

A DEEP CUT

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 Rs. 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 Rs. 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 Rs. 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.

<u>Words</u>	<u>Kind</u>	<u>Meaning</u>
Enthuse	Verb	Motivate, inspire, stimulate, encourage, encourage spur
Fiscal	Adj.	Tax, budgetary, revenue, financial, monetary
Announcement	Noun	Proclamation, declaration, pronouncement Dispatch, assertion
Unfriendly	Adj.	Inimical, hostile, forbidding, animosity
Ordinance	Noun	Edict, decree, law, injunction, command
Boost	Verb	Enhance, improve, augment, amplify, foster
Gusto	Noun	Enthusiasm, relish, zeal, fervour, verve
Exemption	Noun	Immunity, exception, freedom, exoneration
Incorporate	Verb	Absorb, include, subsume, assimilate, upon
Prevail upon	Verb	Persuade, induce, convince, saway, assimilate
Obvious	Adj.	Clear, plain, apparent, conspicuous, palpable evident, perceptible
Generate	Verb	Cause, give rise, to, lead to, create, produce
Woo	Verb	Seek the support of, try to win, purpose, curry Favour with
Disrupt	Verb	Distort, damage, buckle, warp, shatter
Benefit	Noun	Good, sake, interest, welfare, advantage
Assume	Verb	Presume, support, take it, presuppose, conjecture conclude, reckon
Ambitious	Adj.	Aspiring, determined, forceful, pioneering, enterprising progressive
Unrealistic	Adj.	Impractical, impracticable, unfeasible, nonviable
Scary	Adj.	Frightening, terrifying, petrifying, chilling
Bounty	Noun	Reward, prize, award, remuneration, endowment
Deficit	Noun	Shortfall. Deficiency, shortage, debt, loss
Gap	Noun	Hiatus, aperture, space, breach, crevice
Bridge	Verb	Traverse, span, cross, cross over, pass over
Disinvestment	Noun	The withdrawal / reduction of an investment
Proceeds	Noun	Profits, takings, earning, gain, returns
For good		Permanently, eternally, perennially
Fiscal	Adj.	Financial, tax, budgetary, economic

A RURAL STIMULUS

Putting more money in the hands of rural households will stir up the economy

The government's statistical machinery has begun work on revising the indices that capture the trends in consumer prices experienced in rural India. This opens up the prospect for an upward revision in the wages paid out to workers under the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA). The current national average wage is just about Rs. 178 per day. The decision to finally embark on a long-overdue exercise is welcome, irrespective of the immediate trigger. The basket of items whose prices are tracked for constructing the Consumer Price Index for Agricultural Labourers (CPI-AL), for instance, has not been updated for at least three decades. Apart from essential spending on food, rural expenditure patterns have altered significantly in the intervening period, making space for higher spending on services such as education, transport and, of course, telecom. But two-thirds of the dated inflation index is still driven by food prices, which may effectively end up understating the price pressures facing rural households. This depressant effect could be accentuated when low food inflation coincides with decelerating farm incomes that still drive India's rural economy. Once a new basket is constructed, the Statistics Ministry, along with the Labour Bureau, plans to improve the currency of the CPI-AL (to which MGNREGA wages are linked) and CPI-Rural indices with annual reviews.

If the index revision concludes soon enough, the Centre is geared up to notify updated MGNREGA wages in the current fiscal year itself rather than wait for the onset of 2020-2021. This sense of urgency suggests the government views giving a fillip to the rural economy as a critical tool to combat the headwinds of the slowing economy. The slowdown narrative (and the Centre's measures to address it) so far has been dominated by urban India's consumption crimp and easing the corporate tax structure, but the distress in villages where incomes are more vulnerable is more disconcerting. The Reserve Bank of India, in its annual report, has pointed to weakening rural demand since the third quarter of 2018-19 as a serious concern and termed reviving consumption as its top policy priority. Reflecting rural distress, demand for work under the MGNREGA has been rising. With job creation in a flux and sentiment about the economy worsening, any move to put more money into rural households' 'sticky' spending kitty would likely have a better pay-off towards stirring up the economy than shopping fests and tax sops for urban India.

<u>Words</u>	<u>Kind</u>	<u>Meaning</u>
Rural	Adj.	Bucolic, pastoral, agrarian, sylvan
Stimulus	Noun	Encouragement, incentive, inducement, prod, Exhortation
Stir up		Enthusiastic, vivacious, assiduous, cealous, rapturous

Index	Noun	Guide, clue, hint, indication, signal
Guarantee	Verb	Promise, swear, pledge, vow, undertake
Embark on		Undertake, enter upon kick off
Trigger	Noun	Encouragement, inducement, prodding, persuasion
Essential	Adj.	Necessary, sine-qua-non, indispensable
Summary	Adj.	Immediate, instant, sudden, within no time
Expenditure	Noun	Expenses, outlay, expending
Alter	Verb	Change, mutate, transmute, modify, transmogrify
Intervene	Verb	Interfere, nose, intercede, conciliate
Accentuate	Verb	Focus on, underline, accent, foreground
Decelerate	Verb	Decrease, alleviate, mitigate, abate
Ameliorate	Verb	Improve, better, boost, enhance, snowball
Critical	Adj.	Parlous, severe, condemnatory
Combat	Verb	Oppose, fight, battle, confront, cross
Narrative	Noun	Account, story, tale, anecdote
Consumption	Noun	Using up, use, utilization, exhaustion
Crimp	Noun	Flute, pleat, corrugate, ridge, furrow
Distress	Noun	Anguish, suffering, agony, affliction, torment
Revive	Verb	Get over, come round, resuscitate, re-invigorate
Worsen	Verb	Aggravate, exacerbate, intensify