The Union budget 2011, presented by Finance Minister Pranab Mukherjee, evoked positive responses from most of the quarters. The budget has sops for the business community such as surcharge on Indian firms cut from 7.5% to 5%, no service tax audits for individual and sole proprietor assesses with turnover up to Rs/-60 lakhs, tax on dividends received by Indian company from foreign subsidiary halved to 16.2% etc.

Vandana Goel, **Management and Corporate Tax Consultant** in an interview with **Krishnakumar C K, Editor, Small Enterprise India.com**
puts light on certain key aspects of the budget.

Excerpts from the interview:

1. **Tax surcharge for companies to be cut from 7.5% to 5%: Please mention the benefits for business owners** .

Bringing cheer to the industry, Finance Minister Pranab Mukherjee lowered the surcharge tax limit on corporate tax to 5 per cent from 7.5 per cent even while marginally raising the Minimum Alternate Tax.

The government retained the corporate tax at 30 per cent, to be paid by domestic firms earning total income of over Rs. 1 crore a year.
Presenting the Budget for 2011-12, Finance Minister Pranab Mukherjee said: "My initiative of phasing out the surcharge continues. I propose to reduce the current surcharge of 7.5 per cent on domestic companies to 5 per cent".

This will marginally ease the tax burden to the industry.

2. **All small tax payers and small business owners with revenue of upto Rs 60 lakh exempt from audit: What are the advantages that small business owners can look for** ?

Individual Service tax payer and small business owners with revenue upto Rs. 60 lakh are exempt from government audit. Advantages-

1. Audit at premises means dislocation of activities for the duration of the audit this relaxation will free all individual and small business owners taxpayers from the formalities of audit.
2. The Increase in Tax Audit limit for Business will reduce the paper work procedures.
3. The benefit of 3 percentage points in interest on delayed payment.
4. Relaxation in the penal provisions for Service Tax.

3. **Minimum Alternate Tax (MAT) raised from 18% to 18.5%: Could you please elaborate on this for the readers?**

A comapny is liable to pay tax on the income computed in accordance with the provisions of the income tax Act, but the profit and loss account of the company is prepared as per provisions of the Companies Act.

There were large number of companies who had book profits as per their profit and loss account but were not paying any tax because income computed as per provisions of the income tax act was either nil or negative or insignificant.

In such case, although the companies were showing book profits and declaring dividends to the shareholders, they were not paying any income tax. These companies are popularly known as Zero Tax companies. In order to bring such companies under the income tax act net, MAT U/s 115JB was introduced

In Budget 2011 MAT u/s 115JB has been increased to 18.5 %.According to this section, if the tax payable on the total income as computed under the Income-tax Act is less than 18.5% (last year it was 18%) of its book profit, such book profit shall be deemed to be the total income of the assesses and the tax payable for the relevant previous year shall be 18.5% (last year it was 18%) of such book profit.

Thus in case of a company income tax payable shall be higher of the following two amounts-

1. Tax on total income computed as per the normal provision of ACT by charging special rates and normal rates applicable.
2. 18.5 % of book profit.

MAT credit scheme is introduced U/s 115JAA in 2006-07 by which MAT paid can be carried forward for set-off against regular tax payable during the subsequent ten year period subject to certain conditions, as under:-

• When a company pays tax under MAT, the tax credit earned by it shall be an amount which is the difference between the amount payable under MAT and the regular tax. Regular tax in this case means the tax payable on the basis of normal computation of total income of the company.

• MAT credit will be allowed carry forward facility for a period of five assessment years immediately succeeding the assessment year in which MAT is paid. Unabsorbed MAT credit will be allowed to be accumulated subject to the ten year carry forward limit.

• In the assessment year when regular tax becomes payable, the difference between the regular tax and the tax computed under MAT for that year will be set off against the MAT credit available.

• The credit allowed will not bear any interest.

• MAT credit in case of conversion of a private limited company or an unlisted company into LLP shall lapse.

4. **Special Economic Zones to come under MAT (Minimum Alternate Tax): What are key concerns from the perspective of business community?**

Till now there provisions of section 115JB of Income tax Act were not applicable to the income accrued or arising on or after the 1st day of April, 2005 from any business carried on, or services rendered, by an entrepreneur or a Developer, in a Unit in Special Economic Zone.

Now after Budget 2011 units established in Special Economic Zones to come under MAT also come under the provision of the act and have to pay tax accordingly, which is termed as a 'setback' by the players.

"As a measure to ensure equal sharing of the corporate tax liability, I propose to levy MAT on developers of Special Economic Zones (SEZs) as well as units operating in SEZs," Mukherjee said.

Changes in the tax rate would be effective from April, 2012.Special Economic Zones will now have to pay minimum alternate tax means these developers will now lose 20% of their earnings from SEZs. It is contrary to the commitment made by the Government of India to investors in SEZs. More than Rs 10,000 crore, including FDI, has been invested in SEZs on the basis of the government's earlier commitment, that it was not to be taxed. Players like DLF and the Prestige Group will feel the heat, since they earn rental yields from SEZ projects