# "ENABLING MAKE IN INDIA THROUGH TAX POLICY-AN EXCLUSIVE STUDY"

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***Abstract;***

*India is the world's third largest economy as per Gross Domestic Product in PPP terms. In terms of population, India is second in the world, with more than 1.21 billion people (2011 Census), out of which nearly 2/3rd of the population being in their working age. This means that India will be a source of human resources in most of the aging, developed world in the coming decades. With a new Government in place, India looks poised to enter a secular growth phase, with increasing stress on inclusiveness the greater the proportion of our population that is brought into the financial mainstream, the greater is the scope for growth combined with reduced inequalities is a dream of any development economies is concern. With a view to make India as an attractive global manufacturing hub, the Government has announced a "**Make in India**" project, which aims at easier and more effective governance to help achieve high growth rates and employment creation. Brazil, China, Singapore, Canada, USA, UK as attracting more FDI through Tax Reforms. The new Government of India should come out with new Tax Incentives policies, Foreign Trade Policies to attract more Foreign Direct Investment to emerging sectors in India. In This Respect this paper aims to **understand the importance of Tax Incentive policies in enabling Make in India**. For the purpose of the study Secondary Data has been collected**, Tax Incentive of China and India** is taken into consideration.*

**Keywords**: Economic Growth, Government Policies, GDP**, Make** in India, Tax Incentives.

## Introduction

India has already marked its presence as one of the fastest growing economies of the world. It has been ranked among the top 4th attractive destinations 2014 for inbound investments. Since 1991, the regulatory environment in terms of foreign investment has been consistently eased to make it investor-friendly.The combination of a strong and stable democratic government, and the relatively free play of market forces today combine to make India amongst most attractive investment destination. In 2013, India was the world's third most attractive destination for investment by transnational corporations. India was the second most favoured investment destination in 2005, 2006, 2007, 2008 and 2010. FDI inflows into India grew by 17 per cent to USD 28 billion in 2013, the report said. India ranked 14th among the top 20 global economies, receiving the maximum FDI in 2013, it added. FDI inflows increased in all major economic grouping –developed developing and transition economies. The report further said that global FDI flows will rise to USD 1.6 trillion in 2014 and USD 1.75 trillion in 2015. Commenting on the report, Finance Secretary Arvind Mayaram said, "FDI, if you look at in India from year on year, you may find a variation which you are seeing now, which shows there is a decline in FDI flows." "We need to look at trend. The trend would always seen at 10 years or over a period of 20 years," he added. The report further said that the opening up of multi-brand retail in 2012 has not generated the results that were expected. Foreign investment is considered crucial for India, which needs an estimated USD 1 trillion in the five-year period ending March 2017 to overhaul infrastructure such as ports, airports and highways to boost growth. A decline in foreign investment could affect the country's balance of payments and the rupee. To further attract foreign inflows, the government plans to relax the FDI policy

Tax Incentives in sectors such as defence, railways and construction activities.The aim is that the manufacturing sector's share in GDP rises 60% from the existing 15% to 25% of GDP. It has projected real per capita GDP growth to reach 5% by next year and India's per capita GDP to surpass $2,000 by 2017. The International Monetary Fund (IMF) in its update to World Economic Outlook in July, 2014 retained its growth projection for India to 5.4% in 2014-15 and 6.4% in 2015-16. This number confirms the projection in the range of 5.4% to 5.9% by the Government of India in its Economic Survey, 2014.IMF predicts the Advanced Economies (AE) to grow at 1.8% (2.4%) and Emerging market and developing economies (EMDE) to grow at 4.6% (5.2%) in 2014 (2015). India is the fastest growing economy among the EMDEs peers by 2019 after China, Russia, Brazil, Mexico and South Africa are all projected to grow at less than 4% rate in 2014-15 and unlikely to touch higher than 5% growth rate even by 2019.

