Corporate taxes slashed vide Taxation Laws (Amendment) Ordinance 2019

To boost investment in the economy and revival of manufacturing sector, the Government today in a major, historic step slashed corporate taxes, introducing 6 amendments in the Income-tax Act and the Finance Act, 2019. Whereas there is no sunset clause prescribed, these amendments and reliefs will cost approximately 1,45,000 crores to the revenue! Applicable from the current fiscal year from April 01, a gist of the proposals is as under:

Corporate tax rates slashed to an effective 25.17%

In order to promote growth and investment, a new provision Section 115BAA has been inserted in the Income-tax Act with effect from FY 2019-20 which allows any domestic company an option to pay income-tax at the rate of 22% subject to condition that they will not avail any exemption or incentive. The effective tax rate for these companies shall be 25.17% inclusive of surcharge & cess. Also, such companies shall not be required to pay MAT.

Boost to Make-in-India – 17.01% effective tax rate

In order to attract fresh investment in manufacturing and thereby provide boost to 'Make-in-India' initiative of the Government, another new provision, Section 115BAB has been inserted in the Income-tax Act with effect from FY 2019-20 which allows any new domestic company incorporated on or after October 01, 2019 making fresh investment in manufacturing, an option to pay income-tax at the rate of 15% (effective 17.01% inclusive of surcharge & cess), with no requirement to pay MAT. This benefit is available to the following companies:

- Not availing any exemption/ incentive;
- Engaged in the business of manufacture or production of any article or thing and research in relation to, or distribution of, such article or thing manufactured or produced by it;
- Commence production before March 31, 2023;
- Income is computed without any set-off of PY carried forward losses attributable to the specified deductions;
- Not claiming depreciation attributable to power generation undertakings;
- Not formed by splitting up, or reconstruction of a business already in existence;
- Not using machinery or plant previously used for any purpose; and
- Not using building previously used as a hotel or convention centre

Definition of specified domestic transactions also modified to include such companies as AEs for TP.

MAT for existing companies reduced to 15%

A company which does not opt for the concessional tax regime and avails the tax exemption/incentive shall continue to pay tax at the pre-amended rate. However, these companies can opt for the concessional tax regime after expiry of their tax holiday/exemption period. After the exercise of the option they shall be liable to pay tax at the rate of 22% and option once exercised cannot be subsequently withdrawn. Further, in order to provide relief to companies which continue to avail exemptions/incentives, the rate of Minimum Alternate Tax has been reduced from existing 18.5% to 15%. This would however, not be applicable to Section 115B life insurance companies and corporates opting for Section 115BAA or 115BAB.

Enhanced surcharge on sale of equity shares relaxed

In order to stabilise the flow of funds into the capital market, it is amended that enhanced surcharge introduced by the Finance (No.2) Act, 2019 shall not apply on capital gains arising on sale of equity share in a company or a unit of an equity oriented fund or a unit of a business trust liable for securities transaction tax, in the hands of an individual, HUF, AOP, BOI and AJP.

Enhanced surcharge on CG for FPIs relaxed

Enhanced surcharge introduced by the Finance (No.2) Act, 2019 shall also not apply to capital gains arising on sale of any security including derivatives, in the hands of Foreign Portfolio Investors (FPIs).

No tax on buy-back of shares

New Section 115QA inserted to provide relief to listed companies which have already made a public announcement of buy-back before July 05 2019, it is amended that tax on buy-back of shares in case of such companies shall not be charged.

Scope of CSR 2% spending expanded.

Now CSR 2% fund can be spent on incubators funded by Central or State Government or any agency or Public Sector Undertaking of Central or State Government, and, making contributions to public funded Universities, IITs, National Laboratories and Autonomous Bodies (established under the auspices of ICAR, ICMR, CSIR, DAE, DRDO, DST, Ministry of Electronics and Information Technology) engaged in conducting research in science, technology, engineering and medicine aimed at promoting SDGs.

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