BIG DAY FOR INDIAN ECONOMY AND CORPORATE SECTOR

Finance Minister Mrs. Nirmala Sitharaman has put the country on par with other developed economies by slashing the tax by around 10%. The tax rate for new manufacturing companies will be the lowest in the world. The focus shifted from revenue to growth in one stroke.

Country	Tax Rate
USA	21%
Most rate Europe	22-25%
Japan	20%
UK	17%
Singapore	17.5%
Hong Kong	16%
China	25%
Russia	20%
Germany	30%
Brazil	34%
India	22% (25.17% inclusive of surcharge and cess)
For Manufacturing companies which incorporates on or after 1st October 2019 and which commences their production on or before 31st March 2023	15% (17.01% inclusive of surcharge and cess)

Lower Corporate Tax Rates…

For all corporate	Earlier	Now
Tax Rate	30%	22%
Effective Rate	34.9%	25.17%
For Manufacturing Companies (Formed after 1st Oct 2019)		
Tax Rate	25%	15%
Effective Rate	29.12%	17.01%
For companies availing exemption		
Tax Rate	18.5%	15%
Effective Rate	22%	17%

The full text of the Finance Minister announcements:

Finance Minister Mrs. Nirmala Sitharaman announced a slew of measures on Friday to revive sagging investment, Review the Economy and Generate employment. The revenue foregone on reduction in corporate tax and other relief measures will be Rs 1.45 lakh crore annually.

The Centre 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.

The salient features of these amendments are as under:

1) In order to promote growth and investment, a new provision has been inserted in the Income-tax Act with effect from FY 2019 - 20 which allows any domestic company an option to pay income-tax at the rate of 22% subject to condition that they will not avail any exemption/incentive. The effective tax rate for these companies shall be 25.17% inclusive of surcharge & cess. Also, such companies shall not be required to pay minimum alternate tax.

2) In order to attract fresh investment in manufacturing and thereby provide boost to 'Make-in-India' initiative of the Government, another new provision has been inserted in the Income-tax Act with effect from FY 2019 - 20 which allows any new domestic company incorporated on or after 1st October 2019 making fresh investment in manufacturing, an option to pay income-tax at the rate of 15%. This benefit is available to companies which do not avail any exemption/incentive and commences their production on or before 31st March 2023. The effective tax rate for these companies shall be 17.01% inclusive of surcharge & cess. Also, such Companies shall not be required to pay minimum alternate tax.

3)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. After the exercise of the option they shall be liable to pay tax at the rate of 22% and option once exercised cannot be subsequently withdrawn. 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% to 15%.

4) In order to stabilise the flow of funds into the capital market, it is provided that 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 AJ.

5) 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).

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

7) The Government has also decided to expand the scope of CSR 2% spending. Now CSR 2% fund can be spent on incubators funded by Central or State Government or any agency or Public Sector 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.

What these measures mean for the Country, Equity and Debt markets:

The main objective of the government seems to be opening the Indian Economy to new investors – both domestic and foreign. The lowest tax for the manufacturing sector is to help the ‘Make-in-India’ initiative and attract more manufacturing facilities to India. The timing seems to be perfect, given the ongoing tariff war between USA and China and the need to attract major portion of the manufacturing to India.

By slashing the tax for other companies to 22%, it has given a big support to the sagging earnings growth. This is expected to improve the earnings by more than 10%. This also helps the companies to give better dividend to the investors.

Lower tax will also make the government disinvestment of strategic stake in PSU companies and PSU banks more attractive.

Equity Market has cheered this announcement and rallied by around 5.3%, never seen rally before. This is one of the largest single day rally.

Debt market is concerned due to expected revenue loss of around Rs.1.45 lakh crore which in turn may put pressure on the Fiscal Deficit. But given the determination of the government to maintain lower interest rate, we will not see the reversal of the interest rate cycle.

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