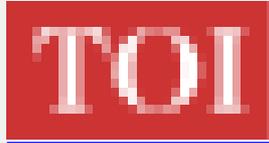


MANY TOP FIRMS ACTUALLY PAY LESS THAN 25% TAX; BIGGEST TAXPAYER RIL PAYS 20%

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Public Finance, Taxation & Black Money incl. Government Budgeting



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An exemption-free [tax](#) rate of 22% — 25.17% including cesses and surcharge — sounds attractive, but an analysis of the tax liability of firms listed in [Sensex](#) suggests more than half have reason to stick to the existing tax regime.

Budget data shows the average effective tax rate (ETR) — taxes as a percentage of pretax profits — for roughly 8.4 lakh firms that filed returns for 2017-18 was just over 29%. A **TOI** analysis of the 21 nonfinancial firms in the Sensex shows only 10 faced an ETR of over 25% in 2018-19. The remaining 11 had an ETR below the 25.17% that they would have to shell out if they migrated to the new regime.

Banks and financial sector firms were excluded from the analysis because their taxes are calculated somewhat differently (mainly because of provisioning) and including them might have distorted the overall picture. After excluding the nine financial sector firms in the sensex, the overall average ETR worked out to 22.9% in 2018-19. But individual ETRs vary widely — from Sun Pharma with a negative tax burden of 13.5%, to Tata Steel, which paid 35% of its pre-tax profits as tax.

The actual tax paid can, however, include refunds for extra tax paid in earlier years or additional liability for deferred taxes (ETR1 in the accompanying graphic). We therefore looked also at the current tax as a percentage of the profit before taxes (ETR2 in the graphic). By this measure, the average for these 21 firms was 25.7%, close to what the new regime would offer.

Again, about half the firms might not have a compelling reason to make the shift. Even firms just over the 25% mark in this chart might think twice since once exemptions are given up they cannot be availed of in future. Having said that, a number of [corporate tax](#) specialists **TOI** spoke to said most large companies would transition to the new regime because over the last several years, exemptions have been whittled down.

Notably, almost all IT firms are below the 25% ETR level — clearly because of tax incentives given to the sector — as is [Reliance](#) Industries, the company paying the highest taxes on this list but with an ETR of barely 20% if one looks at the current tax liability.

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