Bills on corporate tax, unified regulator for IFSCs in Lok Sabha

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- **The Taxation Laws (Amendment) Bill provides for reduction in rates of corporate income tax**

NEW DELHI: The government will introduce two important Bills in the Lok Sabha on Monday -- the Taxation Laws (Amendment) Bill and the International Financial Services Centres (IFSCs) Authority Bill.

These Bills were cleared by the Union Cabinet on November 20. The Taxation Laws (Amendment) Bill provides for reduction in rates of corporate income tax as an additional fiscal stimulus to attract investment, generate employment and boost growth.

A new provision was inserted in the Income Tax Act that with effect from the current financial year (2019-20), an existing domestic company can opt to pay tax at 22 per cent plus surcharge at 10 per cent and cess at 4 per cent if it does not claim any exemption.

Since these could have been achieved through an amendment to the Income tax Act, 1961 (IT Act), or to the Finance Act, as the Parliament was not in session, it was done through promulgation of The Taxation Laws (Amendment) Ordinance 2019 (the Ordinance) in September, 2019.

The same Cabinet meeting also approved the introduction of International Financial Services Centres Authority Bill, 2019, in the Lok Sabha after its withdrawal from the Rajya Sabha. This provides for a unified financial regulator for IFSCs.

The Union Cabinet in a meeting held on February 6, 2019, had approved the proposal for the establishment of a unified authority for regulating all financial services through the introduction of the International Financial Services Centres Authority Bill 2019 in the Parliament. Subsequently, the Bill was introduced in the Rajya Sabha on February 12, 2019.

The withdrawal from Rajya Sabha has been necessitated as the Lok Sabha Secretariat has now conveyed that this is a Finance Bill under Article 117(1) of the Constitution which should be introduced in the Lok Sabha accordingly with the recommendation of the President under Article 117(1) and 274(1) of the Constitution.

The introduction of the Taxation Laws (Amendment) Bill, 2019 will replace the Ordinance issued in September.

Economic developments after the enactment of the Finance (No. 2) Act, 2019 along with reduction of the rate of corporate income tax by many countries world over necessitated the provision of additional fiscal stimulus to attract investment, generate employment and boost the economy.

In order to promote growth and investment, a new provision was inserted in the IT Act to provide that with effect from the current financial year (2019-20), an existing domestic company may opt to pay tax at 22 per cent plus surcharge at 10 per cent and cess at 4 per cent if it does not claim any incentive/deduction.

The effective tax rate for these companies comes to 25.17 per cent. They would also not be subjected to Minimum Alternate Tax (MAT).

In order to attract fresh investment in manufacturing and provide a boost to the 'Make in India' initiative of the government, another provision was inserted to the IT Act to provide that a domestic manufacturing company set up on or after October 1, 2019 and which commences manufacturing by March 31, 2023, may opt to pay tax at 15 per cent plus surcharge at 10 per cent and cess at 4 per cent if it does not claim any incentive/deduction. The effective rate of tax comes to 17.16 per cent for these companies. They would also not be subjected to MAT.

Currently, the banking, capital markets and insurance sectors in IFSCs are regulated by multiple regulators i.e. RBI, Sebi and Irdai. The dynamic nature of business in the IFSCs necessitates a high degree of inter-regulatory coordination. It also requires clarifications and frequent amendments in the existing regulations governing financial activities in IFSCs.

The development of financial services and products in IFSCs would require focused and dedicated regulatory interventions. According to an official statement, a need is felt for having a unified financial regulator for IFSCs in India to provide world class regulatory environment to financial market participants.

Further, this would also be essential from an ease of doing business perspective. The unified authority would also provide the much-needed impetus to further development of IFSCs in India in-sync with the global best practices.

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