

Knowledge Series

Vol. 182

By SriSattva Academy
- An Initiative of SriSattva Group

Corporate Income Tax

Overview

- On 20 September, 2019, Finance Minister, Nirmala Sitharaman announced the largest reduction in corporate income tax (CIT) rates in the last three decades through the Taxation Laws (Amendment) Ordinance, 2019.
- The reduced CIT rate makes return on investments made in India attractive. The reduction in rate and other favourable factors also pave the way for cementing India's status as a favourable manufacturing destination against the backdrop of existing global trade dynamics. With the headline CIT rate for newly incorporated domestic manufacturing companies being reduced to 17.16%, the manufacturing sector is one of the largest beneficiaries.

Implications of the new CIT rate reduction



Effective CIT rates slashed for existing domestic companies from **34.94% to 25.17%** from FY20 onwards.



For domestic companies opting for concessional rates, certain exemptions, deductions, allowances (including additional depreciation) will not be available. Minimum Alternative Tax (MAT) will not apply in this case and accumulated MAT credit cannot be utilised.



For new manufacturing companies², applicable effective CIT rate is **17.16%**. No MAT is applicable.



Reduction of effective MAT rate from **21.55% to 17.47%** for domestic companies not opting for the concessional tax rates. They will continue to enjoy the benefit of specified deductions / incentives, where applicable.



Tax on distribution of profits (DDT) applicable for new manufacturing companies and other domestic companies.

Ease of doing business in India has improved over the last few years. The country jumped 65 spots in four years from 142 in 2015 to 77 in 2018, as per World Bank's *Ease of Doing Business* index.

Source: PWC Analysis

The announcements now bring India's CIT rate closer to the worldwide average statutory CIT rate of 23.03%.

Increasing India' s competitiveness in the global landscape

At 25.17% (17.16% for new manufacturing companies), India's CIT rate is competitive when compared with the worldwide average statutory CIT rate. Earlier, India had one of the highest CIT rates (34.94%) among large global economies.

Country	CIT rate
China	25.00%
Indonesia	25.00%
India	22%, 15% for new manufacturing companies (including cess and surcharge the CIT rates stand at 25.17% and 17.16% for new manufacturing companies)
Malaysia	24.00%
Singapore	17.00%
Vietnam	20.00%
Thailand	20.00%

Source: PWC Analysis

Additional incentives available for manufacturing and exporters businesses

	Refund of input Goods and Services Tax (GST) for exporters of goods as well as services
	Customs duty exemption on import of capital goods and raw material used in the manufacture of exported goods from India
	Complete and upfront offset of GST incurred on capital expenditure to the manufacturing companies
	No GST on procurements by companies located in Special Economic Zones (SEZs)
	Facility of Authorised Economic Operator (AEO) status to large importers, which entitles them to faster clearances and processing of refunds, among other benefits.

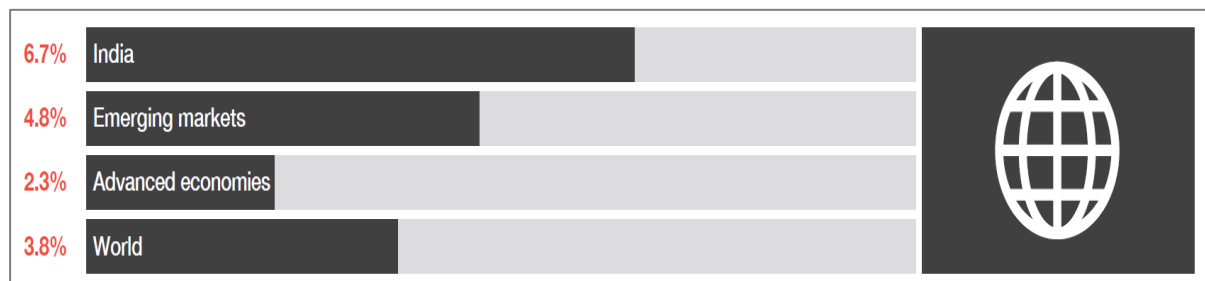
Source: PWC Analysis

How can companies respond?

 Existing domestic companies	<p>Cost-benefit analysis Since the new CIT rates are effective for the fiscal year 2020, companies need to evaluate adoption of the same by considering the allowances and incentives that will be foregone.</p> <p>Eligibility of MAT credit Those with accumulated MAT credit should evaluate the feasibility of conducting business by adopting the new CIT rates.</p>
 Existing domestic companies planning expansion	<p>Expansion plan Any expansion plan should take into account the nature of the expansion and the structure in which such expansion can be executed.</p>
 New businesses / Formation of new companies	<p>Entry plan Companies should favourably evaluate India entry plans, given the 17.16% CIT rate for new manufacturing companies.</p>

Source: PWC Analysis

Economic growth rate



Source: PWC Analysis

India poised to be the third largest consumer market by 2025

Youngest population	Innovation	Digital economy	Internet
<ul style="list-style-type: none"> India's median age of 27 is younger than that of most other countries. India is home to the world's largest working age population that is estimated to cross 1 billion by 2050. 	<ul style="list-style-type: none"> India has the world's 3rd largest startup ecosystem. In the first three quarters of 2019, India witnessed the emergence of 8 unicorns. 	<ul style="list-style-type: none"> The size of the Indian digital economy is US\$ 413 billion (14-15% of India's GDP). By 2025, India's digital economy is expected to be US\$ 1 trillion. 	<ul style="list-style-type: none"> India has 480 million Internet users and 400 million smartphone users.

Source: PWC Analysis

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Email: srisattva@srisattvagroup.com

Bangalore: +91 96866 91263

Chennai: +91 82489 26757

Corporate Office: SriSattva Group, #904, Spaces Centre, 9th Floor, Citius Block, Olympia Technology Park Phase 1, SIDCO Industrial Estate, Guindy, Chennai, TN, IN 600 032



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