

## Higher MAT to impact cash flow of some firms

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The Union government wants to increase the rate of MAT from 10% of book profit at present to 15%

A few corporations that paid comparatively lower corporate taxes than their peers have been put on the mat—literally.

Finance minister Pranab Mukherjee has proposed to increase the rate of minimum alternate tax, or MAT, from 10% of book profit at the present rate to 15% “in the quest for greater equity”.

MAT was introduced in fiscal 1998 by P. Chidambaram to address inequity in taxation of Indian corporations. Many companies, despite making book profits as per their profit and loss account, were hardly paying any tax because income computed as per provisions of the Income-tax Act, was either nil, or insignificant.

Greater equity: Suzlon Energy Ltd chief operating officer Sumant Sinha says the latest move on MAT is an attempt to ‘plug some loopholes’. Ashesh Shah / *Mint*

These companies, which were showing book profits and declaring dividends to their shareholders and yet not paying any income tax, were popularly known as “zero tax” companies. MAT tried to bring in such companies into the tax net.

Mukherjee’s decision to increase MAT came as a surprise to industry associations as they were lobbying for a cut in MAT from 10% to 7.5%.

The companies that pay MAT lost heavily on bourses even as the Sensex, the country’s bellwether equity index, shed 869.65 points, or 5.83%, to close at 14,043.40.

The proposal will hit the profit of both the industry groups run by the Ambani brothers. Mukesh Ambani’s Reliance Industries Ltd, India’s largest private sector company by market capitalization, as well as Anil Ambani’s Reliance Infrastructure Ltd and Reliance Communications Ltd will have to pay more taxes now.

Among the Tata group companies, Tata Consultancy Services Ltd (TCS) and Tata Power Ltd among others, will be impacted by the hike in MAT.

Infrastructure companies such as Lanco Infratech Ltd, Adani Power Ltd, GMR Infrastructure Ltd and GVK Power and Infrastructure Ltd too will be impacted by the MAT proposal.

Reliance Industries’ tax outgo in 2007-08, as per its cash flow statement for that period, was around Rs2,484 crore. The new proposal will increase the tax outgo by at least Rs1,200 crore, if the book profits are maintained at the current level.

India’s largest software exporter, TCS’ tax outflow was around Rs1,200 crore in 2008-09. This will go up by Rs600 crore for the coming year, assuming that its profits are maintained at the same level.

D.D. Rathi, director at Grasim Ltd, a cement and viscose yarn manufacturer, said the MAT move would impact the cash flows of some companies and is being “viewed negatively”. Grasim, however, does not come under the MAT bracket, he clarified.

Sumant Sinha, chief operating officer at Suzlon Energy Ltd, a wind energy company, sees the latest move on MAT as an attempt to “plug some loopholes”.

According to a few tax experts that *Mint* spoke to, the government is probably planning to use its legislative powers to correct some flaws in existing norms that led to 8-10 tax cases going against the government.

Shares of the two Reliance groups were hammered on the bourses. Reliance Industries, the index heavy weight with a weightage of 14.54% in the Sensex, shed Rs132.25, or 6.53%, to close at Rs1,893.60.

Reliance-Anil Dhirubhai Ambani Group (R-Adag) flagship, Reliance Infrastructure, a company that pays MAT, lost Rs161.20, or 12.47%, to close at Rs1,131.05.

Another R-Adag company Reliance Communications shed Rs23, or 7.87%, to end the day at Rs269.40.

TCS was also a loser, but escaped relatively unscathed as its shares lost Rs9.80, or 2.50%, to close at Rs381.60.

This is because the information technology (IT) sector benefited from the extension by one year of the sunset clause under the Software Technology Parks of India Act, or STPI Act. The STPI Act provides tax exemption for companies that set up business units in specified technology parks till 2010. In the Budget, this was extended by another year.

TCS also benefited from the Budget proposal to abolish the fringe benefit tax (FBT), a major outgo for IT companies.

According to Anurag Jain, partner, BMR Advisors, a corporate advisory firm, the increase in the rate of MAT is not in sync with the sentiment expressed in the finance minister's Budget speech to moderate taxes.

The infrastructure sector will also be negatively impacted by the move, something the government may not have intended, said Kuljit Singh, partner, infrastructure, real estate and government, consultancy firm Ernst and Young.

"The major dampener is the increase in the MAT rate by around 50%, which further negates (despite the increase in MAT credit period to 10 years) the benefit of section 80 IA available to highway projects. While the new projects that will be bid out in future will factor (in) such increase in their bids, for the existing projects already awarded, such an increase will lead to a reduction in project returns," Singh pointed out.

"The long-standing request to exempt infrastructure projects from the application of MAT did not find mention. On the contrary, MAT rate was raised to 15%. This effectively means (a) 17% increase, considering surcharge and cess," said Jai Mavani, head, infrastructure and government practice, KPMG.

Bharat Doshi, executive director, Mahindra and Mahindra Ltd, a multi-utility vehicle and tractor maker, said the increase in MAT is an "investment deterrent".

"The new projects will have higher taxable profit than the book profit due to higher depreciation and the tax paid will be higher. The relief on the MAT paid on these profits will come later," he said.

Doshi, who is also the president of Bombay Chamber of Commerce and Industry, an industry body, said though the Budget proposal has removed FBT from the companies, employees will have to pay the tax on their travel and other perquisites including stock options. Mahindra and Mahindra will save Rs14 crore a year on account of FBT being abolished.

Reuters quoted Akhil Jindal, director Welspun Gujarat Stahl Rohren, that makes pipes to transport oil and gas as saying, "MAT has risen and that is going to hurt."