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Corporate Tax Rebate: It's Impact on Indian Economy

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Abstract- The purpose of this paper is to analyze the impact of corporate tax rebates on the Indian economy. The slashing corporate tax rate will revive corporate sentiments, provide impetus to companies to start a new plan, improve compliance and give India a competitive slot amongst leading economies of the world is expected. The extent of the final impact on credit profiles of Indian corporates will depend on how they utilize the surplus earnings for reinvestment in the business, debt reduction or high shareholder returns.

Index Terms- Corporate tax, economy, finance, minimum alternate tax, profit before tax, rebate, revenue.

1. INTRODUCTION

The main aim of reduction in tax is to fight against the financial crisis and uplift the economy by leading to new businesses and create new job opportunities. However, this depends on the way the companies makes its use to make maximum of its gain from such tax rebates. A corporate tax is however, imposed on the net profit of a corporation that are taxed at the entity level in a particular jurisdiction. The tax may have an alternative base, such as assets, payroll, or income computed in an alternative manner.

2. CURRENT CONDITIONS FOR CORPORATE TAX REBATES

- A new provision inserted in the income tax act current year with effect from the fiscal year 2019-20, that allows any domestic company to pay income tax at the rate of twenty-two percent subject to the condition they will not avail any incentive or exemptions.
- Manufacturing companies set up after October to get an option to pay a fifteen percent tax. The effective tax rate for new manufacturing firms to be seventeen percent inclusive of surcharge & tax.
- Listed companies that have announced buyback before July 2019, tax on buyback of shares will not be charged. The surcharge higher than previous will also not apply on capital gains on the sale of security including derivatives held by FPIs.
- An enhanced surcharge will not apply to capital gains arising on equity sale or equity-oriented funds liable to securities transaction tax stabilize the flow of funds into capital markets. To provide relief to companies availing of concessions and benefits, a minimum alternate tax relief by reducing it from eighteen percent to fifteen percent. Corporate social responsibility two percent spending to include government, PSU incubators and public funded education entities.
- New domestic manufacturing companies incorporated after October, can pay income tax at a rate of fifteen percent without any incentives. This means an effective tax rate for new manufacturing companies will be seventeen percent inclusive of all surcharge. Further companies can opt for a lower tax rate after the expiry of tax holidays and concessions that they are availing now.

3. METHODOLOGY

A domestic company, currently is chargeable to tax at the rate of 25% of its turnover or gross receipt does not exceed Rs.400 crore during the financial year 2017-18 or it opts for Section 115BA. In all other cases, a domestic company is chargeable to tax at the rate of 30%. The Taxation Laws, 2019 introduced two new taxation regimes for the domestic companies - Section 115BAA and Section 115BAB.

As per Section 115BAA, domestic companies will have an option to pay tax at the reduced rate of 22% plus applicable surcharge and cess. However, this benefit shall be available when the total income of the company is computed without claiming specified deductions, incentives, exemptions and additional depreciation available under the Income-tax Act.

New Section 115BAB provides for a reduced tax rate of 15% for the domestic companies but this regime shall be available only for the manufacturing companies incorporated in India on or after 01-10-2019. Hence, old companies will not be able to take the benefit of this section. 11.86 lakh companies are active in India. During the budget, out of total companies incorporated in India, a whopping number of 99.3% of the companies have a turnover of fewer than 400 crores. Thus, it can be judiciously concluded that most of the domestic companies are paying tax at the rate of 25% (plus surcharge and cess) under Section 115BA or under the First Schedule of the Finance Act. Hence, there are just 50,000 to 80,000 domestic companies that may be paying tax at the rate of 30% or more. Though the new tax regime of Section 115BAA reduces the tax rates for the domestic companies, relinquishment of certain deductions, exemptions, additional depreciation, and unabsorbed losses is a sine qua non under this regime.

The tax rate prescribed under section 115BAA is 22% which shall be further increased by a surcharge of 10% and health and education cess of 4%. Hence, the effective tax rate under Section 115BAA shall be 25.168%. If a domestic company has a turnover of less than Rs. 400 crores and it does not opt for section 115BAA then it shall be chargeable to tax at the rate of 25% plus applicable surcharge and health & education cess. The surcharge in such a case shall be 7% or 12% when the total income of the company exceeds Rs. 1 crore or Rs. 10 crores, respectively.

Table 1
Effective Tax Rate (inclusive of surcharge and cess) where company opts for Section 115BAA or not.

