Commerce Ministry panel's proposal to end MAT on SEZs under review

The minimum alternate tax levied on special economic zones (SEZs) that hit fresh investments in the scheme is under review. A panel appointed by the commerce department had recommended removal of MAT for manufacturing units and zones to boost exports as well as job creation in the country.

"The recommendations of the report are being examined," said a government official, who did not wish to be identified. A final call on the proposal will be taken in the budget keeping in view revenue implications and benefit that may accrue to the country in terms of manufacturing boost and jobs, the official said. Finance minister Arun Jaitley will present his fifth budget and the last full one of this NDA government on February 1. ET had earlier reported on the recommendations of the panel set up to review the SEZ norms.

Tax experts said removal of MAT would boost business sentiment. "Ideally, MAT should not be levied on SEZ units, as it's against the very concept of providing tax concession to the industry to promote investment and exports from India," said Vikas Vasal, partner, Grant Thornton India LLP.

The SEZ policy was unveiled by the NDA government in 2000. In 2016-17, the revenue loss to the government on account of concessions to SEZs was Rs 10,182 crore. There will be a bigger loss of revenue if MAT is withdrawn.

MAT was introduced to bring into the tax net "zero tax companies" which in spite of having earned substantial book profits and having paid big dividends, do not pay any tax due to various tax concessions and incentives provided under the income tax law. MAT is levied at the rate of 18.5% plus surcharge and cess as applicable on book profit

The erstwhile United Progressive Alliance government had brought in the SEZ Act in 2005 that provided for exemption from income tax for 15 years for these zones as well as units the located in these zones. There was no sunset date for this exemption.

The government then amended the income tax law in 2012 to impose MAT on SEZs at rate of 18.5%. The Narendra Modi-led NDA government introduced sunset date for SEZs in 2016, but did not withdraw MAT despite hectic lobbying by industry and representation by the commerce department due to revenue considerations. Sunset date was introduced in line with the government's big plan to phase out exemptions and reduce corporate tax rate to 25%. According to the sunset clause, only an SEZ unit that commences operations on or before March 31, 2020, shall be eligible for income tax holiday.

Lower MAT Across Board

Tax laws must be rational for all, and not just special enclaves. MAT is supposed to discourage companies from arranging their tax affairs in a way that would lead to huge profits, dividend payout and no tax liability due to depreciation and other incentives. MAT can be scrapped when exemptions are removed while lowering rates so that taxable profits can be aligned with book profits. Lowering the MAT rate makes sense, uniformly across

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