

Concessional corporate tax rate: Govt wants private companies to set up new manufacturing units fast

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NEW DELHI: The government wants new domestic companies to set up their manufacturing units in India fast and hence the concessional tax rate of 15 per cent has been extended by a year till March 2024, revenue secretary Tarun Bajaj said on Friday.

Stating that direct and indirect tax collections are going up and have good buoyancy, Bajaj said it means that the corporate sector is also doing well, and India's tax to GDP ratio could be "highest ever" in the current year.

The budget 2022-23 presented on February 1 has proposed that the concessional 15 per cent corporate tax rate would be available for one more year till March 2024 for newly incorporated manufacturing units.

While reducing the corporate tax rate in September 2019, the government had said that any new domestic company incorporated on or after October 1, 2019, making fresh investment in manufacturing, will have an option to pay income-tax at the rate of 15 per cent if they commenced their production on or before March 31, 2023.

However, these companies will not be allowed to avail of any income tax exemption/ incentive.

"Our tax: GDP ratio went down to below 10 per cent in the year, we brought down tax rates, but it has now started coming up. I will not be surprised if in the current year, my tax to GDP ratio is the highest ever for direct and indirect taxes taken together," Bajaj said at an Assocham event here.

India has been able to more than double the capital expenditure in the last three years, and that would push GDP growth, and once growth is pushed, a lot of things will fall in place.

"The jobs will fall in place, business, taxes and income will improve. So, once that start happening, we also expect the private sector to then come in and replace the public sector in terms of its investments and take the economy forward. It is in that context only...the provision of 15 per cent tax for new manufacturing companies have been extended by a year.

"The message is very clear that we would like you to set up your factories and manufacturing units fast, the time limit given has been extended by one more year and yes, there will be a sunset clause and then we will move to 22 per cent, which is what the corporate tax rate is. This is being given as special dispensation for manufacturing units to set up their factories sooner than later," Bajaj told the industry chamber.

He said the rise in tax to GDP ratio shows that the government is stabilising its tax policy and the corporate sector is also adjusting to the less exemption regime.

After a gap of three years, direct tax collections -- which include corporate tax and personal income tax -- have exceeded the budget estimates for the 2021-22 fiscal ending March 2022, indicating economic recovery.

The direct tax collection estimates for the 2021-22 fiscal has been revised upwards from Rs 11.08 lakh crore in Budget estimates (BE) to Rs 12.50 lakh crore in revised estimates (RE).

For 2022-23, the direct tax collection has been pegged at Rs 14.20 lakh crore. This includes Rs 7.20 lakh crore from corporate taxes and Rs 7 lakh crore from personal income tax.

"I feel happy that if the revenue collection is going up, showing good buoyancy, that means the corporate sector is also doing well. And unless the corporate sector does well, I don't think we can move the wheels of the economy.

"So, while the revenues are going up, we are also happy that the corporate sector, especially the large ones, the MSMEs still need support for 1 or 2 years till it comes back," he said.

Bajaj also said the emphasis of the government in recent years has been on stability and predictability of the tax regime, and some little changes -- like provision for reduction in litigation, changes in the faceless scheme and updated return for helping taxpayers -- have been announced in the recent Budget.

In September 2019, the government had announced a cut in base corporate tax for then existing companies to 22 per cent from 30 per cent; and for new manufacturing firms, incorporated after October 1, 2019, and starting operations before March 31, 2023, to 15 per cent from 25 per cent. Companies opting for these new tax rates will have to forego all exemptions and incentives.

The effective tax rate for existing units, after considering surcharges and cess -- such as Swachh Bharat cess and education cess, which are levied on top of the income and corporate tax rates -- is 25.17 per cent as compared to 34.94 per cent earlier. For new units, it is 17.01 per cent as against 29.12 per cent previously.

This lower tax regime was optional.

On the new tax regime, Bajaj said it is settling down, and as the time to claim exemptions ends, companies will choose this new regime over the old.

"In 2020 financial year and 2021 Assessment year, almost 65 per cent of income has moved to the new tax regime, while only 16 per cent of the assesseees have moved there...

"My anticipation is that as companies exhaust their exemption, they would start moving to the new tax regime because 30 per cent and 22 per cent is a big difference, and they would be benefitted," he added.