Cabinet approves Taxation Laws (Amendment) Bill, 2019

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The Union Cabinet chaired by the Prime Minister Shri Narendra Modi has approved the proposal for introducing the Taxation Laws (Amendment) Bill, 2019 in order to replace the Ordinance.

Economic developments after the enactment of the Finance (No. 2) Act, 2019 (Finance Act) along with reduction of 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. As these could have been achieved through amendment to the Income-tax Act, 1961 (IT Act) or to the Finance Act and the Parliament was not in session, it was done through promulgation of The Taxation Laws (Amendment) Ordinance 2019 (the Ordinance) in September, 2019. Salient features of the amendments made by the Ordinance are provided in the following paras.

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% plus surcharge at 10% and cess at 4%, if it does not claim any incentive/deduction. The effective tax rate for these companies comes to 25.17% for these companies. They would also not be subjected to Minimum Alternate Tax (MAT).

In order to attract fresh investment in manufacturing and provide boost to '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 1st October, 2019 and which commences manufacturing by 31st March, 2023, may opt to pay tax at 15% plus surcharge at 10% and cess at 4% if it does not claim any incentive/deduction. The effective rate of tax comes to 17.16% for these companies. They would also not be subjected to MAT.

A company which does not opt for the concessional tax regime and avails the tax exemption/incentive shall continue to pay tax at the pre-amended rate. However, these companies can opt for the concessional tax regime after expiry of their tax holiday/exemption period. After the exercise of the option they shall be liable to pay tax at the rate of 22%. Further, in order to provide relief to companies which continue to avail exemptions/incentive, the rate of MAT was reduced from existing 18.5% to 15%.

In order to provide relief to listed companies, the buy-back tax on shares of listed companies introduced through the Finance Act will not apply to buy-backs in respect of which public announcement were made before 5th July, 2019.

In order to stabilise the flow of funds into the capital market, it was provided that the enhanced surcharge introduced through the Finance Act on capital gains arising on account of transfer of listed equity share or certain units which are liable to securities transaction tax will not apply. Further, it was also provided that the enhanced surcharge will not apply to capital gains income of FPIs arising out of transfer of any security including derivatives, having concessional tax regime.