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NEWSFLASH INDIA

Issue: September 25, 2019

ADDING VALUE

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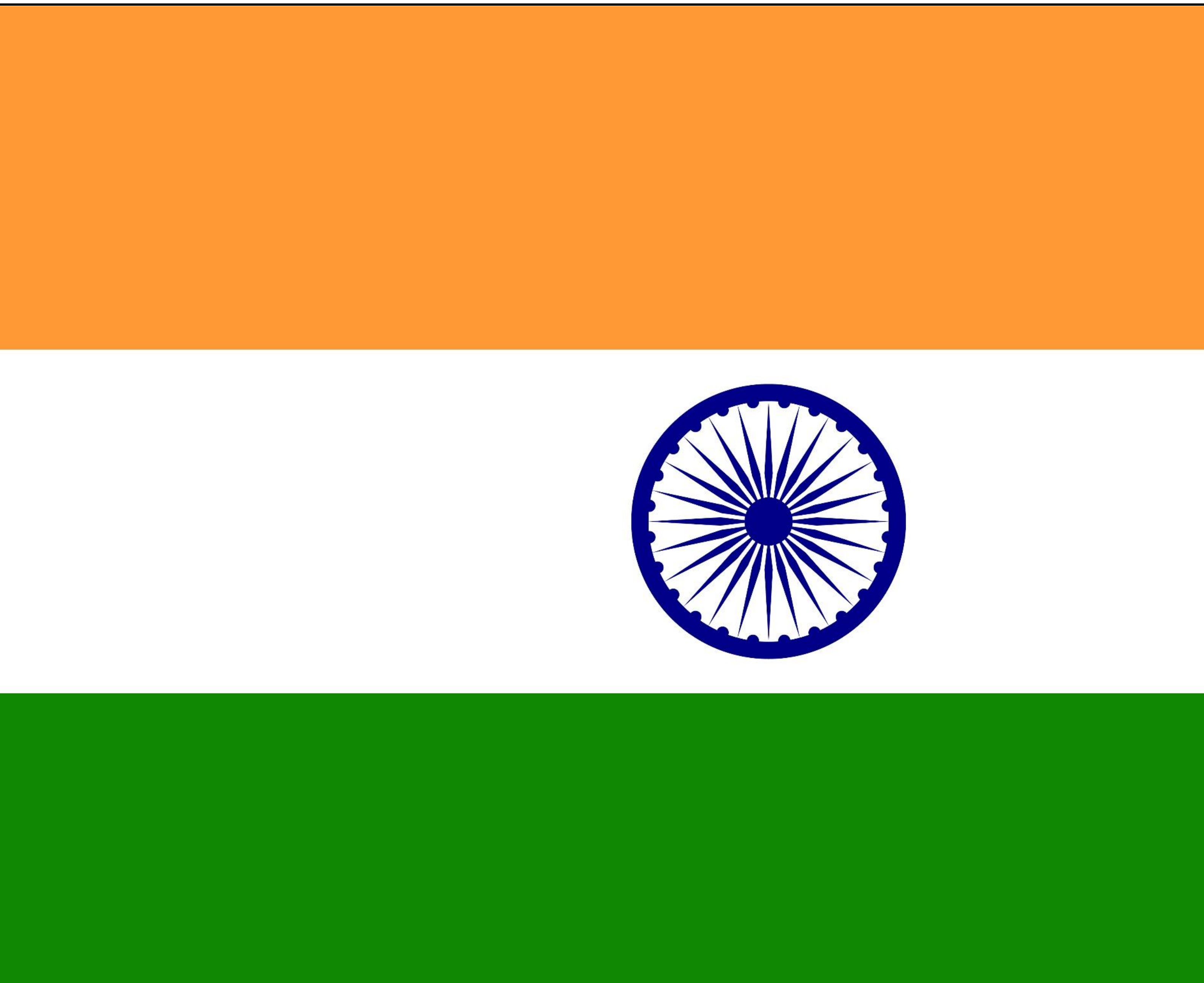

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Read in this issue:

→ New Corporate tax rates

22 per cent for domestic and 15 per cent for new domestic manufacturing companies

Niramala Sitharaman, the Finance Minister of India, in a surprise move, at a press conference on September 20, 2019, slashed the corporate rates for domestic companies and newly incorporated domestic companies exclusively engaged in manufacture or production of articles or things in order to revive the economic growth of India and to promote investments.

The Government has brought in the Taxation Laws (Amendment) Ordinance 2019 to make certain amendments in the Income Tax Act 1961 and the Finance (No. 2) Act 2019.

