rate, with a 10 to 20% rate for small scale enterprises, while US offers 21% rate. Singapore is even lower at 17%.”

The government defended move, saying this will cover 99.3% of companies. “From a numerical perspective, this is significant--the cut is targeted towards medium enterprises,” said Ganesh Raj, national tax policy leader, EY. “The philosophy seems to be common in personal income tax and corporate tax. Bigger companies will need to contribute more just as the rich have to pay more tax.”

The sweetener for large firms is the tax incentive – an investment-linked deduction for large manufacturing companies that invest in electronics and other advances technology areas. Here the government has not gone by the size of the company.

But an across-the-board steep cut along with removing tax planning opportunities would have been more equitable vis-a-vis small and medium-sized companies, experts said. That would make industry more competitive, leave more cash in the hands of corporates for investment and expansion and avoid driving business people elsewhere.

“A reduction in corporate tax rate for smaller companies would help the government’s resource-mobilisation measures,” said Kaushik Mukerjee, partner, PricewaterhouseCoopers India. “But extending the cut to large corporates would have further helped FDI inflow in advanced technology areas.” There is room for an across-the-board cut, with the government adopting the Organisation for Economic Co-operation and Development’s rules to end base erosion and profit shifting to boost revenue, said experts. Collections from corporate tax have improved considerably in FY19 due to widening of tax deducted at source, anti-tax evasion measures and an increase in the effective tax-payers base, providing leeway for such a cut. The goods and services tax (GST), which will stabilise in the medium term, will widen the tax base for corporate tax, as more companies come into the indirect tax net.