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Newsflash: Manufacturing sector (India)

Big Booster for the Economy - Effective Corporate Tax Rate Slashed

To promote growth and attract fresh investment in the manufacturing sector, and boost the 'Make-in-India' initiative, the Government today announced certain amendments in the Income-tax Act vide Taxation Laws (Amendment) Ordinance 2019. The salient features of these amendments are as under:

Reduction in corporate tax rates

With effect from Financial Year (FY) 2019-20, any Indian company can avail an option to pay income tax at the rate of 22 percent (plus applicable surcharge and education cess). Moreover, no Minimum Alternative Tax (MAT) will be imposed on these companies subject to these companies not availing any tax incentives or exemptions.

However, companies claiming tax incentives or exemptions can opt for the concessional tax regime after expiry of their tax holiday/exemption period and accordingly be liable to pay tax at the rate of 22 percent (this option once exercised cannot be subsequently withdrawn).

Corporate tax for manufacturing companies

To attract fresh investment in manufacturing, any new domestic manufacturing company incorporated on or after 1 October 2019 will be allowed to pay corporate tax at the rate of 15 percent (plus applicable surcharge and education cess). No MAT will be imposed on these companies also—subject to them not availing any tax incentives or exemptions and commencing production on or before 31 March 2023.

Reduction in tax rate payable under MAT

To provide relief to Indian companies that continue to avail exemptions and incentives and are not covered under (1) and (2) above, the rate of MAT has been reduced from 18.5 percent to 15 percent (plus applicable surcharge and education cess).

Buy-back tax

No tax on buy-back of shares will be applicable in case of the listed companies that have already made a public announcement of buy-back before 5 July 2019.

Extended scope of Corporate Social Security (CSR) spending

The finance minister also announced an increased scope of CSR activities. The companies can now spend 2 percent of the money inter alia on (a) incubators funded by Central or State Government or any agency or Public Sector Undertakings of Central and State Government, (b) IITs, (c) public-funded universities, (d) national laboratories, and (e) other specified autonomous bodies engage in conducting research in science, technology, engineering, and medicine promoting Sustainable Development Goals.

We believe these amendments will provide the requisite boost to the Oil & Gas and manufacturing sectors. It will also attract FDI investments in these sectors, give an overall fillip, and put India on a growth trajectory.