KEY HIGHLIGHTS OF THE AMENDMENTS

CONCESSIONAL RATE OF 22 PER CENT:

- Currently, companies with up to INR 400 crore turnover, per annum are taxed at 25 per cent and companies with turnover above INR 400 crore are taxed at 30 per cent. The effective rates including surcharge and cess are 29.12 per cent and 34.94 per cent respectively.

- Now existing domestic companies will have an option to pay income tax at the rate of 22 per cent subject to condition that they don't avail any exemption/incentive under the Income Tax Act, 1961 ('Act') from financial year 2019-20 onwards. The effective tax rate for these companies shall be 25.17 per cent inclusive of surcharge and cess.

- For opting the concessional rate, domestic companies will have to forego benefits like profit linked deduction for units in SEZ, additional depreciation, investment linked deductions, weighted deduction for expenditure on R&D, certain other deductions Chapter VI-A etc. However, deduction in respect of generation of new employment u/s. 80JJAA continues even for such companies.

- Further, such domestic companies won't be allowed to set off any loss carried forward from earlier years if such loss is attributable to any of the exemptions/benefits as mentioned above.

CONCESSIONAL RATE OF 15 PER CENT:

- New domestic companies incorporated on or after October 1, 2019, engaged only in manufacturing, will have an option to pay income tax at the rate of 15 per cent. This benefit is available to companies which do not avail any exemption/incentive and commences their production on or before March 31, 2023. The effective tax rate for these companies shall be 17.01 per cent inclusive of surcharge and cess.

- Such newly incorporated companies shall not be formed by splitting up, reconstruction of business already in existence. Further it should not use machinery or part previously used for any purpose.

OTHER RELIEFS AND CONDITIONS:

- Companies opting for concessional rate of tax shall not be required to pay Minimum Alternate Tax.

- 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.

- 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 per cent to 15 per cent.

- Companies needs to exercise option to avail concessional rate in prescribed manner before due date for filing return for Financial Year 2019-20. Once such option is exercised, it would be applicable for subsequent years and it cannot be withdrawn.

OTHER MEASURES

- 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.

- The enhanced surcharge shall also not apply to capital gains arising on sale of any security including derivatives, in the hands of Foreign Portfolio Investors (FPIs)

- In order to provide relief to listed companies which have already made a public announcement of buy-back before July 5, 2019, it is provided that tax on buyback of shares in case of such companies shall not be charged.

- Further the Government has expanded the scope of CSR 2 per cent spending. Now CSR 2 per cent fund can be spent on incubators funded by Central or State Government or any agency or Public Sec-tor 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.

ECONOMIC IMPACT

India's economic growth, currently sitting at a six-year low has been a cause of concern across various sectors. The lowering of corporate tax rate, as discussed at length previously, has been a well-received news throughout the country. Below are some of the probable economic impacts of this historic move in brief. As corporate tax rate is lowered, after-tax income of businesses rises, leaving more cash in their hands – which will encourage investments as well as consumption. Increase in consumption gives a boost to aggregate demand and thereafter increases production. With this, more jobs are created and economic activity gains momentum.

With the corporate tax rate now being one of the lowest in the world, Indian companies will be more competitive in the global market. They will be persuaded to stay in India and to expand their business activities. This news triggered the soaring of SENSEX by 4. per cent – which will motivate people to invest more in stocks as confidence rises among the general public with the increase in value of portfolios. According to Prime Minister Narendra Modi, a reduction in corporate tax rates will give a great stimulus to Make in India and will attract private investment from across the globe, owing to a more positive business environment.

The manufacturing sector, was experiencing a slowdown in the last quarter – which could be seen as the motivation behind this decision. Therefore, this measure will greatly benefit not just the manufacturing sector, but business activity in India as a whole. In conclusion, the lowering of corporate tax rates is expected to have many positive impacts on the economy as a whole and also help its revival.

CONTACT FOR FURTHER INFORMATION

Rahul Oza
rahul.oza@roedl.com

Anand Kankariya
anand.kankariya@roedl.com

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Rödl & Partner Consulting Pvt Ltd
Lunkad Sky Cruise, Wing-B
Survey No 210/3, Viman Nagar
Pune -411014
T +91 0 2066 2571 00
www.roedl.de | www.roedl.com

Responsible for the content:
Rahul Oza
Rahul.oza@roedl.com

and

Anand Kankariya
Anand.kankariya@roedl.com

Layout/Type:
Karuna Advani
Karuna.advani@roedl.com