

Higher MAT may derail infra projects

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Despite higher allocations, core sector likely to see reduced profitability.

While the UPA government's stimulus packages announced in its earlier tenure gave a push to infrastructure, the Union budget for 2009-10 did not have much in store for the sector.

Despite higher allocations, the infrastructure sector is likely to see reduced profitability of projects with the rate for minimum alternative tax going up to 15 per cent of book profit from 10 per cent earlier.

According to PricewaterhouseCoopers Executive Director Amrit Pandurangi, public-private partnerships in infrastructure are almost always implemented through special purpose vehicles that rely on MAT.

"The raising of tax is a bit of a dampener. It will reduce profitability of the SPVs."

Finance Minister Pranab Mukherjee in his speech mentioned a 160 per cent increase in allocation to the Accelerated Power Development and Reform Programme (APDRP) to Rs 2,080 crore over the budget estimates of 2008-09 but the catch lies in the fact that the revised scheme was approved only in July 2008 and the Budget last year did not make any substantial allocation towards the scheme.

The National Highways Authority of India (NHAI) has also got a higher allocation of Rs 8,578.45 crore in 2009-10, up from Rs 6,972.47 crore spent in 2008-09 in the revised estimates.

However, spending on national highways other than those being implemented by NHAI will come down to Rs 4,140.55 crore from Rs 4,218.79 crore last year.

The Railways have got Rs 5,000 crore over Rs 10,800 crore made in the interim Budget for 2009-10 to Rs 15,800 crore.

Allocation for the Jawaharlal Nehru National Urban Renewal Mission (JNNURM), the flagship programme for urban infrastructure, has been stepped up by 87 per cent to Rs 12,887 crore in the current budget.

Besides higher allocation for ongoing programmes, there is not much that the budget has done. According to BMR Advisors Partner Gokul Chaudhuri, infrastructure projects are getting "log-jammed by regulatory and state issues" but these cannot be tackled in the budget, though Mukherjee asked state governments to clear hurdles in the way of infrastructure development. Barring the power sector, there was no fiscal incentive for infrastructure in the budget.

The budget has extended the sunset clause for availing tax holiday by power companies to March 31, 2011.

Under section 80-1A, companies generating, transmitting and distributing power and companies that modernise transmission and distribution were eligible for a 10-year tax benefit, provided they started operations before March 31, 2010.

Besides benefiting Ratnagiri Gas & Power, which restarted the Dabhol power plant, the tax holiday was also available to government-controlled power companies that have been set up for reconstruction or revival of a power generating plant if they started operations before March 31, 2008.

Pandurangi said the extension of the sunset clause should be by five years or a roadmap should be laid down. Chaudhuri too agreed saying that there should be stability. "The timeline should be meaningful so that companies can plan investments."