Auto Inc sees corporate tax cut as investment stirrer

The announcement made by Finance Minister Nirmala Sitharaman on Friday to cut corporate tax rate for domestic companies to 22 percent and new domestic manufacturing companies to 15 percent, is seen as a major booster for the manufacturing sector.

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New Delhi: At a time when the Indian automobile industry is reeling under severe demand drought, even a minimum relief or relaxation in regulations is considered crucial in reviving sagging sales.

The revenue foregone on reduction in corporate tax and other relief measures will be Rs 1.45 lakh crore annually, the government estimates.

Sitharaman on Friday to cut corporate tax rate for domestic companies to 22 percent and new domestic manufacturing companies to 15 percent, is seen as a major booster for the manufacturing sector.

However, it has to be seen if this will be able to address the immediate problem of demand creation.

The government also offered a lower rate to 17.01 per cent for new manufacturing firms. The revenue foregone on reduction in corporate tax and other relief measures will be Rs 1.45 lakh crore annually, the government estimates.

Some of the biggest names in India auto sector such as RC Bhargava thinks the current reduction in corporate tax will not only spur manufacturing activity but is also expected to boost investment. "..it is going to make manufacturing a very high priority sector for investors. What the government has done is a very major step. There is suddenly focus on the importance of manufacturing, making it a very attractive avenue for investment," Bhargava said.

It is to note that manufacturing activities shrank 15 month low in August mainly on account of sagging sales and production cuts announced by companies in the auto sector, which contributes 49.5 per cent to the manufacturing GDP.

Reiterating similar sentiments, Martin Schwenk, MD & CEO, Mercedes-Benz India said this reduction will directly correlated to economic growth. "Reduction in

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Terming the announcement as timely and historic, President ACMA, Deepak Jain, said, “The announcement is indeed heartening and reassuring. Reduction in Corporate tax to 22 per cent for existing companies, 15 per cent for new manufacturing companies and relief on account of MAT are steps in the right direction to give manufacturing, investments and economic activity a boost.”

In an interaction with ETAuto in July, Ram Venkatarami, former president ACMA pointed out that Indian auto component makers, reeling under 'worst ever' crisis, have completely shelved fresh investments and hirings until the situation improves.

In addition, Jain also pitched the long-standing GST reduction request asserting that currently 60 per cent of auto components are at 18 per cent, while the rest are at 28 per cent.

“We do hope that the Central Government in consultation with the States will consider ensuring a uniform GST rate of 18 per cent on all auto components. A lower rate of GST will not only ensure better compliance but also help curb grey operations in the aftermarket”, added Jain

Another auto industry body SIAM sees this a great opportunity to accelerate FDI in automobile industry," the Society of Indian Automobile Manufacturers (SIAM) President, Rajan Wadhera, said in a statement.

Shekar Viswanathan, Vice Chairman and Whole-time Director, Toyota Kirloskar Motor also welcomed the move but now expects the government to consider the merits of moving towards a carbon (fuel efficiency)-based GST taxation policy which, he added, will not only lead to huge fossil fuel savings but will also help in lowering emissions.

Apart from the reduction in corporate tax, FM also announced that corporate social responsibility (CSR) spending of 2% can now include government, PSU incubators and public-funded education entities, IITs.

Nagesh Basavanhalli, MD and CEO, Greaves Cotton lauded the government proposition of slashing corporate tax, scrapping surcharge on buyback announced before July 05 and expanding the scope of CSR spend.

However, Basavanhalli urged the Indian government to take a considerate view on the auto industry's call for reduced GST. He added that such a move could have galvanized the auto sector ahead of Diwali and Dusherra.

Echoing his views, Nishant Arya, Executive Director, JBM Group said, "The recent announcement comes at the right time to capture the slowdown. These measures will not only positively impact the revenues but will also strengthen India's stand globally and promote fresh investment."

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