Advantage India

New corporate income tax rates shape an attractive investment environment

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Winds of change

On 20 September, 2019, Finance Minister, Nirmala Sitharaman announced the largest reduction in corporate income tax (CIT) rates in the last three decades through the Taxation Laws (Amendment) Ordinance, 2019.

The announcements now bring India's CIT rate closer to the worldwide average statutory CIT rate of 23.03%[1].

The reduced CIT rate makes return on investments made in India attractive. The reduction in rate and other favourable factors also pave the way for cementing India's status as a favourable manufacturing destination against the backdrop of existing global trade dynamics. With the headline CIT rate for newly incorporated domestic manufacturing companies being reduced to 17.16%, the manufacturing sector is one of the largest beneficiaries.

Implications of the new CIT rate reduction

Effective CIT rates slashed for existing domestic companies from **34.94% to 25.17% from FY20 onwards.**

For domestic companies opting for concessional rates, certain exemptions, deductions, allowances (including additional depreciation) will not be available. Minimum Alternative Tax (MAT) will not apply in this case and accumulated MAT credit cannot be utilised.

For new manufacturing companies[2], applicable effective CIT rate is **17.16%**. No MAT is applicable.

Reduction of effective MAT rate from **21.55% to 17.47%** for domestic companies not opting for the concessional tax rates. They will continue to enjoy the benefit of specified deductions / incentives, where applicable.

Tax on distribution of profits (DDT) applicable for new manufacturing companies and other domestic companies.

Ease of doing business in India has improved over the last few years. The country jumped 65 spots in four years from 142 in 2015 to 77 in 2018, as per World Bank's *Ease of Doing Business* index.

1. Source: PwC Worldwide Tax Summaries Corporate Taxes 2018/19
2. New domestic companies set up on or after 1 October 2019 and commencing manufacturing before 31 March, 2023

Increasing India's competitiveness in the global landscape

At 25.17% (17.16% for new manufacturing companies), India's CIT rate is competitive when compared with the worldwide average statutory CIT rate. Earlier, India had one of the highest CIT rates (34.94%) among large global economies.

Country	CIT rate
China	25.00%
Indonesia	25.00%
India	22%, 15% for new manufacturing companies (including cess and surcharge the CIT rates stand at 25.17% and 17.16% for new manufacturing companies)
Malaysia	24.00%
Singapore	17.00%
Vietnam	20.00%
Thailand	20.00%

Source: PwC Worldwide Tax Summaries Corporate Taxes 2018/19

The new CIT rates benefit

- new business operations being evaluated in the region
- expansion of existing Indian operations and
- existing status quo operations.

Incentives galore in the domestic landscape

The CIT rate reduction when viewed in conjunction with incentives at the state government level and the indirect tax incentives and schemes, present a favourable investment climate. New foreign investments (including expansion in certain cases) can benefit from incentives provided by various state governments, and an investor may expect some incentive package along with local infrastructure support. Such incentives provided by the state governments are not restricted by the CIT rates.

State government boosters

Many state governments proactively offer various incentives to attract investments. Few also offer customised packages based on investment size, employment and choice of location. Some of these incentives include:

- Capital subsidy
- Land rate rebate
- Electricity duty rebate
- Stamp duty rebate
- Employee Provident Fund reimbursement
- State Goods & Services Tax (SGST) reimbursement

For instance, an investor considering investments in the states of Andhra Pradesh and Uttarakhand could be eligible for 100% and 50% stamp duty rebate on land transactions respectively, among other benefits including land rate rebate, electricity duty rebate and capital subsidy. States are offering SGST reimbursements in the range of 80% to 300% of Fixed capital investments for a period in the range of 8-10 years

