

## **CBDT Scrutinising Firms Enjoying Tax Exemptions**

Smells tax evasion, shifting of profits, to scrutinise books of those availing big or many exemptions

Companies availing tax exemptions are being scanned by the income tax department. The Central Board of Direct Taxes has started a closer scrutiny of companies paying less corporate tax due to various exemptions. The finance ministry says it has found some of these companies are evading taxes by shifting profits of a non-eligible unit to one in the exempted category.

Ministry officials said the tax department would identify the companies which have claimed exemptions when they were not eligible to do so and examine their books.

“Some companies misuse exemptions and take undue benefits. The tax officer may look into details such as cost of raw material for a unit, power consumption and operational efficiency. The costs incurred by a unit in the exempted area should be compared with the one in a non-exempted area,” said one official, who did not wish to be identified.

Earlier this month, Finance Minister P Chidambaram had asked the department to go after low tax-paying sectors to add an additional Rs 30,000 crore to revenue. Although the applicable tax rate for corporations is 30 per cent, he said some companies were paying even lower than the average of 24 per cent, due to various tax exemptions and deductions.

“Several sectors are well below the average. In such cases, the average ranges from 10-22 per cent. Those are the areas I have asked them to focus on...Even if the average is raised from 24 per cent to 26 per cent, we will collect roughly Rs 30,000 crore,” Chidambaram had said. The minister, however, had clarified the exemptions would not be withdrawn.

Ministry officials said the average tax rate and collections would go up this year by plugging tax evasion and not by withdrawing exemptions. They did not, though, rule out the possibility of phasing out some of the exemptions in the next Budget, to be presented in February 2013.

“Though the exemptions have come down at a broader level, in the Budget for 2012-13, exemptions were increased for certain sectors,” said the official, adding some of the exemptions might be reviewed.

Power, research and development, skill development, residential houses and capital expenditure on specified businesses and health were some of the areas on which relief was provided in the 2012-13 Budget.

The official said revenue forgone this year on account of various exemptions was expected to be less than last year because of the economy's slowing down, as well as closer scrutiny by the tax department.

The government had to forgo revenue of Rs 51,292 crore in 2011-12 on account of deductions to corporate tax payers. Units located in Special Economic Zones, charitable trusts and institutions, infrastructure facilities, telecommunications services, power generation and distribution companies, undertakings in the small scale sector, and housing projects comprised major beneficiaries from the deductions.

The ministry has set a target of collecting Rs 570,257 crore from direct taxes this year. Despite these collections in the first five months of the current year (April-August) coming to barely 22 per cent of the Budget estimate, the ministry is confident of meeting the target.

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