



Concessional Tax Rate Regime

Why in News?

Recent Government data has shown that the **concessional corporate tax rate** announced by the **Union government in September 2019** saw two out of every five new domestic manufacturing companies incorporated in **2019-20 (April-March) opting for the reduced 15% tax rate.**

What is Corporation tax?

- **Corporation tax** is a direct tax placed on a company's net income or profit from its operations.
- Corporation tax is payable by both public and private companies registered in India under the **Companies Act 1956.**
- Corporate tax is a tax imposed on the **net income of the company, whereas income tax is a type of tax** imposed on an **individual's income, such as wages and salaries.**

What is the Concessional Tax Rate Regime?

Tax Concession: A reduction made by the government in the amount of tax that a particular group of people or type of organization has to pay or a change in the tax system that benefits those people.

- Before, this scheme, Corporate tax rate, **was 22% without exemptions.**
- Under the new regime introduced in September 2019, a tax rate of 15% was announced under Section 115BAB for newly incorporated domestic companies, which make fresh investments by 31st March, 2023, for manufacturing, production, research or distribution of such articles or things manufactured.
- This was extended by one year in this year's [Budget \(2022-23\)](#) to **31st March, 2024.**
- A similar concessional rate regime was also introduced by the Centre for personal **income taxpayers effective 2020-21 (Income Tax Act)**, under which assesseees willing to forgo deductions and exemptions such as those under sections 80C, 80D, house rental allowance and leave travel allowance could choose to pay tax on their income at a reduced rate.
 - Even though the government has not yet published data on taxpayers opting for the new personal income tax regime, it is indicated that the new regime has not drawn taxpayers in large numbers prompting the government to take a relook.

What is the Impact of the Concessional Tax Rate Regime?

- The tax cut resulted in an economically meaningful **7% additional investments by beneficiary firms.**
- The [Reserve Bank of India](#) had earlier noted that the new tax regime did not help **kick-start the intended investment cycle.**
 - The tax rate cut may have been “utilised in debt servicing, build-up of cash **balances and other current assets** rather than restarting the Business cycle”.

Source: IE

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