

Government ensuring corporates do not delay tax payments to meet working capital needs

Income tax authorities will keep a close watch on tax payments by top corporates to ensure that they do not delay tax payments as part of the bouquet of measures being considered by the government to keep revenue growth on target.

The advance tax payments by companies rose only 9.9% for the July-September quarter, down sharply from 19% growth in April-June quarter.

The income tax department is worried that companies may be delaying tax payments, holding back funds that can be used to meet working capital needs.

The apex direct taxes body has written to field officials to keep a tab on top 500 companies to ensure that tax payments are in line with profits.

"The idea is to ensure people pay tax due well in time," said an official with the Central Board of Direct Taxes.

Corporates pay advance tax in four installments - June, September, December and March - based on their projected income.

The third-quarter advance tax payments are particularly important as they form the basis of all the projections in the annual budget.

Income tax department officials said there is a general tendency among companies to suppress and delay tax payments when interest rates are high.

They pay the tax later with penal interest levied at the rate of 1% for every month of delay, but this works out to be lot cheaper than funds they can raise from the market.

The officials have been asked to closely examine the second quarter results of companies and also data available from other sources, including private research groups and internal intelligence.

The department will also look at the data for the past year and pick out companies for special scrutiny that have been known to report lower advance taxes.

However, experts say slowdown and high input prices were impacting corporate profitability.

"This quarter the pressure on margins has begun to show...Sales growth is high but

margins are under pressure due to high input costs that will reflect in advance tax payments," said Deepali Bhargava, chief economist India, Esprito SantoSecurities.

The third installment of advance tax payments is due on December 15.

There is pressure on I-T department to collect more than the budgeted tax as meeting the non-tax revenue target looks difficult because of the volatile markets that have made disinvestment difficult and there is a question mark over spectrum sales.

The government has estimated 40,000 crore from sale of equity in public sector enterprises and 13,000 crore from auction of spectrum in the current fiscal. So far, it has only managed to raise 1,145 crore from disinvestment.

The finance ministry has already asked the CBDT to collect at least 10% more than the budget estimate of 5.33 lakh crore, which board says will be an uphill task.

The government's corporate tax collections will need to grow at 21.4% for the government to meet its budget estimate for 2011-12.

In the first eight months, net corporate tax collections were up only 7.1% from a year ago, but part of the reason was heavy refunds during the same period.

The net profit for 32 Nifty companies that have declared results for the July-September quarter has dropped 3% even as topline has expanded 24%.

Despite curbs, the I-T department is not ruling out companies delaying tax payments.

(Economic Times)