**Table 1 showing Top 10 Hosting Economies 2014**

| Ranking in 2014 | TOP 10 HOST ECONOMIES FOR FDI INFLOWS 2014 | FDI inflows in $bn 2014 |
|---|---|---|
| 1 | China | 129 |
| 2 | Hong Kong | 103 |
| 3 | United States of America | 92 |
| 4 | United Kingdom | 72 |
| 5 | Singapore | 68 |
| 6 | Brazil | 62 |
| 7 | Canada | 54 |
| 8 | Australia | 52 |
| 9 | India | 34 |
| 10 | Netherland | 30 |

Source: http://unctad.org/wir

Make in India was basically a slogan, coined by Narendra Modi on September 25, 2014 to attract the global Investors to invest and manufacture in India. It then became an international marketing campaign. "Make in India" campaign was initiated so that India has ample job opportunities and the economy gets a boost. 'Make in India' seeks to make India a self-reliant country. It also aims to allow FDI in the country as well as bring back to health the loss-making Government firms. The Make in India campaign is completely under the Central Government, in which the Government has identified 25 major sectors which have the potential of becoming a global leader.

## Review of Literature

**Wan- Ying Lin and Jui-chih wang ( 2014)** examined the association between tax incentives of china 's 2008 Enterprise Income Tax Law and inflows of Foreign Direct Investment from Taiwaness Enterprises (TDI) to china. In additions, this study also investigated the effects of Industry and location on TDI and study showed that reduced tax rate concessions for foreign enterprises increased inflows to china and increased tax rate considerably reduce TDI inflows.

**Priyanka Bedi and Ekta Kharbanda (2014)** Examined Countries around the world- both developed and developing are taking concerted efforts in a bid to attract greater flows of FDI into their economies. Indian government is leaving no stone unturned in its attempt to attract greater FDI flows into India. But despite the fact that India offers a large potential market, possesses pool of talented, educated and skilled workforce, has relatively low labor costs and liberal democratic political structure, the FDI inflows into India have remained low in comparison to other emerging markets. In this backdrop, the paper seeks to analyze the status of FDI inflows into India and identify the problems and issues that have made India less attractive destination as compared to other nations.

Mr. R. Himachalapathy (2010) This study examines the status of inward Foreign Direct Investment flow into India. Ever since Macro Economic structural changes initiated in 1991, the impact of ongoing process of Liberalization, Privatization and Globalization and its implications in attracting inward FDI into India has become focal point of this study, at a time When Economy of India and China experience a slow down in the backdrop of global financial crisis and Economic recession. Globalization process and its implication on inward FDI can be evaluated in terms of Economic Indicators such as GDP, GDP growth rate, Import Trade, Export Trade and Trade Openness.

**B Venkata Suresh and K Ramakrishna (2013)** Impact of foreign direct investment on Indian economy. The study tries to find out how FDI seen as an important economic catalyst of Indian economic growth by stimulating domestic investment, increasing human capital formation and by facilitating the technology transfers. The main purpose of the study is to investigate the impact of FDI on economic growth in India.

Zafar Iqbal, Imran Masood, M. Ramzan,"Foreign direct investment and economic growth: comparative positions of Chinese and Indian economies". Found that China is in far better position in infrastructure, economic activities and China has favorable business environment as compare to India, However India compete China in better legal and political system. We also find that foreign direct investments have positive impact on economic growth of Indian and Chinese economies. FDI positively impact on GDP growth rate of these countries that lead to increase in their per capita income.
**Peng Hu** (2006) analyses various determinants that influence FDI inflows in India which include economic growth, domestic demand, currency stability, government policy and labour force availability against other countries that are attracting FDI inflows. Analyzing the new findings, it is observed that India has some competitive advantages in attracting FDI inflows, like a large pool of high quality labour force which is an absolute advantage of India against other developing countries like China and Mexico.

**Objectives of the Study**

1. To Understand the Importance of Developing Make in India.
2. To Examine the Importance of Taxation Policy in Developing Make in India.

**Scope of the Study**

This study was confined to Taxation Policies and Make in India. For the purpose of study China and India are taken into consideration.

**Significance of the Study**

The concept of Make in India is coming into light with the introduction of globalization, liberalization, Privatization, New Industrial Policies, which will enhance the Job Opportunities in the country. The Manufacturing sector will be financed from foreign investors so that it will boost up by acquiring new technology, Management skills and skilled work force. The other sectors also develop like Railways, Insurance, Banking, Defence, Retailing, Civil Aviation sector, etc.

**Limitations of the Study**

Even though attempts were made to make the study perfect and objective, it is not free from limitations. Due to resource and time constraint, only Taxation Policies of China and India have been selected for detailed investigation. The data used for the study pertaining only from 2011 to 2014.However, maximum care has been taken to ensure the reliability of the information gathered through Secondary Data.

