

No MAT finish for Corporate India

Source: *The Economic Times*
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FM raises rate to 15%, but extends credit period to 10 years

Leading private sector companies like Reliance Communications, Great Eastern Shipping, Sun Pharma, Bharti Airtel, Suzlon and see their tax liabilities go up this year, though the burden could be lower in subsequent years. So would some their IT peers. Finance minister Pranab Mukherjee has proposed a five percentage point hike in the minimum alternate tax (MAT) paid on book profits, taking the effective MAT rate to around 17% from 11%.

“The increase in the basic MAT rate from 10% to 15% will result in higher cash outflow for zero-tax companies. At a time, when most industries are facing credit crunch, imposing higher tax, for which credit may be available in future, seems to be out of sync with the finance minister’s claim that this Budget is the first stimulus for the economy,” said Shefali Goradia, partner, BMR Advisors. Besides the rate hike, the base for MAT has also been raised. Till now, any decline in the value of assets could be netted off to arrive at the base for calculating MAT. Not any more. Now, any diminution in the value of assets will have to be added back to the book profit, which serves as the base.

“Even more disturbing fact is that the amendment is retrospective from April 1998,” said Ketan Dalal, executive director, tax & regulatory practice, PricewaterhouseCoopers.

But, the good news is that the government has allowed companies to carry forward MAT credit and set it off against the normal tax liability for 10 years, according to Sunil Badala, partner, BSR & Co. “The fact that MAT is not a permanent cost, and it is only a timing issue, has not been highlighted well,” said Dinesh Kanabar, leader - tax & regulatory practice, PricewaterhouseCoopers.

Revenue compulsions have perhaps forced the government to hike MAT rate, as companies continue to enjoy a host of other tax exemptions. The levy was introduced by former finance minister P Chidambaram in his 1996-97 Budget to bring zero-tax companies under the tax net.

The intention was to discourage such companies from arranging their tax affairs in a manner that would result in huge book profits and a substantial dividend payout, but no tax liability.

To start with, companies had to pay a 7.5% MAT on their book profits. Mr Chidambaram raised the rate to 10% in 2006-07.

Norms were also tightened, making it mandatory for companies that invest in shares to include long-term capital gains, while computing their book profits.

With the Budget proposal, the effective MAT rate for domestic companies would work out to 16.995%, including the surcharge and education cess. These companies can set off MAT against their future tax liability. To cite an example: a company which has a tax liability of 20% this year, and pays a MAT of 17% gets a 3% credit. If the tax liability works out 14% next year, it can use the credit and pay a tax of 11%.

MAT has to be paid by foreign companies having a permanent establishment in India. However, with Indian businesses going global, and the increase in cross-border trade, MAT provisions may require further fine-tuning for taxes paid abroad.

ALTERNATE ROUTE



Companies Where PBT To Tax Ratio Is Less Than 10%

	FINANCIAL YEAR	CURRENT TAX	PROPOSED TAX	DIFFERENCE
Bharti Airtel	Mar '08	787.6	1,181.1	393.8
Suzlon Energy	Mar '08	176.0	264.0	88.0
HCL Technologies	Jun '08	107.7	161.5	53.8
Shipping Corpn. Of India	Mar '08	96.0	144.0	48.0
Great Eastern Shipping	Mar '09	43.8	65.6	21.9
Idea Cellular	Mar '08	42.5	63.8	21.3
Sun Pharmaceutical	Mar '08	33.1	49.6	16.5
MphasiS	Oct '08	29.8	44.7	14.9
NIIT Technologies	Mar '08	14.1	21.1	7.0
Reliance Communications	Mar '08	2.1	3.2	1.1

(Rs Crore)

POWER PACKED



Top 10 Tax-Paying Companies

	FINANCIAL YEAR	EXCISE DUTY	SALES TAX	OTHER INDIRECT TAXES	CORPORATE TAX	OTHER DIRECT TAXES	TOTAL TAXES
IOC	Mar '08	23,051	—	1,145	3,097	28.6	27,322
ONGC	Mar '08	6,110	77.2	2,421	8,010	62.0	16,680
BPCL	Mar '08	10,934	—	577	883	16.2	12,410
SAIL	Mar '08	6,217	—	55	3,745	33.6	10,051
ITC	Mar '09	8,262	—	42	1,232	25.9	9,562
Reliance Inds	Mar '08	5,464	518.7	503	2,605	55.0	9,145
HPCL	Mar '08	7,785	—	189	167	13.1	8,155
MRPL	Mar '08	4,773	215.0	1	583	1.3	5,574
Chennai Petro	Mar '08	4,871	—	65	569	2.1	5,507

(Rs Crore)

Source: PROWESS