Govt may ask firms for advance tax in equal installments

With a slight tweak of the rate at which companies pay advance tax, the finance ministry hopes to make a huge improvement in its fiscal position in FY17.

The proposal is smart and so likely to go through, even as the government wrestles with the more difficult one of cutting the rate of corporate tax, or corporation tax in a difficult fiscal environment.

Instead of permitting companies to pay their tax liability for the year where they back load most of their tax dues near the end of the year, the finance ministry has been provided an option to make the dues equal. It would also align the Indian plan in line with what obtains globally. The US, for instance, asks companies to pay their tax in similar four instalments as India does, but the instalments are equal. In Canada, the advance tax dues have to be paid on the last day of each month, same as in Malaysia nearer home or even in Chile, Brazil and Australia.

Under section 211(1) of the Indian Income Tax Act, companies can pay their annual tax dues in four instalments of 15 per cent by June 15, at least another 30 per cent by September 15, another 30 per cent by December and the remainder by March 15.

Raising the rates to something like the US plan would loosen the fiscal straitjacket the government finds itself in every year in the first few months. Basically under the current tax instalment format, the finance ministry now makes do with only 45 per cent of the tax flow estimated for the year for eight months of the financial year. The asking rate gets stiffer because the non-corporate assesses too pay only 30 per cent of their advance tax dues till mid-September. Money starts gushing into the Consolidated Fund of India only from the second week of December. Since there is less money coming to the government in the period between April and September, it ends up borrowing disproportionately more from the markets to cover the difference. In the current fiscal for instance it will raise Rs 6 lakh crore from the domestic and foreign investors (approx $92.3 billion). Of this 60 per cent or Rs 3.6 lakh crore ($55.4 billion) has been raised in the April to September period.

A higher inflow from the same corporation tax corpus will thus make for a far better use of the tax proceeds of the government money feel some of the top ranked officials of the government. While tweaking the rates for non-corporate assesses could be difficult, it is possible to do so for companies they say. They can then plan for a lower level of borrowing despite the same aggregate receipts, which will in turn cool the fiscal deficit.

The advantage of the new equated monthly instalments is that it can be rung in even if finance minister Arun Jaitley has to stick to his promise of reducing the rate of corporate tax a bit in the General Budget this time. The government has promised to bring down the headline rate to 25 per cent in a four year time frame from the current 30 per cent, net of surcharge and cess. The changes would also sit well with the repeated promise of the finance minister to simplify the tax administration but without costing the exchequer. Some of the changes already made towards simplifying the tax administration include stripping the departments of direct and indirect taxes of their financial independence. They will now operate under a single financial authority, that of the department of revenue.

The orders were issued in December after top level consultations within the government. The finance minister gave the go ahead for the step which will be seen as a major reform of India's tax sector to investors, domestic and foreign.

Former advisor to finance ministry, Parthasarathi Shome in his first report of the Tax Administration Reforms Commission had also asked for abolition of the differences between the two boards.

(SOURCE : www.business-standard.com)