

AMENDMENTS IN THE INCOME TAX ACT, 1961 AND FINANCE ACT, 2019

Government of India to promote growth and attract fresh investments, has brought in the Taxation Laws (Amendment) Ordinance 2019 and proposed the following amendments in the Income Tax Act, 1961.

❑ Corporate Tax For Domestic Companies:

- ≡ As per the amendment, a new provision has been inserted in the Income Tax Act, 1961, with effect from Financial Year 2019 – 20, allowing the domestic companies with an option to pay income – tax at the rate of 22 percent.
- ≡ The above option may be availed by the domestic companies subject to the condition that they do not avail any other tax exemption or incentive.
- ≡ Such domestic companies shall also not be required to pay Minimum Alternate Tax.
- ≡ The effective tax rate applicable for such domestic companies shall be at the rate of 25.17 percent, which shall also include the surcharge and cess.

❑ Make-in-India and Investments in Manufacturing:

- ≡ The domestic companies being incorporated on or after 1st October 2019 which propose to make fresh investments in the manufacturing sector, have an option to pay income-tax at the rate of 15 percent, under the new provision inserted in the Income Tax Act, 1961.
- ≡ In order to avail the tax incentive pursuant to this amendment, the newly incorporated domestic companies shall:
 - Not avail any other tax exemption / incentive whether directly or indirectly; and
 - Commence their productions on or before 31st March 2023.
- ≡ The effective tax rate applicable for such newly incorporated domestic companies shall be at the rate of 17.01 percent, which shall be inclusive of surcharge and cess.
- ≡ The newly incorporated domestic companies shall not be required to pay Minimum Alternate Tax.

≡ Exercise of Option of Concessional Tax Regime:

- ≡ Any company that does not opt for the Concessional Tax Regime and which avails various tax exemptions / incentives under the Income Tax Act, 1961, such company shall continue to pay tax as per the pre-amended rates.
- ≡ Such companies may have an alternative to opt for the concessional tax regime after the expiry of their tax holiday period. After exercising this option, the companies shall be liable to pay tax at the rate of 22 percent, and this option cannot be withdrawn subsequently.
- ≡ Relief has also been provided to the companies which continue to avail exemptions / incentives under the Income Tax Act, 1961, by reducing the rate of Minimum Alternate Tax from 18 percent to 15 percent.

❑ Capital Market:

- ≡ The Enhanced Surcharge introduced by the Finance (No. 2) Act, 2019, shall not be applicable on capital gains arising on sale of equity shares in a company or a unit of an equity oriented fund or a unit of business trust liable for securities transaction tax in the hands of individual, Hindu Undivided Family, Association of Persons, Body of Individuals or Artificial Juridical Person.
- ≡ No enhanced surcharge shall be applied on capital gains arising on sale of any security including derivatives for Foreign Portfolio Investments.
- ≡ Relief has also been provided to the listed companies by providing that there shall be no tax applicable on the buy-back of shares of such listed companies.

❑ Corporate Social Responsibility:

- ≡ The scope activities for spending 2 percent on activities related to Corporate Social Responsibility has also been expanded.
- ≡ The threshold of 2 percent funding on Corporate Social Responsibility may now also be spent on incubators funded by the Central or State Government.
- ≡ The companies may also make contributions to the public funded universities, IITs, National Laboratories and Autonomous Bodies engaged in conducting research in science, technology, engineering and medicine aimed at promoting Sustainable Development Goals. Such contributions now shall also come within the purview of Corporate Social Responsibility.

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