



NASSCOM COMMENTS ON THE HON'BLE FINANCE MINISTER NIRMALA SITHARAMAN'S SPEECH ON TAXATION

“It is encouraging to note that the government has given the **reduction in effective corporate tax** from **30% to 25.17%** for domestic companies, it is a positive step towards empowering India and boosting Indian economy and to promote growth, investments, employment. The reduced effective peak tax rate of **25.17%** means an effective tax rate reduction of **almost 10%**. For companies that were entitled for the earlier reduced basic corporate tax rate of **25%** (effective tax rate of 29.12%), the reduction is **3.95%**. This is a significant benefit. This will help in improving Indian industry’s global competitiveness and allow spends on incubators that will help boost creation of tech ecosystem.

NASSCOM had in the Budget recommendations sought continuity of the **SEZ** tax holiday by removing the sunset clause. It was also highlighted that the benefit of reduced corporate tax rate of 25% was **not available to many companies operating in the IT/ITES sectors** that did not meet the revenue threshold. While the SEZ sunset clause has not been extended, companies claiming tax holidays, whose Effective Tax Rate (“ETR”) (after claiming tax holidays) is higher than the peak 25.17% can now choose to give up the tax holiday claims and claim the new tax rate of 25.17%.

Moreover, companies continuing to claim tax holidays and not opting for the switch have a reduced **MAT rate of 17.47%** (as against the **earlier 21.55%**). This also helps in reducing the cash tax outgo. Further for IT companies incorporated after **October 1, 2019** proposing fresh investments in the hardware/fab sector (commencing manufacture before March 31, 2023), may be benefitted by the new incentivized corporate tax rate of 17.01%. No MAT will also apply in such cases. The said announcement along with the recent export rebate announced in place of MEIS scheme is a great incentive to the manufacturing units. In addition to this, grandfathering the buyback tax exemption for listed companies who had already announced buyback schemes before July 5, 2019 is a welcome clarification and should help the listed companies that had not factored the buyback tax when the scheme was announced. These announcements are an important milestone brought out by government. This is a clear testament of a collaborative effort from the industry and the government to improve opportunities for all sectors to achieve the \$5 trillion economy mark by 2024.”

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