

Cut in corporate tax rate was needed to spur investments, boost growth: CEA Subramanian

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New Delhi, Nov 29 () Chief Economic Adviser K V Subramanian on Friday said the cut in corporate tax rate was required to boost investments as the virtual cycle that spurs growth in the economy has not been functioning as expected for the last few quarters.

For us (India) to achieve the goal of USD 5 trillion economy by 2024-25, and USD 10 trillion by 2030, we need to press the paddle on structural reforms, he said and explained the host of measures that the government has taken in recent times.

Economic survey released in July this year laid out strategic steps for India to become a USD 5 trillion economy with special emphasis on investment as the key driver for the economic development with consumption being the force multiplier, he said.

"Investment is important for enhancing productivity in the economy and it is productivity that eventually then improves wages, creates job, enhances exports and then the combination of all these gives the purchasing power in the hands of the consumers which is what manifests as demand.

"The anticipation of demand is what the companies use to make investments and that is how this virtual cycle goes. Over the last few quarters this virtual cycle is not moving as fast as it was when we were growing at 7 per cent plus..." he said at the 'India Economic Forum' Skoch event here.

Explaining tax dynamics for corporations, he said corporate tax is first paid by a company and whatever is left as capital gains or dividends, the individuals are then taxed later.

"One of the important things to recognise is that there is double taxation... Which is why, we at the government went ahead and reduced the corporate tax rates," Subramanian said.

The government has undertaken a number of measures to arrest growth slowdown. In September, it announced a cut in the corporate tax rate to 22 per cent from 30 per cent.

It also lowered the tax rate for new manufacturing companies to 15 per cent to attract new foreign direct investments.

India's economy grew at 5 per cent in the first quarter of 2019-20 -- the slowest pace in over six years. The second-quarter GDP number is scheduled to be announced later today.

The Chief Economic Adviser also enlisted host of other initiatives taken by the government to boost overall growth cycle including the enactment of the Insolvency and Bankruptcy Code, bringing down the 40-odd laws in labour sector into four broad categories as well as market regulator Sebi's recent guidelines to listed companies to disclose their defaults immediately.

He said the disclosure about material and technical defaults by the companies is really important as information is what drives investment and decisions are taken on the basis of that.

Substantiating his point, he said the recent Supreme Court judgement on Essar Steel was very important.

Subramanian said the current situation has provided the government an opportunity to try and bring in important structural reforms.

"I am confident that these important structural reforms that we have undertaken will definitely have an impact on investment and thereby on the other parts of the cycle," the CEA said in his concluding remarks. KPM DRR