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Construction cos want tax break back

Withdrawal Of Exemption With Retrospective Effect Has Put An Additional Burden On Cos

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CONSTRUCTION firms have asked the government to repeal the withdrawal of income tax benefits under Section 80IA introduced this fiscal.

Following the withdrawal announced in this year's Union Budget, construction companies are liable to pay full income tax at a rate of 33.66% instead of the minimum alternate tax (MAT) of 11.2% that they were paying. The withdrawal, valid for companies executing civil works and engineering-procurement-construction (EPC) contracts, has adversely affected companies like Gammon, IVRCL, HCC and Simplex Infrastructure. The fact that the amendments would be applicable with retrospective effect from 2000 has made matters worse.

As per the new provisions, only those firms making investments in the project as well as executing it, can avail of the tax benefits. However, if the investing firm enters into a contract with another firm for the purpose of execution of work, it will not be eligible for tax benefits. The companies have also criticised the retrospective nature of the amendments. The companies are liable to pay tax for the contracts they have executed since 2000. "The clarification, being retrospective, will change the economies of EPC companies who priced their services and have taken up works contract on competitive bidding. They have quoted for contracts with the understanding that they were entitled to income tax exemptions," Construction Federation of India president Ajit Gulabchand said. CFI has written to the finance ministry asking for an extension of tax benefits to companies that are not developers and do not invest in a project. It has said that if the tax benefits are at all to be withdrawn, it should not be retrospective of past contracts. The tax would have an adverse impact on local contractors who face stiff competition from a number of foreign contractors in the sector.

According to Gammon India AVP Umesh Gupta, it is unfair to account for past liabilities through current income.