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Section 115BAA: New Tax Rates for Domestic Companies

The Government of India introduced Section 115BAA through the Taxation (Amendment) Ordinance 2019 on September 20, 2019. This ordinance amended the Income Tax Act, 1961, bringing significant changes such as a reduction in the corporate tax rate for domestic and manufacturing companies. Additionally, the MAT rate was lowered from 18.5% to 15%.

Section 115BAA: - Concessional Tax Rates for Domestic Companies

Domestic companies were given the option to pay tax at a lower rate of 22% (plus applicable surcharge and cess) starting from the financial year 2019-20, provided they do not claim certain deductions or incentives. This effectively brings the tax rate to around 25.17%, including surcharge and cess.

Section	Applicable on	Tax Rate	
115BAA	Domestic Company	Tax Rate	22%
		Surcharge (Compulsory)	10%
		Cess	4%
			25.168%

The new Section 115BAA has been added to the Income Tax Act, 1961, to provide domestic companies with the benefit of a reduced corporate tax rate. This section allows domestic companies to opt for a concessional tax rate resulting in an effective tax rate of 25.17% starting from the FY 2019-20 (AY 2020-21) onwards, provided they meet certain specified conditions. Companies that choose this option are not required to pay tax under the Minimum Alternate Tax (MAT) provisions.

Eligibility Criteria for Claiming the Concessional Tax Rate

The following Benefits/Deductions will not be available under section 115BAA

Section	Benefits/Deductions not Allowed
10AA	Deductions for the units established in Special Economic Zone.
32/32AD	Additional Depreciation and Investment Allowance on New Plant and Machinery.
33AB	Deduction for Tea/Coffee/Rubber Business
33ABA	Deduction for Petroleum and Natural Gas Business
35	Deductions for Scientific Research Expenditure
35AD	Deductions for Expenditure on Specified Business
35CCC	Deduction of Expenses Incurred on Agriculture Extension Project.
35CCD	Deduction of Expenses incurred by a Company on Skill Development Projects.
Chapter VI-A	Deductions which are allowed in respect of certain incomes (Except Section 80JJA: Employment of New Employee and 80M: Inter Corporate Dividend)
Other	A set off of any loss carried forward or depreciation from earlier years.

Time Limit to opt for Taxation under Section 115BAA

Companies must opt for taxation under Section 115BAA by the due date of filing income tax returns, typically the 30th of September of the assessment year.

Frequently Asked Questions

- **How does a domestic company exercise the option under section 115BAA?**

The exercise of Section 115BAA shall be completed by electronically submitting details in Form No. 10-IC to the principal officer, either through a digital signature or electronic verification code.

- **Can a Company Opt out of this section?**

Domestic companies that are not immediately inclined to avail themselves of this reduced rate can choose to do so after the expiration of their tax holiday period or any mentioned exemptions/incentives.

- **If a taxpayer chooses to exercise the option under Section 115BAA, can they still utilize MAT credits?**

Domestic companies choosing Section 115BAA won't be eligible to claim MAT credits for taxes paid under MAT during their tax holiday period.

- **What is the Tax Holiday Period?**

A tax holiday refers to a duration wherein an individual or a company is permitted to pay either no tax or a reduced amount of tax compared to the standard rate.

- **Does Section 115BAA supersede all other specific sections of Chapter XII, except for Sections 115BA and 115BAB?**

No, section 115BAA does not override the other sections. For Example, the incomes of specific nature covered under Chapter XII, such as STCG (Section 111A) at 15%, LTCG (Section 112) at 10% or 20%, Section 112A at 10%, dividends from foreign companies (Section 115BBDA) at 15%, etc., be subject to tax at rates mentioned in those sections.

- **Can a foreign company choose to avail itself of the provisions of Section 115BAA?**

Foreign companies cannot opt for the tax rates under Section 115BAA



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