**Research Methodology**

This study is Descriptive in Nature based on secondary data collected from various published sources, Such as Handbook of Statistics on the Indian economy, RBI reports, Economic Survey of Government of India, Department of Industrial Policy and Promotion (DIPP), Secretariat of Industrial Assistance (SIA), IMF statistical reports, world bank outlook report, Central Statistical Organization (CSO) consist of year wise statistics of Tax inflows and out flows to India and China.

**Period of Study**

The magnitude of Tax inflows and Outflows of China and India is analyzed during 2011to 2014.

**MAKE IN INDIA**

Foreign Direct Investment plays a very important role in the development of the nation. It is very much vital in the case of underdeveloped and developing countries like India. It plays an important role in the long-term development of a country not only as a source of capital but also for enhancing competitiveness of the domestic economy through transfer of technology, strengthening infrastructure, raising productivity and generating new employment opportunities. In India, FDI is considered as a developmental tool, which helps in achieving self-reliance in various sectors and in overall development of the economy. India after liberalizing and globalizing the economy to the outside world in 1991, there was a massive increase in the flow of foreign direct investment Through Economic and Tax Reforms. Brazil, China, Singapore, Canada, USA, UK as attracting more FDI through Tax Reforms**.** It is time for Government of India to Change Taxation policy, Foreign Trade policy, Bankruptcy policy to attract more FDI inflows to India.

**Table 2 Rank Wise Ease of Doing Business In 2014**

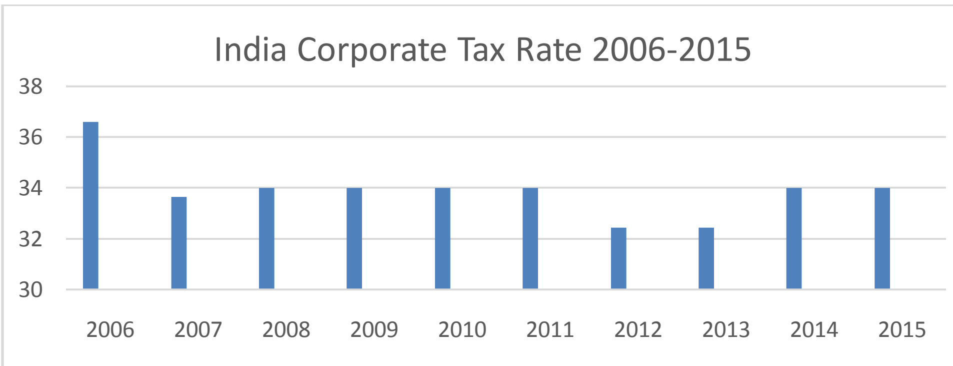
| SL.No | Countries | Rank |
|---|---|---|
| **01** | Singapore | **01** |
| **02** | United States Of America | **04** |
| **03** | South Africa | **41** |
| **04** | Russian Federal | **92** |
| **05** | China | **96** |
| 06 | Brazil | 116 |
| 07 | India | 134 |

Source: www.Trading economic.com

**Tax Incentive In India**

a) Tax "pass through" to be allowed to both category I and category II alternative investment funds.
b) Simplification of tax procedures.
c) In India, the **Corporate Income tax rate** is 33.99% to be collected from companies. Its amount is based on the net income companies obtain while exercising their business activity, normally during one business year. The benchmark we use refers to the highest rate for Corporate Income. Revenues from the Corporate Tax Rate are an important source of income for the government of India.

**The Graph showing the India Corporate Tax Rate from 2006 to 2015**




d) Wealth-tax replaced with additional surcharge of 2 per cent on super rich with a taxableincome of over `1 crore annually.
e) Domestic transfer pricing threshold limit increased from `5 crore to ` 20 crore.
f) MAT rationalized for FIIs and members of an AOP.
g) Permanent Establishment (PE) norm to be modified to encourage fund managers to Relocate to India.
h) Revival of growth and investment and promotion of domestic manufacturing for job creation.
i) General Anti Avoidance Rule (GAAR) to be deferred by two years.
j) GAAR to apply to investments made on or after 01.04.2017, when implemented.
k) Additional investment allowance (@ 15%) and additional depreciation (@35%) to new manufacturing units set up during the period 01-04-2015 to 31-03-2020 in notified backward areas of Andhra Pradesh and Telangana.
l) Rationalization of capital gains regime for the sponsors exiting at the time of listing of The units of Re- Investment and Investments.

