MAT phase-out may kick off in Budget

Rate may come down in FY18 and is likely to be scrapped over 3-4 years

PAVAN BURUGULA
Mumbai, 11 January

The Union Budget is expected to provide relief to companies which come under the minimum alternate tax (MAT). Sources who attended a presentation made by the finance ministry last month said the current tax framework has made MAT a redundant levy.

"While the government has already promised to lower the corporation tax rate further, it has also started work on ending tax rebates and tax holidays for companies. If foreign institutions can be exempt from such a tax, even domestic companies should get a similar benefit," the sources said.

The reducing gap between corporation tax and MAT is one of the main reasons for the government to consider such a step. While the current MAT rate is 18.5 per cent, corporation taxes have come down to 29 per cent from 35 per cent earlier. And this gap will narrow further as the government has promised to bring the tax down to 25 per cent by 2019.

RUN-UP TO THE BUDGET 2017-18

Punit Shah, partner, Dhruva Advisors, said according to the road map laid down by the government, the corporation tax rates may be reduced along with phase-out of exemptions and incentives. "The logical corollary would be that MAT would become redundant. It should be possible to reduce MAT rate immediately and phase it out completely over a period of three to four years," he said.

There are other arguments favouring doing away with MAT. "Taxes like MAT could have a negative impact on companies, especially start-ups, who are in an investment mode. The gestation period for profits in these companies is usually long. And once they make profit, they could be subjected to MAT. The full amount of losses incurred in the previous period cannot be completely set off," Riaz Thingna, director, Grant Thornton Advisory.

The other proposals under consideration include reduction of the MAT rate to 7.5 per cent and allow companies to set-off other taxes using MAT credits.

Earlier MAT was applicable to both Indian and foreign companies. However, it is applicable only to domestic companies, at present. Turn to Page 16

PRUNING THE TAX REGIME

- MAT was introduced to levy some tax liability on companies which ended up paying zero taxes due to various exemptions
- MAT is currently applicable to only those corporate entities who have permanent establishment in India
- Current MAT rate is 18.5% of the total book profit of a company
- With reducing corporate taxes, phasing out tax holidays, the relevance of MAT has reduced significantly

NITI Aayog bats for changing 10% I-T slab

SANJEEB MUKHERJEE
New Delhi, 11 January

National Institution for Transforming India (NITI) Aayog is in favour of keeping the threshold for the income tax (I-T) exemption intact at ₹2.5 lakh. Instead, they want to extend the tax (10 per cent) on the ₹5 lakh slab to ₹7 lakh. Officials said that the Aayog favours expansion of the tax base to enable more people to pay taxes, rather than expanding the exemption limits.

Finance Minister Arun Jaitley had raised the threshold for income tax exemption to ₹2.5 lakh from ₹2 lakh in his very first Budget for 2014-15. Turn to Page 16