

Union Finance Minister Nirmala Sitharaman addressed a press conference in Panjim, Goa on September 20, 2019. The Finance Minister, in an effort to boost investment in the economy, announced that the Government has proposed to slash the corporate tax rates for domestic companies and for new domestic manufacturing companies. She stated that the ordinance for slashing the tax rate has already been passed.

It is to be noted that new provisions shall be inserted in Income Tax Act, 1961 to incorporate the revised corporate tax rate for existing Domestic Company and New Manufacturing Company.

- **Existing Domestic Companies**

The **current corporate tax rate** for a domestic company is as under:

Particulars	Tax Rate for FY 2019-20
(a) Where total turnover or gross receipts of a domestic company during the previous year 2017-18 does not exceed Rs.400 crores	25%
(b) In any other case then (a) above	30%

Further, surcharge on domestic Company is 7% if net income is in the range of Rs. 1 crore –Rs. 10 crores and 12% if net income exceeds Rs. 10 crores.

Further, the aforesaid tax rate and surcharge as applicable is increased by Health and education cess (HEC) of 4% for computing the total tax liability on income of a domestic company.

The **revised corporate tax rate** for a domestic company has been proposed to brought down to **22%. The effective tax rate for these companies shall be 25.17% inclusive of all surcharge and cess (i.e. 22% tax rate add 10% surcharge add 4% HEC).**

It is relevant to note that the aforesaid revised corporate tax rate is subject to condition that such companies will not avail any incentive or exemptions. The said incentives and exemptions have not been clarified until now. However, in all likelihood the exemptions and incentives that have been referred herein shall be as under:

- Any deduction under the provisions of section 10AA of the IT Act. The said section was inserted to give income-tax concession to all categories of assessee being entrepreneur viz., individuals, firms, companies, etc. who derive any profits or gains from newly established units in Special Economic Zone, being a unit engaged in the export of articles or things or providing any service. On fulfillment of the conditions mentioned in the said section, the assessee can claim the deductions as under:

- 100% of export profit is eligible for deduction for the first five years.
- 50% of export profit is eligible for deduction for the next five years.
- Amount not exceeding 50% of export profit is eligible for further deduction for the next five years.

ii. Additional depreciation under clause (iia) of sub-section (1) of section 32 of the IT Act

The said section provides that if an assessee is engaged in the business of manufacture or production of any article or thing or in the business of generation or generation and distribution of power, an additional depreciation of 20% of the actual cost of new machinery or plant (other than ships and aircraft) shall be allowed as deduction.

Further, additional depreciation of 35% is available for the undertaking/enterprise set up by the assessee on or after 1-4-2015 on new machinery or plant (other than ships and aircraft) in the backward area notified by the Central Government in this behalf in the states of Andhra Pradesh, Bihar, Telangana and West Bengal.

iii. Investment allowance in notified backward area under section 32AD of the IT Act

As per the said section, an assessee is entitled to deduction of 15% of the actual cost of new assets acquired and installed to set up an undertaking for manufacturing or production of an article or thing in notified backward area in Andhra Pradesh, Bihar, Telangana or West Bengal on after 1.4.2015

iv. Deduction under section 33AB of the IT Act is available to an assessee who is engaged in the business of growing or manufacturing coffee or tea or rubber. The said deduction is lower of (a) the amount deposited in NABARD or any other scheme of tea board /coffee board/ rubber board as specified in the Act and (b) 40% of the profits and gains of business of the assessee in the manner as specified in the Act.

v. Any capital expenditure incurred and actually paid by an assessee on acquisition of any right to use spectrum for telecommunication services by paying spectrum fee will be allowed as a deduction in equal installments over the period for which the right to use remains in force in accordance with Section 33ABA of the IT Act.

- vi. Section 35(2AB) of the IT Act provides weighted tax deduction of 150% of expenditure incurred by a company, on scientific research (not being expenditure in the nature of cost of any land or building) in the in-house R&D centres as approved by the prescribed authority.
- vii. Section 35(2AA) of the IT Act provides that where the assessee pays any sum to a National Laboratory or to an University or to an Indian Institute of Technology or to a specified person as approved, with a specific direction that the said sum shall be used for scientific research undertaken under a programme approved in this behalf by the prescribed authority, then a sum equal to 200% of the sum so paid shall be allowed as deduction and no deduction in respect of such sum shall be allowed under any other provisions of the IT Act.
- viii. As per section 35 (1)(ii)(ia)(iii) of the IT Act, where an assessee does not himself carry on research but makes contributions to a scientific research association, a university, college or other institutions, he shall be entitled to get deduction of one and one fourth times of the donations paid by them subject to conditions provided in the Act.
- ix. As per section 35AD of the IT Act, deduction of 100% and 150% is available, in respect of capital expenditure (except land or goodwill or financial instruments) incurred wholly and exclusively for the purpose of the specified business carried on by the assessee.
- x. As per section 35CCC of the IT Act, where an assessee incurs any expenditure on agricultural extension project notified by the Board in this behalf in accordance with the guidelines, then, there shall be allowed a deduction of a sum equal to 150% of such expenditure in the manner as specified in the section.
- xi. As per section 35CCD of the IT Act, where a company incurs any expenditure (not being expenditure in the nature of cost of any land or building) on any skill development project notified by the Board in this behalf in accordance with the guidelines as may be prescribed, then, there shall be allowed a deduction of a sum equal to 150% of such expenditure.
- xii. Or any other deductions under any provisions of Chapter VI-A under the heading "C. — Deductions in respect of certain incomes" other than the provisions of section 80JJAA;

- xiii. set off of any loss carried forward from any earlier assessment year if such loss is attributable to any of the deductions referred in points (i) to (xiii) above.
- xiv. depreciation under section 32, other than clause (iia) of sub-section (1) of the said section, is determined in the manner as may be prescribed.

In furtherance of the above, the companies opting for 22% income tax slab would not have to pay minimum alternative tax (MAT) and Companies can opt for lower tax rate (i.e 22%) after expiry of tax holidays and concessions that they are availing now.

It may be noted that once the option for lower tax (i.e 22%) has been exercised by any assessee for any previous year, it cannot be subsequently withdrawn for the same or any other previous year.

Further, relief has also been given to domestic companies not opting for 22% tax slab by way of reduction in the minimum alternative tax (MAT) rate. The MAT rate has been reduced to 15% from the existing 18.5%.

- **Domestic Company making investments in manufacturing activities**

To attract more investments, new insertion shall be made in the Income Tax Act with effect from FY 2019-20, which will allow any new domestic company incorporated on or after October 1, 2019 making fresh investment in manufacturing to pay income tax at a rate of 15 %. The lower rate is available on fulfillment of certain conditions, inter-alia, subject to condition that such companies will not avail any incentive or exemptions as mentioned above. The tax rate has been brought down from the existing 25%.

In furtherance of the above, the companies on which the aforesaid section is applicable would not have to pay minimum alternative tax (MAT).

It may be noted that once the aforesaid option has been exercised by any assessee for any previous year, it cannot be subsequently withdrawn for the same or any other previous year.

It is pertinent to note that the aforesaid revised corporate tax rate will be effective from the current financial year 2019-20.