- Applicability of indirect transfer provisions to dividends paid by foreign companies' totheir shareholders to be addressed through a clarificatory circular.
- Tax Administration Reform Commission (TARC) recommendations to be appropriatelyimplemented during the course of the year.

**The main applicable taxes when doing business in India**

**A. Direct Taxes**

1) Income tax
2) Corporate tax
3) Capital Gains Tax

Different kinds of taxes relating to a company

a) Minimum Alternative Tax (MAT)
b) Fringe Benefit Tax (FBT)
c) Dividend Distribution Tax (DDT)
d) Banking Cash Transaction Tax (BCTT)
e) Securities Transaction Tax (STT)

**B. Indirect Taxation**

1) Sales tax
2) Central Sales Tax (CST)
3) Value Added Tax (VAT)
4) Excise Duty
5) Customs Duty
6) Service Tax
7) Anti Dumping Duty

**Other Taxes:-**

a) **Professional Tax**
b) **Municipal Tax:-**
c) **Entertainment Tax:-**
d) **Stamp Duty, Registration Fees, Transfer Tax:-**
e) **Education Cess , Surcharge:-**
f) **Gift Tax:-**
g) **Wealth Tax:-**

**Table 3 showing Countries Tax to GDP Contribution In 2014**

| Sl. No | Countries | Tax To GDP |
|---|---|---|
| 01 | Brazil | 26.9% |
| 02 | Russia | 29.5% |
| 03 | South Africa | 24.4% |
| 04 | India | 17.7% |
| 05 | China | 17% |
| 06 | United States Of America | 26.9% |

Source: www.Trading economic.com

**Foreign Direct Investment in China**

China is now pursuing a more sustainable growth pattern and the country's economic structure, economic growth drivers and industry development have all been subject to considerable change. In 2014, China recorded an FDI inflow of US$119.6 billion, up 1.7 percent from 2013. China's economic growth in 2014 was boosted by a number of government support measures, policies had significant effects oninfrastructure investment, Real Estate experienced noticeable growth in 2014. More targeted stimulus measures are expected to be released in 2015 to further support economic growth.

**China's Foreign Direct Investment 2007-2014**

| Year | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|
| US$ Billions | 74.8 | 92.4 | 90.0 | 105.7 | 116.0 | 111.7 | 117.6 | 119.6 |

**Source: '2014 China Statistical Yearbook', NBS,**

**Tax Incentives in China**

- Starting from 1 January 2008, a unified Corporate Income Tax (CIT) system is applicable to foreign investment enterprises and foreign enterprises, as well as domestic enterprises.
- Tax resident enterprises in China are taxed on their worldwide income. Non-tax resident enterprises are taxed on China sourced income.
- Double taxation relief is offered through credit, exemption or reduction provided under national statutes and tax treaties.
- Tax resident enterprises, which include enterprises incorporated in China and foreign enterprises whose effective management is located in China, are liable to CIT on their worldwide income.
- Dividends paid between qualified tax resident enterprises are exempt from CIT. However, non-tax resident enterprises are subject to a 10% withholding CIT (unless reduced under a tax treaty) on dividend income derived from China.
- Foreign tax credits are available.
- Qualifying high and new technology enterprises are eligible for a reduced tax rate of 15%. Other forms of tax incentives, which are in the forms of tax holidays, reduced tax rate, reduction of revenue, investment tax credit, etc. are also available for enterprises that are engaged in encouraged industries or which invest in research and development and specific equipment.
- Qualifying advanced technology service enterprises are able to enjoy certain preferential tax treatment and other support. In certain areas, various local financial subsidies are available for foreign investment.
- The Corporate Tax Rate in China stands at 25 percent. Corporate Tax Rate in China averaged 29.63 percent from 1997 until 2015, reaching an all-time high of 33 percent in 1998 and a record low of 25 percent in 2008. Business year.