TOTAL INCOME	EFFECTIVE TAX RATE(INCLUSIVE OF SURCHARGE AND CESS)	
	CO.OPTS FOR SECTION 115BAA	CO. DOESN'T OPT FOR SECTION 115BAA
UPTO RS. 1 CRORE	25.17%	26%
MORE THAN RS. 1 CRORE BUT UPTO RS. 10 CRORE	25.17%	27.82%
MORE THAN RS. 10 CRORE	25.17%	29.12%

Table 2
Exemptions or Deductions not available to companies opting for section 115BA, 115BAA or 115BAB.

SECTION 10AA	DEDUCTION FOR UNITS ESTABLISHED IN SPECIAL ECONONOMIC ZONES
SECTION 32(1)(iia)	ADDITIONAL DEPRECIATION IN RESPECT OF NEW PLANT AND MACHINERY
SECTION 32AD	DEDUCTION FOR INVESTMENT IN NEW PLANT AND MACHINERY IN NOTIFIED BACKWARD AREAS.
SECTION 33AB	DEDUCTION IN RESPECT OF TEA, COFFEE OR RUBBER.
SECTION 33ABA	DEDUCTION IN RESPECT OF BUSINESS CONSISTING OF PROSPECTING OR EXTRACTION OR PRODUCTION OF PETROLEUM OR NATURAL GAS IN INDIA.
SECTION 35(1)(ii)	DEDUCTION FOR DONATION MADE TO APPROVED SENTIFIC RESEARCH ASSOCIATION, UNIVERSITY COLLEGE OR OTHER INSTITUTES FOR DOING SCIENTIFIC RESEARCH WHICH MAY OR MAY NOT RELATE TO BUSINESS.
SECTION 35(1)(iia)	DEDUCTION FOR PAYMENT MADE TO AN INDIAN ECONOMY FOR DOING SCIENTIFIC RESEARCH WHICH MAY OR MAY NOT BE RELATED TO BUSINESS.
SECTION 35(1)(iii)	DEDUCTION FOR DONATION MADE TO UNIVERSITY, COLLEGE OR OTHER INSTITUTION FOR DOING RESEARCH IN SOCIAL SCIENCE OR STATISTICAL RESEARCH.
SECTION 35(2AA)	DEDUCTION MADE FOR DONATION MADE TO NATIONAL LABORATORY OR IIT'S, ETC. FOR DOING SCIENTIFIC RESEARCH WHICH MAY OR MAY NOT BE RELATED TO BUSINESS.
SECTION 35(2AB)	DEDUCTION FOR CAPITAL EXPENDITURE ON SCIENTIFIC RESEARCH RELATING TO BUSINESS OF BIO-TECHNOLOGY OR MANUFACTURING ANY ARTICLE OR THING.

The effective tax rates in Table 1 above are not strictly comparable on a like-to-like basis. If the company opts for section 115BAA, the effective tax rate is subject to giving up deductions and exemptions given in Table 2 above and the company will be exempt from Minimum alternate tax. Whereas, if a company doesn't opt for section 115BAA, the tax rates of 26% or 27.82% or 29.12% are applicable on total income after claiming available reliefs and deductions as prescribed in table B above. Besides, the provisions of minimum alternate tax will be applicable. So, it will not be correct to jump to a conclusion based on the effective tax rates that it will be beneficial for a domestic company with turnover not exceeding Rs. 400 crore to opt for section 115BAA blindly. The feasibility and desirability of continuing in the present regime and availing all incentives and benefits given in Table B above and utilizing MAT credit and then only migrating to section 115BAA regime need to be explored based on detailed calculations in facts and circumstances of each case of every company.

If a domestic company has a turnover of less than Rs. 400 crores and it does not opt for section 115BAA then it shall be chargeable to tax at the rate of 25% plus applicable surcharge and health & education cess. The surcharge in such a case shall be 7% or 12% when the total income of the company exceeds Rs. 1 crore or Rs. 10 crores, respectively.

3.1 Correlation of revenue loss and incentives foregone:

The estimated revenue loss due to a reduction in corporate tax rate and other relief is Rs. 1,45,000 crore. This figure represents the gross estimated loss to the Govt. due to new corporate tax rate structure. As the companies availing of the reduced tax rate will not be able to claim the various tax exemptions, deductions and incentives, the figure of total revenue loss would be lower than the estimated estimate provided by the Government.

How this figure of Rs. 1,45,000 crore has been derived? In the year 2017-18, the Govt. collected Rs. 5,23,857 crores from corporate tax (excluding dividend distribution tax, buy-back tax, penalty, etc.). If the current maximum margin corporate tax rate is 34.94% and the new tax rate under Section 115BAA is 25.17%, the estimated gross revenue loss comes out Rs. 1,47,129 crore. During the year 2017-181, the Govt. has foregone revenue of Rs. 1,17,337 due to various tax incentives and deductions available to companies. If companies opt to switch to a new tax regime of Section 115BAA or Section 115BAB, the Govt. will save the loss of revenue due to discontinuation of these tax incentives or deductions.

