

FBT abolition to help cos save over Rs 2k cr

9 Jul 2009, 02:13 hrs IST, Supriya Verma Mishra , ET Bureau

Companies in the BSE 500 index are expected to save over Rs 2,025 crore this financial year, if the Budget proposal to remove the fringe benefits tax (FBT) is passed by Parliament. Importantly, these companies account for about 90% of the market capitalisation of all listed companies on the bourses.

An ET Intelligence Group analysis shows that the FBT spend by the BSE-500 companies rose from Rs 1,800 crore to Rs 2,025 crore in FY09. The removal of FBT would improve profitability, apart from reducing paper work, for these companies. According to Uttam Prakash Agarwal, president, ICAI, FBT being removed will result in an increase in the net profit of companies, which could now be ploughed back into the business. "Not only would FBT savings lead to increased earnings for the companies but will also reduce work related to compliance and due diligence," added Uday Ved, head of tax, KPMG India.

FBT is a tax that is paid by employers on benefits given to employees — this does not form a part of the salary. It taxes a prescribed portion of the expenditure on 'fringe benefits', which includes entertainment, festival celebrations, gifts, club membership and employee stock options (Esops) that companies reward their employees with.

State Bank of India, for instance, paid an FBT of Rs 175 crore in FY09, followed by ONGC (Rs 72 crore) and ICICI Bank (Rs 66 crore). Others, such as Apollo Tyres, Lupin, Cairn India and Pantaloon Retail, paid Rs 15 crore, Rs 15 crore, Rs 11 crore and Rs 6 crore respectively in FY09. For some of these companies, FBT accounted for anywhere between 2-8% of their total employee cost. An improvement in bottom line is anticipated once FBT is scrapped.

Ramesh Swaminathan, CFO, Lupin, said: "We were expecting Rs 18 crore as FBT for this year. With FBT proposed to be scrapped, it would result in an accretion to the P&L of Lupin."

The savings from FBT could be used either for expansion of the business or even distributed as dividend. In either case, it would take care of shareholders' interest, like pushing up the dividend yield, and lay the base for greater growth in business. "The scrapping of FBT will result in a 2-3% drop in tax liability for most companies," said Vispi T Patel, partner, Economic Law Practice.

According to Parul Jain, senior associate, Nishith Desai Associates, the elimination of FBT will result in reduction of the effective corporate tax rate for employers, in addition to lower compliance costs. Typically, companies set up dedicated departments to handle the paper work for filing FBT returns. (With inputs from Joseph Pereira)

Read business stories in |

Other stories in this section

- India in talks to tweak tax treaty with Mauritius
- FM says no hike in interest rates
- 79% of conservation funds not used: CAG
- ITAT appeal delays cost I-T dept big bucks
- Return to FRBM path soon: Govt
- Govt to take steps to control fiscal deficit

[More >>](#)

Other News

Market

	NSE	BSE
SENSEX	13291.16	-213.06
NIFTY	3940.00	-63.90
NASDAQ	1756.03	3.48
DJIA	8146.52	-36.65
RS/\$	48.69	0.23

Corporate Announcement

Indian-American selected for US Council on Competitiveness
Pradeep Khosla, an Indian-American internationally recognised as an authority on robotics, has been selected to join a prestigious council, committed to US competitiveness in the global economy.

ET Debates

- Do something substantial for minorities

Latest News	Most Read	Most Emailed	Most Commented
--------------------	-----------	--------------	----------------

Shop



Travel : Flights

Delhi to Pune	Re 1
Mumbai to Cochin	Re 1
Chennai to Mumbai	Rs 9

[More >>](#)

Mobile 58888

- Movie gupshup
- Send Voice greetings

[More >>](#)

ZigWheels New

- Caught on camera: Chevy Beat
- Spl Feature: Grande Punto

[Maruti Ritz](#) | [Car review](#) | [Buy Car](#)

5
6

[Terms & conditions](#) 

Name: Location:

Email: You will receive an email alert as soon as your comment is live