DECCAN HERALD

Budget's corporate tax proposals, a mixed bag

Dilip Maitra, Bangalore, March 1, DH News Service:

One important feature of various tax related announcements made by Finance Minister Pranab Mukherjee in the Union Budget for 2011-12 was that new moves will ultimately converge with the new Direct Tax Code (DTC) to be implemented from April 1, 2012.

Various corporate tax measures announced in the budget are also devised with that objective. Among many important changes related to corporate taxation, the most important one was a slight increase in Minimum Alternate Tax (MAT) rate, it will now be 20 per cent including surcharge and cess against 19.5 per cent earlier, and bringing in units in SEZs under MAT. MAT is an alternate tax levied on companies who do not pay any tax or pay very little tax under the corporate tax calculations. But if such zero tax companies show profits on their books they have to pay MAT tax at 20 per cent on the amount of book profit against the normal corporate tax rate of 33.33 per cent.

Under the budget provisions, units working in Special Economic Zones (SEZs) and also developers of SEZs have been brought under MAT. Though DTC had mentioned that SEZs will be brought under MAT, companies operating in SEZs were disappointed by the move. Many software companies shifted to SEZs, with large investments, from Software Technology Parks (STPs) where tax holiday is to end by the end of current financial year. But the imposition of MAT has nullified their attractive features, says units working there. Says Deloitte Haskins & Sells partner Neeru Ahuja "SEZs in India were modeled on China with tax free status. Now, changing the rule is not a good policy."

Big disincentive

The government will, however, allow MAT paid to be carried forward for a period of 10 years allowing them to be set-off against regular tax payable during the subsequent years. According to Tax Consulting firm Nishith Desai Associates another tax sop enjoyed by the developers of SEZ that has been withdrawn pertains to levy of DDT (dividend distribution tax) at the rate of 15 per cent on the profits distributed as dividend by a developer of a SEZ. "The removal of this sop coupled with the imposition of MAT would no doubt be viewed by many as a big disincentive to developing or setting up a unit in a SEZ," the consulting firm said.

In a welcome relief, the budget has lowered the tax on inbound inflows to India from foreign subsidiaries of Indian companies by half. Indian companies will now pay 15 per cent tax on inbound inflows against prevailing 30 per cent. "This is expected to lead to larger inflows of incomes into the country and would augur well both for the shareholders and the economy, said Deloitte Haskins & Sells Partner N C Hegde. "This is a step in the right direction and will pave the way for the creation of Indian MNCs and create the proper framework for putting them on the global map." However, in a counter measure the Budget proposes to disallow deductions of any cost related to the acquisitions of the said foreign company against the dividend.

In a bid to encourage foreign investors investing in long term infrastructure bonds in India the budget has also reduced the withholding tax for foreign infrastructure borrowing to 5 per cent. This will also reduce the borrowing cost of the issuers.