

# P.R. GUPTA & CO.

## CHARTERED ACCOUNTANTS

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### ‘OPTIONAL SYSTEM OF INCOME TAX FOR CORPORATES’

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*“An option to corporates has been given to get taxed at reduced rates by foregoing certain deductions/Exemptions. This should benefit lot of companies”*

#### **I. Preamble:**

From Assessment year 2020-21, certain options have been given to domestic companies to get taxed at reduced rates and also get exempt from MAT in certain cases. However the company will have to forego certain exemptions/deductions. Therefore a comparative analysis will have to be made by each company to evaluate which system shall be better. This analysis will also have to be made keeping in view scenario for next few years as well because once this option is exercised, it cannot be reverted back in future.

#### **II. Option under Section 115-BAA :**

This option is available to all domestic companies whether it is ‘Private’ or ‘Public’ company or ‘Listed’ or ‘Not Listed’ company. It is irrespective of Turnover and may be doing any business.

**The following benefits are available:**

- 1) Reduced rate of Income Tax at 22%. However mandatory surcharge of 10% with health and education cess of 4% on income tax and surcharge. Therefore effective rate is 25.168% .
- 2) Minimum Alternative Tax (MAT) under section 115JB shall not be applicable.

**The following Deductions/ Exemptions will have to be foregone:**

- 1) Deduction for additional depreciation under section 32(1)(iia) which is available to manufacturing companies for addition of plant and machinery
- 2) Deduction under section 10AA. That is deduction for profits of eligible SEZ undertaking
- 3) Deduction under section 32AD, 33AB, 33ABA,
- 4) Deduction under section 35((1)(ii)/(ii)/(iia), 35(2AA)/(2B), 35AD,35CCC, 35CCD
- 5) Deductions from Gross total income i.e 80(C) to 80(U). (However deduction for 80G, 80GGA, 80GGB, 80JJAA, 80LA & 80M are



available for Assessment year 2020-21 and from Assessment year 2021-22, deduction for 80JJAA, 80LA & 80M are available.)

- 6) Brought forward losses and unabsorbed depreciation due to the above deductions being not allowable. Therefore normal losses and depreciation will be allowed to be set off during the year and carried forward also
- 7) Carried forward MAT Credit will have to be foregone. This has also been clarified by the CBDT circular 29/2019.

**The following other important points may be noted:**

- 1) The exemption can be availed starting from AY 2020-21 or even in subsequent year
- 2) The exemption once availed, it has to be continued in future years and cannot be withdrawn.
- 3) Form 10-IC will have to be filed online before the due date of filing return under section 139(1).

**III. Conclusion:**

There are other options also available under section 115BA or 115BAB but these are for manufacturing companies and not being discussed here. The option under Section 115BAA should be good option for companies who are



paying Tax especially due to MAT since they have lot of depreciation available under income tax but less provided in books. Further many times less tax is being paid for capital gains but more under MAT. Company must evaluate this option which is beneficial since under normal circumstances, where turnover is less than Rs. 400 crore in financial year 2017-18, minimum effective rate is 26% and if profit is between 1 crore to 10 crore, then effective rate is 27.82%. Moreover the advantage is MAT shall not be applicable.

#### **ABOUT AUTHOR:**

Author is a Fellow Member of the Institute of Chartered Accountants of India (ICAI) and also Fellow Member of The Institute of Company Secretaries of India (ICSI). Author is doing CA practice and has more than 40 years of experience. He is a former Senior Vice-President of Noida Management Association, Former Chairman of Noida Chapter of the ICSI and Former Secretary of Noida Branch of ICAI.

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