Table 3
Total revenue forgone.

TAX INCENTIVES	AMOUNT(IN CRORE)
DEDUCTION OF EXPORT PROFITS OF UNITS LOCATED IN SEZ'S (SECTION 10A AND 10AA)	20,917.63
ACCLERATED DEPRECIATION(SECTION 32)	58,326.25
DEDUCTION FOR EXPENDITURE ON SCIENTIFIC RESEARCH(SECTION 35)	6,832.02
DEDUCTION IN RESPECT OF SPECIFIED BUSINESS (SECTION 35AD)	1780.70
DEDUCTION UNDER PART-C OF CHAPTER VI-A EXCEPT 80JJAA	29,480.40
TOTAL REVENUE FORGONE	1,17,337

As Govt. would stop losing the tax revenue due to discontinuation of deductions and incentives, the net revenue loss to the exchequer due to change in tax corporate tax regime would be approx. Rs. 29,792 crores only (Rs. 1,47,129 crores less Rs. 1,17,337 crore).

3.2 Theorem to get the number of companies to be benefited by new regime:

As per the statistics available on e-filing portal of Income-tax department around 6% companies show a total income of more than Rs. 1 crores in their return of income. As 99.3% of the incorporated companies have a turnover of less than Rs. 400 crores, it is possible that around 94% of such companies are already paying tax at the rate of 26% (25% + 4% cess). If such companies opt for Section 115BAA, they would pay tax at lesser rates of 25.17% but they will have to forego various tax benefits available under the Act.

Table 4
Range of profit before tax (PBT) shown by companies for Financial Year 2017-18 in income-tax return filed up to March 31, 2019.

RANGE OF PROFIT BEFORE TAX(PBT)	NO. OF COMPNIES
LESS THAN ZERO	3,62,829
ZERO	88,2214
RS. 0 – 1 CRORE	3,45,458
RS. 1 – 10 CRORE	35,745
ABOVE RS. 10 CRORE	9,441
TOTAL NO. OF COMPANIES	8,41,689

As most of the companies are already paying tax at the rate of 26%, it may not be easy for them to forego all deductions, incentives and accelerated depreciation and switch to a new tax regime. Companies, before taking decisions to switch their taxability to a new regime, should do the mathematics by comparing the possible revenue loss due to the relinquishment of deductions and benefits with the possible gains due to a reduction in the tax rate. For the Assessment Year 2020-21, the company shall have only 2 options - opt for section 115BAA or pay tax as usual at the rate of 25%. The total income of the company and tax thereon in both the cases shall be For the Assessment Year 2020-21, the company shall have only 2 options - opt for section 115BAA or pay tax as usual at the rate of 25%.

Rx Ltd., a pharmaceutical company incorporated in the year 2000-01, purchased a new plant and machinery of Rs. 10 lakhs on 01-04-2019. Its turnover for the previous year 2017-18 was less than Rs. 400 crore and, therefore, it would be chargeable to tax at the rate of 25% for the Assessment Year 2020-21. The total income of the company for Assessment Year 2020-21 before allowing for additional depreciation in respect of new plant and machinery is Rs. 20 lakh.

For the Assessment Year 2020-21, the company shall have only 2 options - opt for section 115BAA or pay tax as usual at the rate of 25%.

The total income of the company and tax thereon in both the cases shall be computed as follows:

Table 5
The extra tax payable under section 115BAA.

PARTICULARS	IF CO.OPTS FOR SECTION 115BAA	IF CO. DOESN'T OPT FOR SECTION 115BAA
TOTAL INCOME BEFORE ALLOWING ADDITIONAL DEPRECIATION	20,00,000	20,00,000
LESS: ADDITIONAL DEPRECATION AVALIABLE AS PER SECTION 32(1)(iia)	NA	2,00,000
TOTAL INCOME(a)	20,00,000	18,00,000
APPLICABLE TAX RATE(b)	22%	25%
TAX ON TOTAL INCOME (c=a*b)	4,40,000	4,50,000
ADD: SURCHARGE(d)	44,000	NIL
TAX AFTER SURCHARGE (e=c+d)	4,84,000	4,50,000
ADD: 4% HEALTH AND EDUCATION CESS (f=e*4%)	19,360	18,000
TOTAL TAX LIABILITY (g=e+f)	5,03,360	4,68,000
EXTRA TAX PAYABLE UNDER SECTION 115BAA	35,360	-

If in above example, the company has not purchased any new plant and machinery during the year 2019-20 even in that case the amount of tax saving will not be much if company opts for section 115BAA.

