

Minimum Alternate Tax (MAT)

(Chapter-XIIB {Section 115J/ JAA/ JB})

Objective behind the introduction of MAT:

Normally, a company 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 was introduced.

Background:

The levy of a minimum tax on companies was first introduced through **section 80VVA** by the Finance Act, 1983 w.e.f. A.Y. 1984-85. The method adopted by this section was to place a ceiling on the aggregate quantum of incentives available under various provisions of the Act. However, the unabsorbed incentives were allowed to be carried forward and set off against taxable income in future years.

The concept of tax on book profits was introduced originally under **section 115J** by the Finance Act, 1987 with effect from A.Y. 1988-89 and it was withdrawn with effect from A.Y. 1990-91. Here, the **tax** was levied on 30% of Book Profits.

Subsequently the concept was reintroduced with a few changes, imposing Minimum Alternate Tax (MAT) under **section 115JA** with effect from A.Y. 1997-98 and had effect up to A.Y.2000-01. Here, if the taxable **income** of a company computed under this Act, in respect of any previous year relevant to the assessment year commencing on or after 1.4.97 but before 1.4.2001 is less than 30 % of its book profits, the total **income** of such company, chargeable to tax for the relevant previous year shall be deemed to an amount equal to 30 % of such book profits.

Section 115JB was introduced in Finance Act, 2000 w.e.f. 1.4.2001, whereby, a company shall be liable to pay higher of tax computed under Income Tax Act provisions and tax computed under Sec 115JB.

Applicability:

The provisions of this chapter are applicable only to Companies and not to any other assessee like Individual, HUF, Partnership Firm, etc.

Statutory Provision of Section 115JB as mentioned under Income Tax Act,1961

115JB. (1) Notwithstanding anything contained in any other provision of this Act, where in the case of an assessee, being a company, the income-tax, payable on the total income as computed under this Act in respect of any previous year relevant to the assessment year commencing on or after the 1st day of April, 2010, is less than fifteen per cent of its book profit, such book profit shall be deemed to be the total income of the assessee and the tax payable by the assessee on such total income shall be the amount of income-tax at the rate of fifteen per cent.

*** For calculation of Books Profits refer Annexure I**

Rate of tax u/s 115JB

Tax rate applicable u/s 115JB for various assessment years are as follows:

Period	MAT Rate
A.Y.2001-02 to A.Y.2006-07	7.5%
A.Y.2007-08 to A.Y. 2009-10	10%
A.Y.2010-11	15%
A.Y.2011-12 onwards	18%

Exclusion from applicability of Sec 115JB

w.e.f. 1.4.2005, the provisions of Sec 115JB shall not apply to the income from any business carried on, or services rendered, by an entrepreneur or a Developer, in a Unit or Special Economic Zone.

Report to be furnished u/s 115JB:

Under Sec 115JB(4), every company to which this section applies, shall furnish a report in Form 29B, as prescribed under rule 40B, from an accountant, certifying that the Book Profits has been computed in accordance with the provisions of Sec 115JB. This report has to be accompanied with the return of income filed under Sec 139(1) or 142(1)(i).

MAT Credit Sec 115JAA:

Sec 115JAA provides for calculation and carry forward of MAT Credit in respect of MAT paid u/s 115JB(1) for the assessment year commencing on 1.4.2006 and any subsequent assessment year.

The amount of tax paid under section 115JB is allowed to be carried forward to the extent of the MAT paid in excess of the regular tax and can be set off against tax payable upto the tenth assessment year (w.e.f. 1.4.2010) immediately succeeding the assessment year in which tax credit becomes allowable under the provisions of section 115JAA.

MAT credit shall be allowed to be carried forward as follows:

Finance Act	Period of carry forward
Finance Act, 2005	5 years
Finance Act, 2006	7 years
Finance Act, 2010	10 years

- ❖ The amount of MAT Credit to be carried forward shall be exclusive of Cess and Surcharge.

