GST Council and Corporate Tax

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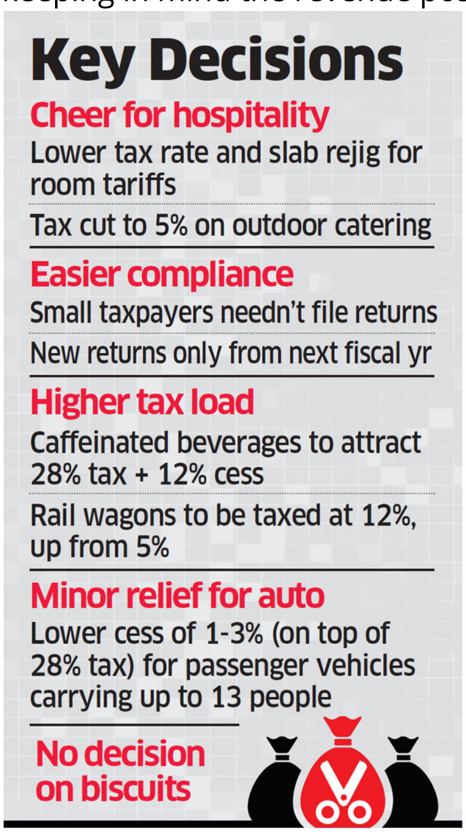
The **Goods & Services Tax (GST) Council** held a meeting on 20th September 2019 to decide on tax moderation, keeping in mind the revenue position and the need to boost **sagging economic growth.**



- The GST Council had its **37th meeting in Goa** in the backdrop of **economic growth hitting a six-year low of 5%** for the first quarter of the current fiscal (April - June 2019).
- There have been **demands** pouring in from various sectors — from biscuits to automobiles and Fast Moving Consumer Goods (FMCG) to hotels — **to reduce tax rates** in the wake of the economic slowdown.

Decisions Taken

- To factor in the **creation of Union Territories of Jammu and Kashmir as well as Ladakh,** suitable amendments in the Central GST Act, the Union Territories' GST Act, and the corresponding State GST Acts were approved.
- **Slashed tax rates on a host of products** and services, including jewellery stones, hotel stay and outdoor catering, besides **easing the compliance burden for small and medium enterprises.**

GST Council

- It is a **constitutional body** for making recommendations to the Union and State Government on issues related to Goods and Service Tax.
- The GST Council is **chaired by the Union Finance Minister** and other members are the Union State Minister of Revenue or Finance and Ministers in-charge of Finance or Taxation of all the States.
- It is considered as a federal body where both the centre and the states get due representation.

Corporate Tax Rate Slashed

- The central government slashed corporate tax rates for **domestic firms from 30% to 22%** and for **new manufacturing companies from 25% to 15%** to boost economic growth.
- Corporate tax is a tax imposed on the **net income of the company.**
- The new effective tax rate inclusive of surcharge and cess for domestic companies would be **25.17%** and for new domestic manufacturing companies would be **17.01%.**
  - These rates would be applicable to those companies who forego the current exemptions and incentives.
  - Also, the **Minimum Alternate Tax (MAT)** will not apply to such companies.
- The reduction in the corporate tax rate for domestic companies would be effective from 1st April 2019.
- The change for new domestic companies would apply for those which get incorporated on or after 1st October 2019 and start producing on or before 31st March 2023.
- The provisions affecting these changes have been inserted in the Income-tax Act through an ordinance.

- Impact:
    - The move **will cost the government Rs 1.45 lakh crore annually.** This increases the chances of **higher fiscal deficit** and government may have to resort to spending cuts or embark on higher disinvestments.
    - It is expected that it will give a great stimulus to **'Make In India',** attract private investment from across the globe, improve the competitiveness of the private sector, create more jobs.
    - The reduction in corporate tax, effectively, brings India's 'headline' corporate tax rate broadly **at par with an average of 23% rate in Asian countries.**

Source: TH