Table 6
Tax saving if the company opts for section 115BAA.

PARTICULARS	IF CO. OPTS FOR SECTION 115BAA	IF CO. DOSENT OPT FOR SECTION 115BAA
TOTAL INCOME(a)	20,00,00	20,00,000
APPLICABLE TAX RATE(b)	22%	25%
TAX ON TOTAL INCOME (c=a*b)	4,40,000	5,00,000
ADD: SURCHARGE(d)	44,000	NIL
TAX AFTER SURCHARGE (e=c+d)	4,84,000	5,00,000
ADD: 4%HEALTH AND EDUCATION CESS (f=e*4%)	19,360	20,000
TOTAL TAX LIABILITY(g=e+f)	5,03,360	5,20,000
TAX SAVING IF COMPANY OPTS FOR SECTION 115BAA	RS. 16,640	-

4. SOME OF THE EFFECTS OF THE TAX REBATES

Indian stock markets have been on course for the biggest quarterly exodus for a long time, with foreign funds having dumped a net approximately dollar four billion worth of stocks since June. However, on the impact, the concessions will have on the fiscal deficit target, the consciousness of the reality and will reconcile numbers. The revenue foregone for this move will be rupees 1.45 lakh crore annually. The move is to uplift the increasing pressure to relight the once-stellar economy after five consecutive quarters of slowing growth saw India this year lose its status as the fastest-expanding major economy to China.

It is also decided to not levy enhanced surcharge introduced in Budget on capital gain arising from the sale of equity shares in a company liable for a securities transaction tax. The super-rich tax will not apply to capital gains arising from sale of any security including derivatives in hands of foreign portfolio investors.

5. ISSUES OF CARRING FORWARD THE LOSSES CAUSED BY THE COMPANIES

A dilemma has gripped several loss-making companies in capital-intensive sectors such as steel, infrastructure, and engineering — whether to opt for lower corporate tax rates and increase profitability, or pay higher taxes under current rates and carry forward the losses. Many such companies that have made large capital expenditures in the past few years are reaching out to their tax advisers for a solution. Depreciation claimed on new plants and machinery has allowed them to report net losses, which they can carry forward over an eight-year period under the current regulations and use to offset future profits. Many do this in a staggered manner, to reduce net profit and pay lower taxes. This benefit of carrying forward losses may not be available under the new tax slabs.

Companies can opt for higher tax rates or new ones. The effective tax rate for several companies that are loss-making and are able to carry forward losses due to depreciation could be less than twenty-five percent and so they will have to evaluate whether they want to move to the new tax regime. The decision to move to the new, simpler tax rate can be made any time in the future, and the companies have time to do scenario planning. Depreciation is normally calculated on new investments like plant and machinery.

Manufacturing companies can claim up to twenty percent additional depreciation on newly installed plants and machinery each year. This makes them eligible to claim a total depreciation of thirty-five percent. This is an accounting entry in the profit and loss account and impacts the bottom line and the tax outgo. Many companies that are making losses and have recently invested in plants and machinery among other capital expenditures can claim the additional depreciation, a non-cash loss, or accumulate it over eight years. If these companies move to the lower tax regime, then they will no longer be able to carry forward the unclaimed amount, according to industry trackers.

These companies will have to write off deferred tax asset they may have booked related to these losses if they opt to go under the twenty-two percent tax regime. While carrying forward of additional depreciation was similar to the issue of the minimum alternate tax, otherwise, it was a separate accounting entry, and the government needed to give a clarification on that. The question of availability of unutilized depreciation arising from additional depreciation as one of the incentive provisions, in case a company chooses a lower tax rate, is distinguishable from the issue of utilized minimum alternate tax credit and merits favorable clarification.

The minimum alternate tax has been a major concern for companies present in special economic zones and has tax holidays. These companies pay minimum alternate tax at a twenty percent effective rate and can accumulate the credit to set it off when the tax holiday ends. If they choose to move to the new tax regime and lower minimum alternate tax rate, then they may end up losing out on the accumulated credits.

6. CONCLUSION

The taken step is bold and proactive to bring the needed tax reforms, which will boost investment and also aid to private cycle capital expenditure. The lowering of corporate tax rates will widen the tax net and gradually bring in more revenues to the government. Overall, the move will make Indian companies globally competitive, a welcome step to arrest slowdown and lift up the market sentiments.

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