Lower corp tax for new units again

PRIYANSH VERMA
New Delhi, June 26

THE GOVERNMENT MAY announce a new scheme of concessional corporate tax rate for new manufacturing units in the Budget as it wants the private capex cycle to be uninterrupted. The new scheme is likely to be similar to an earlier one that offered a concessional rate of 15% compared with 22% for others, but ended on March 31, 2024.

Since the "old scheme has already ended", it could not be extended, an official source said. However, "a new scheme might be announced", the person said, adding that its "details are not yet finalised".

The concessional regime, with a tax rate of 15%, was introduced through an ordinance in September 2019, with effect from FY20, for domestic manufacturing companies, incorporated post October 1, 2019, and which commenced production before the extended sunset timeline of March 31, 2024.

NEW SCHEME

- New scheme of concessional corp tax rate likely for new manufacturing units
- The old regime had a corp tax rate of 15%, but ended on March 31
- Now, new units set up from FY25 liable to pay 22%

1,244 firms opted for the lower **15% tax rate in FY20**

3,508 firms received tax relief in FY21 **under old regime**

Continued on Page 7

New manufacturing units to get concession again

THIS WAS MAINLY done to incentivise manufacturing by introducing a competitive tax regime.

Initially, this benefit was available for companies set up and registered after October 1, 2019, and commencing production by March 31, 2023, but was later extended for one more year to March 31, 2024, to account for delays caused by the pandemic. However, the interim Budget FY25 did not extend the scheme any further.

Sumit Singhania, partner, Deloitte India, said the policy placed India as one of the most competitive destinations for global multinationals to set up manufacturing hubs. "As a matter of fact, India has one of the most competitive tax regime in the entire Asia Pacific and even globally," he said.

As per official data, in FY20, 1,244 companies opted for the concessional tax rate, which doubled to 3,508 companies in FY21. This surge underscores the perceived benefits by corporations' keen on leveraging the scheme swiftly. As per the scheme, once a company opts the regime, it retains the benefits (15% tax rate) without any predefined expiration period, until the government decides to discontinue this beneficial income tax regime entirely.

But since the old scheme has been discontinued, the new manufacturing units set up from the current financial year onwards are liable to pay corporate tax of 22%.

In February, revenue secretary Sanjay Malhotra told FE that the corporate tax rate is very reasonable at 22%, and compared to many other large economies, it is low. As several measures, such as PLI (production-linked incentive), have already been taken by the government to woo private money, it's likely that investments will pick up.

However, tax experts say that a concessional tax scheme, if introduced again, would help India emerge as a leading global manufacturing hub. The schemes will incentivise domestic production, reduce reliance on imports, and foster a self-sufficient and sustainable economic framework, they say.

"The regime shall serve as a powerful countermeasure against competing investment destinations such as China, Japan, Malaysia, Vietnam, thereby attracting foreign investment by providing a more lucrative landscape," said Sandeep Jhunjhunwala, M&A Tax partner, Nangia Andersen.

Experts say the new scheme should address certain issues, which are needed to enhance production. As the domestic manufacturing sector is progressively shifting towards more automated- and process- driven operations, which is anticipated to boost efficiency and productivity, the concessional tax regime should be expanded to encompass the services industry that supports technological upgrades for such automated manufacturing, suggested Jhunjhunwala.

Also, since manufacturing operations often require considerable time to set up before they become fully operational, the new scheme should have a broader window, ideally spanning at least 5 years, which would allow global corporations to plan their India strategy effectively, suggest experts. A mere one-year extension would be insufficient for a new company to incorporate and commence production, they say.

Deloitte's Singhania said the low tax regime would definitely help manufacturing if the benefit can be rolled out "without any sunset date", along with clearer conditions for eligibility and fewer exceptions.

Gouri Puri, partner, Shardul Amarchand Mangaldas & Co, highlights that in the previous regime, the precise definition of "commencement of manufacturing or production" is not explicitly specified in the law. Also, the requirement that the business (who claim the 15% rate) should not result from splitting up or reconstructing an existing business lacks precise clarity. These provisions have been long debated under India's tax holiday provisions. Hence, there is a need to clearly define the provisions, she said.

In the 2019 scheme, several other conditions too were applicable to benefit from the concessional corporate tax rate, such as the company was also not allowed to use old plants and machinery (but this rule was relaxed later). Also, the rules stated that the beneficiary company should not be engaged in any business other than manufacturing or production of any article or thing and research in relation to, or distribution of, such article or thing manufactured or produced by it.