

Important Vocab For the Editorial

1. **enthuse** (verb) – motivate, spur/stimulate, encourage.
2. **fiscal** (adjective) – financial.
3. **usher in** (phrasal verb) – herald/signal, start/begin, announce/initiate.
4. **roll-back** (noun) – reduction, cut/decrease, trimming.
5. **on a par with** (phrase) – comparable with, equivalent to, as equal to.
6. **gusto** (noun) – enthusiasm, relish, enjoyment, delight/pleasure, liking.
7. **avail** (verb) – use, make use of, take advantage of, utilize.
8. **prevail** (verb) – be in existence, be present, be in effect.
9. **at the low ebb** (phrase) – in a weakened state.
10. **global value chains** (GVC) (noun) – International production, trade and investments are increasingly organised within so-called global value chains (GVCs) where the different stages of the production process are located across different countries.
11. **trade/tariff war** (noun) – a condition in which a country increase tariffs on foreign goods and impose quota restrictions to restrict other countries' trade.
12. **long-standing** (adjective) – persistent, prevailing, enduring.
13. **onus** (noun) – responsibility, duty, burden.
14. **fisc** (noun) – a public treasury or exchequer.
15. **revenue foregone** (noun) – revenue waived off, revenue given up/renounced; the difference between revenue actually achieved and revenue that could have been achieved with the absence of incentives and tax exemptions (given as a relief to certain (corporate) sections, or to promote certain activities).
16. **ambitious** (adjective) – difficult, exacting, formidable/challenging.
17. **weigh against** (verb) – balance, compare.
18. **arithmetic** (noun) – calculation, reckoning, tally.
19. **outlook** (noun) – prospects, expectations, hopes.
20. **deficit** (noun) – shortfall, deficiency, shortage.
21. **no-brainer** (noun) – something which demands little/no effort mentally.
22. **as things stand** (phrase) – in the present situation.
23. **bounty** (noun) – contribution, grant; a sum paid.
24. **dividend** (noun) – additional benefit, gain, extra.
25. **cushion** (noun) – protection, shield, defence.
26. **fiscal deficit** (noun) – the difference between total expenditure and total income of the government.
27. **bridge** (verb) – make a difference smaller or less significant; join, link.
28. **disinvestment** (noun) – the process of reducing capital investments.
29. **bounce back** (verb) – recover, revive, rebound.

A deep cut: On corporate tax cuts

Tax cuts have enthused Corporate India, but there is the fiscal problem to deal with

Finance Minister Nirmala Sitharaman ushered in Deepavali early for Corporate India and the markets on Friday with her announcement of deep cuts in corporate taxes and roll-back of some market-unfriendly proposals in the Budget she presented in July. The move to cut corporate taxes, for which an ordinance has already been issued by the government, is on a par with if not higher than the sentiment-boosting ‘dream budget’ of 1997 when the then Finance Minister P. Chidambaram cut taxes with gusto. Corporate tax rate has been cut to 22% from 30% for companies that do not avail exemptions — this means that the effective tax rate for such companies will fall from 34.94% presently to 25.17% which is a significant saving indeed. Similarly, for companies that are incorporated after October 1 and whose projects will be commissioned before March 31, 2023, the tax rate will be as low as 15% (compared to 25% currently). The effective tax rate for this category of companies will be 17.01%, about 12 percentage points lower than what prevails now. The idea behind this move is obviously to generate private investment which is now at a low ebb, but an unstated intention could also be to attract foreign investors looking for alternative sites for their global value chains disrupted now by the tariff war between China and the U.S. With these cuts, the government has delivered on a long-standing demand of Corporate India. The onus is now on the latter to deliver, not just in terms of fresh investment but also in passing on the benefit of lower taxes down the chain to consumers and investors.

Where do the tax cuts leave the government and the fisc? Ms. Sitharaman said that the revenue foregone is ₹1,45,000 crore. This is very significant, especially in the context of the over-estimation of revenues in the Budget and the under-performance in terms of tax collections so far this year. The 2019-20 Budget assumes net tax revenues of ₹16.49 lakh crore, which is a rather ambitious 25% growth estimate over the actual revenues of ₹13.16 lakh crore in 2018-19. If the revenue foregone now is weighed against this unrealistic Budget target on which the fiscal arithmetic is based, the outlook for the projected deficit this year will be scary for sure. It is a no-brainer that the deficit target of 3.3% for this fiscal is unattainable, as things stand. The bounty of ₹1.75 lakh crore received from the Reserve Bank of India as dividend is obviously a cushion and it is this money that the government has now given away. But if the fiscal deficit target is to be met, then the gap

from the original over-estimation of revenues has to be bridged. The one route open to the government is to go big on disinvestment where it has already budgeted ₹ 1,05,000 crore for this year. The actual proceeds should be about double that this fiscal if the original arithmetic is to work. That is not going to be easy. The corporate tax cuts are certainly good for the economy in the medium term but in the short term, until revenues bounce back, the government has a fiscal problem on its hands.