

## Paying Taxes

1. **Description of Reform:** Corporate tax rate has been cut down from 30% to 25% for mid-sized companies

The fiscal year/ tax year/ previous year in India runs from April to March. Finance Act, 2017 shall be relevant for the period from April 1, 2017-December 31, 2017. The corporate tax rates are specified in Paragraph E of Part III of the First Schedule to the Finance Act, 2017. In case of a domestic company (case study company), the rate of corporate income-tax shall be 25% of the total income, if the total turnover/ gross receipts of the previous year 2015-16 (period from April 1, 2015 to March 31, 2016) does not exceed INR 500 million, (case study turnover is INR 113.5 million).

**Impact:** The reduction in corporate tax rate shall reduce effective 'total tax and contribution rate' calculated as a percentage of profit.

**Date of Entry into Force:** 01.04.2017

**Legal Basis:** <https://www.incometaxindia.gov.in/Pages/acts/finance-acts.aspx>.

2. **Description of Reform:** Goods and Service Tax (GST) law replaces and subsumes all indirect taxes.

Effective 1 July 2017 following indirect taxes are subsumed in GST:

1. Central sales tax (CST)
2. Central VAT (CENVAT)
3. State VAT (VAT)
4. Service tax (ST)
5. Octroi/ Entry tax
6. Lottery tax
7. Special additional duty of customs
8. Additional excise duty
9. Countervailing duty
10. Entertainment tax
11. Central excise duty
12. Purchase tax

Impact: GST introduced as one nation one tax has following significant impacts:

- Common procedures for registration, return filing and payment of taxes
- Seamless flow of credit from manufacturers/ supplier to user/ retailer, thereby eliminating cascading effect of taxes
- Now, one commodity has same rate pan-India

In terms of impact relevant to World Bank's (WB) case study

Reduction in number of tax payments made – In DBR 2018, 4 payments were being recorded for online payments of CENVAT, CST, ST and VAT. Because of introduction

of GST, all such payments has been subsumed into 1 payment (online). Accordingly, the number of payments made for indirect taxes applicable on the company, shall go down by 3.

**Impact:** Number of mandatory payments shall be recorded as 10 instead of 13 earlier (because of introduction of GST)

**Date of Entry into Force:** 01.07.2017

**Legal Basis:** <http://www.cbec.gov.in/htdocs-cbec/gst/index>

3. **Description of Reform:** Goods and Service Tax (GST) law replaces and subsumes all indirect taxes. The major benefit of GST is that all input GST is fully creditable against output GST liability.

Per WB's Doing Business Report (DBR) 2018, any tax paid by the Company (and a cost to company) is considered in effective tax rate computed as a percentage of commercial profits. Taxes viz. CST and ST have been subsumed in GST which is fully creditable and thus is not borne by the Company. Therefore, total effective tax rate computed as a percentage of profits shall reduce accordingly as under:

2% CST on purchase price translating to 5.3% tax in DBR 2018 shall be 0 now

15% ST on insurance premium translating to 0.167% in DBR 2018 shall be 0 now

**Impact:** Reduction in tax rate calculated as a percentage of profit

- 2% CST on purchase price translating to 5.3% tax in DBR 2018 shall be 0 now

- 15% ST on insurance premium translating to 0.167% in DBR 2018 shall be 0 now

**Date of Entry into Force:** 01.07.2017

**Legal Basis:** <http://www.cbec.gov.in/htdocs-cbec/gst/index>

4. **Description of Reform:** Goods and Service Tax (GST) law replaces and subsumes all indirect taxes. One of the major benefits of GST is that now all indirect tax compliances are centralised thereby reducing time taken to comply with GST return. Reduction in time for return preparation, filing of return and payment of taxes - Under the GST regime, for a period from July 2017 to December 2017, two returns per month viz. GSTR 1 and GSTR 3B were being filed by the companies. Each return, on an average, takes 1.5 hours for return preparation, filing and payment of taxes. This reduces total time required for preparation, filing and payment of taxes from 105 hours to 36 hours, annually.

**Impact:** Total time required for preparation, filing and payment of taxes from 105 hours to 36 hours, annually

**Date of Entry into Force:** 01.07.2017

**Legal Basis:** <http://www.cbec.gov.in/htdocs-cbec/gst/index>

5. **Description of Reform:** Reduction in effective contribution by the employer to social security for employee as the administrative charges on Provident Fund reduced from 0.85% to 0.65%

The Provident Fund administrative charges have been reduced from 0.85% to 0.65% in March 2017 and EDLI administrative charges of 0.01% have been removed. This would result in reduction of employer's social security contribution to 13.15% in DBR'19 as compared to 13.36% of DBR'18. Hence the effective tax rate computed as percentage of commercial profit shall go down

**Impact:** This would result in reduction of employer's social security contribution to 13.15% in DBR'19 as compared to 13.36% of DBR'18. Hence the effective tax rate computed as percentage of commercial profit shall go down

**Date of Entry into Force:** 01.04.2017

**Legal Basis:** [http://www.epfindia.com/site\\_docs/PDFs/Circulars/Y2016-2017/WSU\\_F&A\\_ADmCharges\\_33959.pdf](http://www.epfindia.com/site_docs/PDFs/Circulars/Y2016-2017/WSU_F&A_ADmCharges_33959.pdf)

6. **Description of Reform:** Indian Income-tax department now provides taxpayers facility of convenient return filing with enhanced technology usage.

Taxpayers are able to download part filled tax return (basic details such as name, address, etc., details of all corporate taxes paid or withheld in company's name by any person/ entity) from their online income tax account. In addition, taxes are auto calculated in the return form

**Impact:** Reduction in time taken to prepare, pay and file the corporate tax return form.

**Date of Entry into Force:** 01.04.2017

**Legal Basis:** <https://incometaxindiaefiling.gov.in/>