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<u>**Comments from the desk of Mr. Sampath Reddy, CIO Bajaj Allianz Life Insurance**</u>

Government provides large fiscal stimulus to help aid the economic slowdown

The government announced a large fiscal stimulus by slashing corporate tax rates for domestic and new manufacturing companies, in a bid to deal with the current economic slowdown and help pump-prime the economy and promote investment.

For domestic company, the corporate tax rate has been reduced to 22% (plus surcharge, effective tax rate 25.17%), from 30% (plus surcharge, effective tax rate 34.94%) earlier. However, this is applicable for companies that are not using any other tax incentives/exemptions. To attract new investment and boost the government's 'Make in India' initiative, the corporate tax rate of new domestic company incorporated from Oct 2019, making new investment in manufacturing will be 15% (plus surcharge, effective tax rate 17.01%). Also, the Minimum Alternative Tax (MAT) has been reduced to 15% from 18.5% earlier.

A company that does not opt for this concessional corporate tax regime, shall continue to pay taxes at pre-amended regime, with earlier exemptions allowed. These companies can apply for this new regime after their exemptions/ tax holiday period are over.

The Finance Minister (FM) also announced that the earlier enhanced surcharge on capital gains will be removed on derivatives for everyone (FIIs, domestic investors, etc.). This is further to the earlier announcement from the FM, that the enhanced surcharge on capital gains (announced in Union Budget) will be withdrawn for FIIs and domestic HNI investors on sale of securities. Therefore, capital gains tax now stands reversed back to the pre-Union Budget (in July) terms.

Also, in order to provide relief to listed companies which have already made a public announcement of buyback before the Union Budget (on 5th July 2019), tax on buyback of shares in case of such companies will not be applicable. The government had earlier (in the Union Budget) announced a tax of 20% imposed on buy-back shares of listed companies, thus plugging the tax arbitrage.

Outlook:

These measures are a welcome move to boost manufacturing and investment, which has been impacted amidst the recent economic slowdown. With the cut in corporate tax rates, India's corporate tax rate now becomes more competitive with some of its Asian peer countries.

It is also positive for sentiment, as is being reflected in the sharp surge in the equity markets, post the announcement. We believe this will help to revive the economy, and thereby change the course of market direction in the near term. The government has been proactive and has been announcing various measures in a gradual manner, for various segments/sectors—indicating its serious commitment to deal with the economic slowdown.

However, the revenue foregone from the tax rate cut and other relief measures is Rs. 1.45 lakh crore (~0.7% of GDP). With GST collections running already below target, this move is likely to cause a fiscal slippage on the government's 3.3% fiscal deficit target for FY20. This is being reflected in the sharp spike in bond yields post the announcement. From a fixed income perspective, we presently prefer the shorter end of the yield curve.

For any tax specific queries/clarifications, please contact your tax advisor.