

Biotech SEZ hit by MAT

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The Union Budget proposal to bring SEZs under the purview of the Minimum Alternate Tax is bound to slow down the growth and impact future investments into these zones.

The Finance Minister of India, Mr Pranab Mukherjee, has been criticized for introducing five percent service tax on services provided by hospitals and diagnostic centers in his budget proposal for 2011-12. He also proposed to levy the Minimum Alternate Tax (MAT) of 18.5 percent on profits for both SEZ developers and units. This would be effective from April 2012, the Direct Tax Code (DTC) will also get implemented in the same year.

The Finance Minister justified that such a step was needed "As a measure to ensure equal sharing of the corporate tax liability." Real estate developers and biotech companies that have made large scale investments in SEZs, have condemned the Finance Minister's proposal stating that such a move would lead to either developers/ units opting out or putting their projects on hold, hamper inflow of capital funds and investments and stifle exports from these zones.

Uncertainties

The biotech SEZ community and the industry at large had no expectations from the Union Budget this year, but neither did they imagine that the Finance Minister would bring to the table, steps regressive to their venture plans. An authority from Biocon says, "We were not expecting any change in policy and expected the government to continue the original commitments on the tax holiday as per the SEZ policy." A MAT of 18.5 percent is an exorbitant rate and may force developers and units to rethink their plans and take drastic steps. Developers as well as units will find it difficult to attract investments from private equity and other investors as SEZs would become less attractive. Biotechnology is a capital intensive industry where the gestation period for returns is approximately 10 years. Incentives in the form of tax holidays and

exemptions from the government is but an impetus to bolster growth and production.

Scope for revival

Having faced vehement opposition since February 2011, there have been talks doing the rounds of the Finance Minister considering reviewing the proposal following demands by SEZ developers and units.

Rahul Khullar, Commerce Secretary said that there is a possibility to reverse the decision on MAT as the implication of MAT would hurt the sentiments of SEZ developers as well as SEZ Units. A review of the proposal by the government of India will certainly help the Indian biotech industry significantly.

Industry experts are of the opinion that there is a slim chance that the government, which draws five percent service tax on health services, would reconsider the plight of India's SEZs.

Industry response

The Union Budget has been disappointing for the corporate sector. Not only has the finance minister has increased MAT for the corporate sector, but he also brought SEZs under the MAT ambit. However, today SEZs are lost in the maze of ad-hoc policy and questionable practices.

— **Dr Kiran Majumdar-Shaw**, CMD, Biocon

I was expecting the government to at least increase the time period of the tax exemptions. But the introduction of MAT or any other tax defeats the whole purpose of setting up SEZ. It is almost like the government is going back on its word.

— **Dr SD Ravetkar**, senior director, Serum Institute of India, Pune

Introduction of MAT on SEZs seems to be a retrograde step. From a zero base of no tax, this is going to be a huge burden. From a "No-Tax" regime for certain period, now the Developers and Units will have to pay MAT which would affect their cash-flow and capability for further investment and expansion of projects.

— **Mr Prasanta Biswal**, CEO, International Biotech Park, Pune

It just shows the credibility of the government. The service industry within these SEZs will be badly hit. Units have committed a lot of capital towards their investments in Biotech SEZs. There are a lot of stakeholders involved here and a sudden change in the rules can make calculations go awry. Developers will walk away from projects.

— **Dr Dilip G Tripathi**, MD, Tulip Diagnostics, Goa

MAT will be discouraging for both domestic and foreign companies from venturing into our SEZ. We have just started developing our project which we will complete by December 2011. The tax implementation will discourage tenants to take up space in our GLP labs as well as for units to put up their R&D/ manufacturing on our SEZ.

— **Ms Minakshi Sharma**, AVP — marketing, Mayar Biotech, Gurgaon.

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Nayantara Som in Mumbai