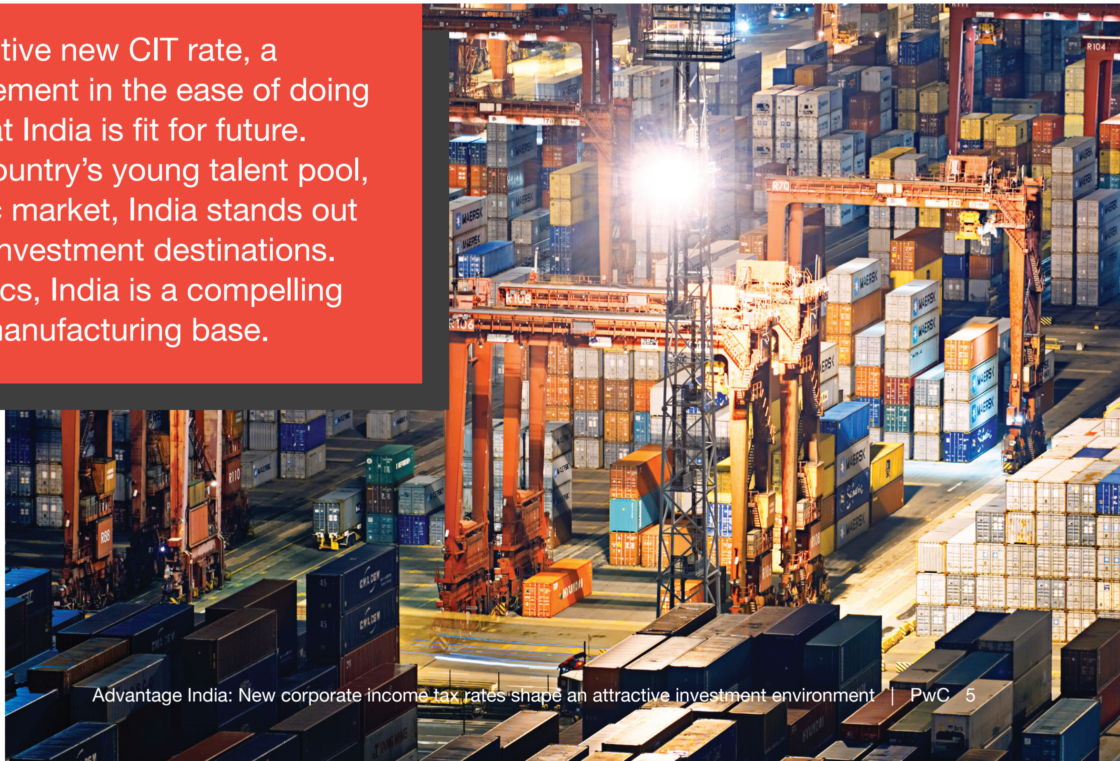
Additional incentives available for manufacturing and exporters businesses

- Refund of input Goods and Services Tax (GST) for exporters of goods as well as services
- Customs duty exemption on import of capital goods and raw material used in the manufacture of exported goods from India
- Complete and upfront offset of GST incurred on capital expenditure to the manufacturing companies
- No GST on procurements by companies located in Special Economic Zones (SEZs)
- Facility of Authorised Economic Operator (AEO) status to large importers, which entitles them to faster clearances and processing of refunds, among other benefits.

How can companies respond?

Existing domestic companies	**Cost-benefit analysis** Since the new CIT rates are effective for the fiscal year 2020, companies need to evaluate adoption of the same by considering the allowances and incentives that will be foregone. **Eligibility of MAT credit** Those with accumulated MAT credit should evaluate the feasibility of conducting business by adopting the new CIT rates.
Existing domestic companies planning expansion	**Expansion plan** Any expansion plan should take into account the nature of the expansion and the structure in which such expansion can be executed.
New businesses / Formation of new companies	**Entry plan** Companies should favourably evaluate India entry plans, given the 17.16% CIT rate for new manufacturing companies.

A stable government, competitive new CIT rate, a liberal FDI regime and improvement in the ease of doing business rankings indicate that India is fit for future. When viewed alongside the country's young talent pool, and the large unified domestic market, India stands out as one of the most attractive investment destinations. Given the global trade dynamics, India is a compelling case for a regional or global manufacturing base.



India at a glance

7th largest economy in the world

4th most attractive investment market

3rd largest startup base in the world

Economic growth rate

6.7%	India
4.8%	Emerging markets
2.3%	Advanced economies
3.8%	World

India poised to be the third largest consumer market by 2025

Expenditure growth

12% India | **5%** Global

Elite and affluent segments to become the largest combined segment, increasing consumption from **27% to 40%**

40% of the Indian population will be living in urban areas

Digitally influenced spend

$45 bn to $50 bn Now

$500 bn to $550 bn By 2025

Annual FDI inflows into India for the next 5 years

$75 bn FDI inflows

Youngest population

- India's median age of 27 is younger than that of most other countries.
- India is home to the world's largest working age population that is estimated to cross 1 billion by 2050.

Innovation

- India has the world's 3rd largest startup ecosystem.
- In the first three quarters of 2019, India witnessed the emergence of 8 unicorns.

Digital economy

- The size of the Indian digital economy is US$ 413 billion (14-15% of India's GDP).
- By 2025, India's digital economy is expected to be US$ 1 trillion.

Internet

- India has 480 million Internet users and 400 million smartphone users.

Sources: Compiled from various sources including: PwC's 22nd Annual Global CEO Survey, IMF report, Internet and Mobile Association of India report, World Economic Forum report, statista.com, statisticstimes.com, economictimes.indiatimes.com and forbesindia.com.

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