Working for claiming MAT credit and carry forward of balance unutilized MAT credit :

Year 1:

If TP < MAT	<ul style="list-style-type: none"> • Tax Liability = MAT • MAT (Cr) c/f = MAT – TP
If TP > MAT	<ul style="list-style-type: none"> • Tax Liability = TP as per I.T. Act • MAT (Cr) c/f = NIL

Year 2 and thereafter:

If TP < MAT	<ul style="list-style-type: none"> ❖ There is an Bought Forward MAT(Cr) <ul style="list-style-type: none"> • Tax Liability = MAT • MAT (Cr) c/f = MAT (Cr) b/f +Current Year [MAT – TP]
	<ul style="list-style-type: none"> ❖ There is NO Bought Forward MAT(Cr) <ul style="list-style-type: none"> • Tax Liability = MAT • MAT (Cr) c/f =Current year [MAT – TP]
If TP > MAT	<ul style="list-style-type: none"> ❖ There is an Bought Forward MAT(Cr) <ul style="list-style-type: none"> ➤ <u>If NTP < MAT</u> <ul style="list-style-type: none"> • Adjustable MAT (Cr) = Current Year [TP – MAT] • Tax Liability = TP – Adjusted MAT(Cr) =Current Year MAT • MAT (Cr) c/f = MAT (Cr) b/f – Adjusted MAT (Cr) ➤ <u>If NTP > MAT</u> <ul style="list-style-type: none"> • Tax Liability = NTP • MAT (Cr) c/f = MAT (Cr) b/f
	<ul style="list-style-type: none"> ❖ There is NO Bought Forward MAT(Cr) <ul style="list-style-type: none"> • Tax Liability = TP as per I.T. Act • MAT (Cr) c/f = NIL

Where, MAT = Minimum Alternate Tax

TP = Tax Payable as per Income Tax Act, 1961

NTP = TP – [B/f MAT credit]

Annexure I:**Calculation of Book Profit under Sec 115JB(2)**

Particulars	Amount (Rs.)	Amount (Rs.)
Profit as per P&L A/c (computed as per companies act)		xxx
As Increased by :		
Income tax paid (including Tax on distributed profit u/s 115O, Distribution Tax u/s 115R, education cess, surcharge and interest on income tax)	Xx	
Income tax Payable or Income tax provisions	Xx	
Any transfer to reserve	Xx	
Provisions for unascertained liability	Xx	
Provisions for loss of subsidiary company	Xx	
Dividend Paid/Proposed	Xx	
Expenses relating to exempt income u/s 10 (other than clause 38 of Sec 10)	Xx	
Expenses relating to exempt income u/s 11	Xx	
Expenses relating to exempt income u/s 12	Xx	
Depreciation (As per Companies Act)	Xx	
Amount of Deffered Tax & Provision Thereof	Xx	
Amount or amounts set aside as provision for dimunation in value of asset (to the extent any of above is debited to P & L A/c)	Xx	xx
		xxx
As Reduced by :		
Withdrawal from the reserve or provisions	Xx	
Exempt income u/s 10 (other than clause 38 of Sec 10)	Xx	
Exempt income u/s 11	Xx	
Exempt income u/s 12	Xx	
The amount of loss b/f or unabsorbed depreciation , whichever is less as per books of accounts	Xx	
Profit eligible for deduction u/s 80HHC	Xx	
Profit eligible for deduction u/s 80HHE	Xx	
Profit eligible for deduction u/s 80HHF	Xx	
Profit of sick industrial company	Xx	
Profit of tonnage Tax Company (section-115VO)	Xx	
Depreciation (as per Companies Act) (however excluding depreciation on revaluation of assets)	Xx	
Amount withdrawn from the revaluation reserve to the extent it does not exceed the amount of depreciation on account of revaluation of assets	Xx	
Amount of Deffered Tax , if credited to P & L A/c	Xx	
		(xx)
Book Profits on which MAT is to be calculated		xxx

Disclaimer :

The information contained in this write up is to provide a general guidance to the intended user. The information should not be used as a substitute for specific consultations. We recommend that professional advice is sought before taking any action on specific issues.