15% corporate tax may be back

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, presented in February, did not extend the scheme any further, nor any mention of it made during the presentation of the full Budget on July 23.

Amit Maheshwari, tax partner at AKM Global, said that by offering a reduced tax rate to new manufacturing companies, the government targeted attracting more investments and making India globally competitive. "This move aligns with the 'Make in India' initiative, which seeks to enhance India's manufacturing capabilities and reduce imports," he said.

Data sourced from the Receipt Budget for FY25 highlights that the total income taxed under section 115BAB of the IT Act (15% tax rate) in FY22 is ₹2,361 crore – which is an increase of 206.5% over the income being taxed FY21 (₹770 crore). "Thus, the trend of adoption of the new concessional tax regime by companies has continued which is an encouraging sign," noted the Budget document.

In FY20, as many as 1,244 companies had 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. According to the scheme, once a company chooses this regime, it enjoys the benefits of a 15% tax rate indefinitely, unless the government decides to terminate this advantageous income tax regime entirely. However, since the scheme has been discontinued after March 31, 2024, the new manufacturing units set up the current financial year onwards are liable to pay corporate tax of 22%. Experts suggest that reintroducing a concessional tax scheme could help India become a leading global manufacturing hub. They believe such schemes would incentivise domestic production, reduce reliance on imports, and promote a self-sufficient and sustainable economic framework.

"The regime shall serve as a powerful countermeasure against competing investment destinations such as China, Japan, Malaysia, and Vietnam, thereby attracting foreign investment by providing a more lucrative landscape," said Sandeep Jhunjhunwala, M&A tax partner at Nangia Andersen. The Budget for FY25 also announced a cut in the corporate tax rates for foreign companies to 35% from 40%, in a bid to invite fresh investments from foreign owned foreign controlled companies (FOCC). In a post-Budget interview with FE, Central Board of Direct Taxes (CBDT) chairman Ravi Agarwal said: "We definitely expect investments from foreign investors will come (post tax cut). This was long due, we had done changes in tax rates of domestic companies earlier, so a case for foreign companies was expected."

15% corporate tax may be back

Govt may reintroduce scheme in FY26 Budget

PRIYANSH VERMA
New Delhi, July 28

EYE ON INVESTMENTS

■ Results of the scheme are being reviewed by the government to take a fresh call on its reintroduction

THE GOVERNMENT IS analysing the results of the 15% concessional corporate tax rate scheme — which ended on March 31 — availed by new manufacturing units to take a fresh call on its reintroduction, official sources told *FE*. The internal review is being carried out as the Centre's prime focus is on introducing policies which push private investments.

"We are analysing the benefits that have been given to those companies (who availed the 15% corporate tax rate)...how they have functioned...how much manufacturing activity benefited from it," an official said. "If we feel the scheme has served its purpose, we may introduce it again...maybe during the next Budget," the person added.

The sources said that assessing the benefits of the scheme would be part of the "comprehensive review" of the Income Tax Act, 1961, which the government is going to carry out in the next six months. The finance ministry will soon set up an internal committee to evaluate the Act, sources said.

The government had introduced the concessional regime, with a corporate tax rate of 15%, via 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. This was mainly done to incentivise manufacturing by introducing a competitive tax regime.

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