**The Graph showing the India and China Corporate Tax Rate 2006 to 2015**

**Table 7 Showing Different Countries Corporate Tax Rates 2015**

| SL.No | Countries | Tax Rate % |
|---|---|---|
| 01 | Brazil | 34 |
| 02 | Russia | 20 |
| 03 | India | 33.99 |
| 04 | china | 25 |
| 05 | South Africa | 28 |
| 06 | United States | 39 |
| 07 | United Kingdom | 20 |
| 08 | Switzerland | 17.92 |
| 09 | Turkey | 20 |
| 10 | Canada | 26 |

Source: www.Trading economic.com

**The main applicable taxes when doing business in China**

**1. Taxes on income**:

- Corporate Income Tax
- Individual Income Tax

2. **Taxes on transactions – turnover tax system**:

- Value-added tax (VAT)
- Business tax (BT)
- Consumption tax (CT)

3. **Other taxes:**

- Customs duties
- Stamp tax
- Vehicle and vessel tax
- Motor vehicle acquisition tax
- Deed tax
- Land appreciation tax
- Real estate tax
- Urban and township land-use tax
- Resources tax
- Urban Construction and Maintenance Fee and Education Surtax
- Other surtaxes and levies

**Findings of the Study**

- The study found that China Government has liberalized Taxation policy, Foreign Direct Investment policies, Monetary Policy and Foreign Investment laws. This stimulus many companies to invest their fund and establish their business in china.
- The study found that Corporate Income Tax of China is 25% from 2008-2015 and India corporate tax is 33% in 2015.

- The study found that China's economic restructuring is creating more development potential for private capital, especially SMEs. On 8 April 2013, the MOF extended the scope of qualified SMEs that can enjoy **a 50 percent income tax deduction**.
- The study found that Lack of adequate infrastructure is a major hurdle for FDI inflows into India. India's age old and biggest infrastructure problem is the Road, Railways, Sea port connection, Communication, Well equipped Market and supply of electricity. Power cuts are considered as a common problem and many industries are forced to close their business.
- The study found that India's export processing zones have lacked dynamism because of several reasons, such as their relatively limited scale, the unclear and changing Tax incentive packages attached to the zones.
- The study found that china is having bilateral investment treaty with the USA. China and USAcan enjoy greater legal protection, market access and dispute resolution procedures.
- The study found that china Government come out with lot of reforms to stimulus Real Estate. Many markets in Europe and North America are seeing real estate gaining ground as their economies stabilize.

**Suggestions of the Study**

- The finding reveals that China Government has liberalized Taxation policy, Foreign Direct Investment policies and Monetary Policy. It is suggested that Government of India should speed up their Reforms in Taxation Policy, Foreign Investment policy, Monetary policy, Bankruptcy to attract more Investment to India.
- The finding reveals that China gets maximum FDI in the manufacturing sector, which has helped the country to become the manufacturing hub of the world. It is suggested that In India the manufacturing sector can grow only if infrastructure facilities are improved and reforms take place. The Government should take initiatives to adopt more Tax Incentive laws.
- The finding reveals that Corporate Income Tax of China is **25% in 2015 and India corporate tax is 33% in 2015.** It is suggested that India should reduce corporate tax and increase more Tax incentives to the foreign investors.
- The finding reveals that Service sector in china accounted for 48.2 % of economic output in 2014. It is suggested that India Government should come out with Effective Corporate tax law to boost service sector, so that more FDI and Employment opportunities can be created.
- The finding reveals that China Developed partnerships establishments in new markets to make investment destinations for Chinese companies, as they offer those markets, technologies, experience, brands and access to talented people. It is suggested that India should also develop Partnership Establishment in new markets.
- The finding reveals that china is having bilateral investment treaty with the USA. It is suggested that India should development bilateral investment agreement with Developed and developing countries so that can speed up Make in India programme and enjoy greater legal protection, market access and dispute resolution procedures.
- The finding reveals that the issues towards geographical disparities of FDI in India. It is suggested that Central Government should take measures to solve the geographical disparities by adopting priority based method, first priority to eastern states and second priority to southern states.
- The finding reveals that china Government come out with lot of reforms to stimulus Investments. It is suggested that Government of India should speed up Tax reforms like enact of Land acquisition bill, Goods and Service Tax and Direct Tax Code.

## Conclusions

- From the above analysis it is observed that India is one of the 4th attractive destinations in 2014 but in terms of FDI inflows it is not up to the Mark because of Lack of Infrastructure, Less Tax incentives, lack in Foreign Investment policy, and delay in policy making, Brazil, China, Singapore, Canada, USA, and UK as attracting more FDI. The expectation of People on new government has increased; it is the responsibility of the Government to withhold the trust, belief and to enact economic developmental policies. Government should liberalized Tax Incentives policies, Foreign Direct Investment policies, Monetary Policy and International Investment laws, , Foreign Trade Policies Bankruptcy policies to attract more Foreign Direct Investment to emerging sectors in India.

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