Corporate tax rates in India

What is the issue?

The Centre has to reduce tax rates for large companies to boost the investment cycle in the economy.

When does the government initiate reduction in corporate tax rate?

- The government pointed out in 2015 that the corporate tax rates in India are too high when compared to those in other countries.
- It has laid a roadmap for bringing down the corporate tax rate in the country from 30% to 25% over the next four years.
- In the 2016 Budget, the government announced that new manufacturing companies incorporated on or after March 2016 will be taxed at 25%.
- This will apply, if they did not claim any profit- or investment-linked deductions, investment allowance and accelerated depreciation.
- The government also lowered the corporate tax for companies with turnover less than Rs. 5 crore in FY15 by one percentage point to 29%.
- The income tax for companies with annual turnover up to Rs. 50 crore was reduced to 25% in 2017.
- In 2018, the 25% rate was extended to companies with reported turnover up to Rs. 250 crore in FY17.
- With this, 99% of companies filing tax were moved to 25% rate and the estimated revenue foregone was Rs. 7,000 crore in FY19.

What is the reason behind the exclusion of large companies from the ambit of these rate cuts?

- While rates were lowered for smaller companies, 7,000 of the larger companies which have turnover in excess of Rs. 250 crore have been outside the ambit of these rate cuts.
- These are the companies that account for a largest chunk of the economic output and also the Centre's tax revenue.
- The tax burden for these companies has in fact moved higher.
- Corporate tax rate for larger companies has moved up from 33.99% in 2014 to 35% by 2018, if the hikes in surcharge and cess are taken into account.
- In 2015, the surcharge rate was increased from 10% to 12% for companies with income over Rs. 10 crore.

- In 2018, the higher rate of health and education cess at 4%, added further burden.
- Also, some of the corporate tax incentives were also withdrawn for these larger companies.
- For instance, the claim for accelerated depreciation was limited to 40% from FY18, the deductions for research was limited to 150% from April 2017 and 100% from April 2020.
- Another reason behind the increase in tax payments is the adoption of many of OECD's BEPS (Base Erosion and Profit Shifting) rules in India.
- The CBCR (country-by-country reporting) was adopted by India from 2016 wherein multinational entities have to provide details about the operations of the group companies in all parts of the globe along with financial numbers to tax authorities.
- All these were made, as it is shown that a 5% reduction in corporate tax rate for all companies would have resulted in a revenue loss of around Rs. 95,000 crore in FY19.
- Along with the inability of GST to reach its full potential in garnering tax revenue yet, the Centre is in no position to slash corporate tax rates as of now.

What does the global experiences reveal?

- According to data compiled by KPMG, countries across the globe are moving towards lower corporate tax rates.
- The average corporate tax rate globally has declined from 30.19% in 2003 to 20.6% currently.
- The average Asian rate declined from 29.42% to 23.03% in the same period.
- The current peak corporate tax rate in India, at 35%, is the highest among the BRIC as well as the Asia-Pacific countries.
- Brazil is the only other country in this group with tax rate higher than 30% (34%).
- It's clear that tax on income of companies needs to gradually slide lower so that the surplus available to invest in capacity expansion and augmenting business, increases.
- Indian Governments in the past have also been mindful about this need
- Corporate tax rate in India were gradually moved down from 36.75% in 2003 to 32.44 by 2011.
- But it has moved higher in subsequent years due to hikes in surcharge and cess.

What should be done?

- Reduction in rates for smaller companies may be beneficial to these entities.
- But it is unlikely to have the impact that similar cuts for larger companies is likely to have in boosting private investments.
- Corporate taxes account for around one-third of total tax collections.
- The Centre is expecting a growth of around 13% in corporate tax collections in FY20 to shore up its revenue collections.
- But instead of trying to increase revenue by holding higher rates, it could try to reduce rates, which can result in higher compliance.
- There is also a widespread tax evasion prevailing now, with larger companies paying lower taxes than smaller ones.
- Reduction in tax rates could help improve compliance of these companies, and along with greater scrutiny by tax authorities, tax collections could be improved.

Source: Business Line

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