ELP update: New income-tax amendment by the Finance Ministry to boost the economy

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With the view to promoting economic growth and to boost investment, the Government of India has introduced the Taxation Laws (Amendment) Ordinance 2019, in order to insert certain amendments into the Income-tax Act, 1961 (**IT Act**) and the Finance (No 2) Act, 2019 (**Finance Act**).

The measures announced by the Ministry of Finance are as follows:

1. The corporate tax rate for domestic companies not availing any exemptions/incentives is reduced from 30% to 22%. The companies which have availed the above option will be exempted from the applicability of Minimum Alternate Tax (**MAT**).
    - Companies which are willing to avail the existing exemptions/incentives and do not opt for the concessional rate, may avail this rate after the expiry of the tax holiday period. However, they will continue to be taxed at the pre-amended rate till the option is exercised. The option once exercised cannot be subsequently withdrawn.
    - MAT at the reduced rate of 15% shall be applicable to companies, which wish to avail the existing exemptions/incentives.
2. To boost 'Make in India', new domestic companies (i) incorporated on or after October 1, 2019 (ii) 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 (iii) commencing manufacturing on or before March 31, 2023 :
    - Will have an option to pay corporate tax rate at 15%, provided the company is not availing any exemption/incentive.
    - These companies are also exempted from paying MAT.
3. Enhanced surcharge in the hands of individuals, Hindu undivided family, association of persons, body of individuals, artificial juridical person (introduced by the Finance Act on tax payable on account of capital gains arising from sale of equity shares in a company or a unit of an equity oriented fund or a unit of business trust, which are liable to securities transaction tax) stands withdrawn.
4. Foreign Portfolio Investors will also not be subjected to the enhanced surcharge on tax payable on account of capital gains on sale of any security, including derivatives.
5. Buy back distribution tax will not be applied to listed entities on buy-back of shares announced prior to July 5, 2019.

ELP Comments

The announcement of these measures is certainly a welcome move to boost the Indian economy. The positive sentiment in the market was reflected in the rise in the stock market today.

The government hopes that the reduction in corporate tax rates will bring in more investments, boost employment and economic activity, leading to more revenue.

The non-applicability of the buy-back distribution tax on the buy-back of shares announced before July 5, 2019 is in true spirit and good faith, since when these announcements were made, there was no buy back distribution tax which was to be applied.

All in all, this is certainly a welcome step to boost the market sentiment and the 'Make in India' program. We hope that this will spur the creation of more jobs in the economy.

We trust you will find this an interesting read. For any queries or comments on this update, please feel free to contact us at insights@elp-in.com.