

DISCUSS THE TAX LIABILITY OF A DOMESTIC COMPANY

INTRODUCTION

Tax liability of a domestic company refers to the amount of income tax that a company incorporated in India is required to pay on its taxable income under the provisions of the Income-tax Act, 1961.

A domestic company is a company registered in India under the Companies Act, or any foreign company that has made prescribed arrangements for the declaration and payment of dividends within India.

Understanding the tax liability of a domestic company is essential for proper financial planning, compliance, and minimizing legal risks.

MEANING OF DOMESTIC COMPANY

According to the Income-tax Act, a domestic company is:

1. A company formed and registered under the Companies Act in India; or
 2. A foreign company which has made prescribed arrangements for declaring and paying dividends in India.
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BASIS OF TAXATION

A domestic company is taxed on its **global income**, which means:

- Income earned in India
- Income earned outside India

Both are taxable in India.

TYPES OF INCOME TAXABLE FOR DOMESTIC COMPANY

A domestic company's total income may include:

1. Income from Business or Profession
2. Income from House Property

3. Capital Gains
4. Income from Other Sources

Total income is calculated after allowing permissible deductions and exemptions.

TAX RATES FOR DOMESTIC COMPANY

The tax rate applicable to domestic companies depends on the section under which the company opts to pay tax.

1. Normal Tax Rate

For companies not opting for concessional tax regime:

- 30% of total income (for larger companies)
 - 25% (subject to turnover conditions, as per government provisions)
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2. Concessional Tax Rate under Section 115BAA

Under Section 115BAA of the Income-tax Act:

- Tax rate is 22%
- No specified exemptions or deductions allowed
- Effective tax rate becomes approximately 25.17% (including surcharge and cess)

This scheme is optional.

3. Tax Rate under Section 115BAB (New Manufacturing Companies)

For new manufacturing companies:

- Tax rate is 15%
- Subject to prescribed conditions
- Effective rate around 17.16% (including surcharge and cess)

This encourages industrial growth.

SURCHARGE AND HEALTH & EDUCATION CESS

In addition to income tax:

1. Surcharge

- 7% if total income exceeds ₹1 crore but does not exceed ₹10 crore
- 12% if total income exceeds ₹10 crore

2. Health and Education Cess

- 4% on income tax plus surcharge

Thus, total tax liability includes income tax + surcharge + cess.

MINIMUM ALTERNATE TAX (MAT)

Under Section 115JB of the Income-tax Act, 1961, companies must pay Minimum Alternate Tax (MAT) if their normal tax liability is less than a prescribed percentage of book profit.

- MAT rate: 15% of book profit (plus surcharge and cess)

MAT ensures that companies showing high book profits but low taxable income still pay a minimum tax.

However, companies opting for Section 115BAA and 115BAB are exempt from MAT.

DEDUCTIONS AVAILABLE

Domestic companies can claim deductions under:

- Section 80G (donations)
- Section 80JJAA (employment generation)
- Depreciation under Section 32
- Research and development deductions

However, companies opting for concessional tax regime cannot claim certain deductions.

DIVIDEND TAXATION

Earlier, companies were required to pay Dividend Distribution Tax (DDT). However, DDT has been abolished.

Now:

- Dividend income is taxable in the hands of shareholders.
 - Companies must deduct TDS (Tax Deducted at Source) before distributing dividends.
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ADVANCE TAX LIABILITY

Domestic companies must pay advance tax in four installments during the financial year if tax liability exceeds ₹10,000.

Failure to pay advance tax results in interest under Sections 234B and 234C.

TAX COMPLIANCE REQUIREMENTS

A domestic company must:

1. Maintain proper books of accounts
2. Get accounts audited (if required)
3. File income tax return before due date
4. Pay tax on time
5. Deduct and deposit TDS

Non-compliance may lead to penalties and prosecution.

ILLUSTRATION (SIMPLE EXAMPLE)

Suppose a domestic company has taxable income of ₹1,00,00,000 and opts for Section 115BAA:

- Income Tax @22% = ₹22,00,000
- Surcharge @10% = ₹2,20,000
- Subtotal = ₹24,20,000
- Cess @4% = ₹96,800
- Total Tax Liability = ₹25,16,800

IMPORTANCE OF UNDERSTANDING TAX LIABILITY

1. Ensures legal compliance
2. Helps in financial planning
3. Avoids penalties and interest
4. Assists in choosing suitable tax regime
5. Improves profitability through tax planning

The tax liability of a domestic company is determined under the provisions of the Income-tax Act, 1961. A domestic company is taxed on its global income at prescribed rates. It may choose between normal tax rates or concessional rates under Sections 115BAA and 115BAB. Additional charges like surcharge and cess are applicable. Minimum Alternate Tax ensures minimum tax payment in certain cases.

Proper understanding of tax provisions and compliance is essential for smooth functioning and financial stability of the company.