For instance, Budget 2019-20 (FY20) has introduced profit-linked deduction for units set up under International Finance Service Centre near Gujarat International Finance Tec-City (GIFT-City), Ahmedabad.

To promote electric vehicles, manufacturers of components, such as solar electric charging infrastructure and lithium storage batteries and other components, have been proposed investment-linked I-T exemptions. Similarly, in FY19, incentives were offered to encourage start-ups.

CONCESSION COUNT

Fiscal year	Revenue foregone (₹ cr)	Actual growth (%)	Projected (%)	Revenue foregone % of corporation tax
2015-16	76,857	18.00	5.50	16.90
2016-17	86,144	12.00	8.60	17.70
2017-18	93,642	8.70	-1.29	16.30
2018-19	108,785	NA	16.00	16.30

Sources: Budget documents, Controller General of Accounts

In fact, the actual revenue foregone has turned out to be higher than the projected revenue over the previous few years. For instance, the government had projected a decline in revenue foregone by 1.29 per cent in 2017-18 (FY18), but instead saw growth of 8.6 per cent. In the year-ago period, it expected revenue foregone to grow at 8.5 per cent, while it actually grew 12 per cent.

As a percentage of corporation tax collection, revenue foregone for FY19 has been projected to be the same as the previous year at 16.3 per cent.

However, in a double whammy for large firms, although the corporation tax rate has been retained at 30 per cent, the exemptions are slowly being withdrawn, spiking their effective tax rate.

The biggest companies in India (in the sample studied in the Budget), whose profit before taxes (PBT) is more than Rs 500 crore, the effective tax rate on them rose from 22.9 per cent in 2014-15 to 26.3 per cent in FY18. For the smallest companies with PBT less than Rs 1 crore, the effective tax reduced from 29.4 per cent to 26.4 per cent over the same period.

Amit Maheshwari, partner, Ashok Maheshwary & Associates LLP, said, "Several exemptions available to corporates have been withdrawn from time to time in lieu of the supposed reduction in corporation tax rates. Hence, this has affected large companies with a turnover of over Rs 400 crore for whom the exemptions hitherto available stands withdrawn and the corporation tax rates has also not been reduced."

Rakesh Nangia, managing partner, Nangia Advisers LLP, said, "The lower corporation tax rate, coupled with phasing-out of incentives, will ensure the Indian corporate sector gets the benefit of reduced rates/tax incentives evenly, without impacting the government's revenue targets."

Former finance minister Arun Jaitley had promised a reduction in corporation tax rate to 25 per cent by FY20. In the latest Budget for FY20, the government extended the lower corporation tax rate of 25 per cent to companies with a turnover of up to Rs 400 crore, which is estimated to hit the exchequer by Rs 4,000 crore. On Tuesday, Union Finance Minister Nirmala Sitharaman said the corporation tax rate would be cut to all soon.

Extending it to companies with turnover of over Rs 500 crore, who form less than a per cent of the company universe but account for 41 per cent of the government's corporation tax mop-up, this would be the real test.

As part of the road map, the government had announced that existing tax holidays with sunset provisions will continue without further extensions; those with no sunset clause will have uniform sunset clause from March 2017, besides a roll-back of all weighted deductions from April 2017.

Business Standard

Uphill climb for big firms wanting corporation tax reduced to 25%

As a percentage of corporation tax collection, revenue foregone for FY19 has been projected to be the same as the previous year at 16.3 per cent

Dilasha Seth & Abhishek Waghmare | New Delhi July 24, 2019 Last Updated at 20:59 IST

The road to extend corporation tax rate reduction to 25 per cent for large firms may become challenging, with revenue foregone on account of tax incentives and exemptions growing at a rapid pace.

Revenue foregone on account of corporation tax exemptions is estimated to grow by 16 per cent in 2018-19 (FY19) versus 8.7 per cent in the previous year and 12 per cent in 2016-17, show the Budget documents.

The Income Tax (I-T) Act provides tax incentives in the form of tax concessions for entities involved in exports, creation of infrastructure facilities, scientific research and development, rural development, etc. These incentives have a significant impact on revenue collection. The projected revenue foregone owing to the tax incentives is higher at Rs 1.08 trillion in FY19, against Rs 93,643 crore in the previous year.

Although the government has been phasing out these exemptions, newer ones have been introduced over the past two years to shore up a few sectors.