



# RAMA UNIVERSITY

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**FACULTY OF COMMERCE AND MANAGEMENT**

**COURSE: B.COM VI SEM.**

**SUBJECT: Corporate Tax Planning**

**SUBJECT CODE: BCH 403**

**LECTURE: 15**

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## LECTURE-15



## **CALCULATION OF 'BOOK PROFITS' FOR THE PURPOSE OF MAT- MAXIMUM ALTERNATE TAX (SECTION 115JB)**

*For Computation of Book Profit, one may proceed as follows : –*

Step 1 - Find out net profit [before other comprehensive income (OCI)] as per statement of profit and loss of the company

Step 2 -Adjustment to Net Profit to Convert it into Book Profit which are given under Explanation 1 to section 115JB(2)

'Book profit' is arrived at after making specified adjustments to the profit as shown in the statement of profit and loss so prepared. These adjustment can be made as per the following steps:—

*Step 1: Assessing Officer's Power to Alter Net Profit :*

Only in the following Two Cases, the Assessing Officer can Rewrite the Profit and Loss Account -

- If Profit and Loss Account is not prepared according to the Companies Act -

If it is discovered that the profit and loss account is not drawn up in accordance with the provisions of the Companies Act, the Assessing Officer can recalculate the net profit. In a case where there is no allegation of fraud or misrepresentation but only a difference of opinion as to the question whether a particular amount should be properly shown in the profit and loss account or in the balance sheet, the provisions of section 115JB do not empower the Assessing Officer to disturb the profit as shown by the assessee.

- If Accounting Policies, Accounting Standards or Rates or Method of Depreciation are Different -

According to the first proviso to section 115JB(2), the accounting policies, the accounting standards adopted for preparing such accounts, the method and rates of depreciation which have been adopted for preparation of the profit and loss account laid before the annual general meeting, should be followed while preparing profit and loss account for the purpose of computing book profit under section 115JB.

Some companies follow an accounting year under the Companies Act which is different from financial year (i.e., previous year ending March 31) under the Income-tax Act. These companies

generally prepare two sets of accounts—one for the Companies Act and another for the Income-tax Act. Different accounting policies/ standards, and method or rate of depreciation are adopted in two sets of account so that higher profits is reported to shareholders and lower profit is disclosed to tax authorities.

To curb the aforesaid practice, second proviso to section 115JB(2) has been incorporated to ensure that accounting policies, accounting standards, depreciation method and rates of depreciation for two sets of account shall be the same. In case it is not so, the Assessing Officer can recalculate net profit after adopting the same accounting policies, accounting standards and depreciation method and rates which have been adopted for reporting profit to shareholders.

Step - 2 : Adjustment to Net Profit to Convert it into Book Profit

(A). *Positive Adjustment* : Amount to be Added Back if Dedibted to Profit and Loss Account :

1. Income-tax paid or payable and the provisions Income-tax, interest under the Income-tax Act, dividend therefor
2. Amounts carried to any reserves, by whatever name called
3. Amount or amounts set aside to provisions made for meeting liabilities, other than ascertained liabilities
4. Amount by way of provision for losses of subsidiary companies
5. Amount or amounts of dividends paid or proposed
6. Amount of expenditure relatable to certain incomes (if such income is not subject to minimum alternate tax)
7. (From the assessment year 2007-08), the amount of Depreciation
8. Amount of deferred tax and the provisions therefor and the amount or amounts set aside as provision for diminution in the value of any asset.
  - A. Amount standing in revaluation reserve relating to revalued asset on the retirement or disposal of such asset
  - B. Amount of income/loss in the case of units referred to in section 47(xvii)

(B). *Negative Adjustments* - Amount to be Deducted from Net Profit :

9. Amount withdrawn from reserves or provisions, if any such amount is credited to the profit and loss account.
10. Income exempt from tax :
  - The following income, if credited to profit and loss account, shall be deducted—

- long-term capital gain exempt under section 10(38) for the assessment years 2005-06 and 2006-07;
  - income exempt under section 10(23G) up to the assessment year 2004-05;
  - income exempt under other clauses of section 10;
  - income exempt under sections 10A and 10B up to the assessment year 2007-08;
  - income exempt under sections 11 and 12;
  - share of profit from an AOP on which no income-tax is payable in accordance with the provisions of section 86 (applicable from the assessment year 2016-17);
  - (in the case of a foreign company) interest, royalty or technical fees chargeable to tax under sections 115A to 115BBE, or capital gain arising on transactions in securities, if income-tax payable in respect of these incomes under normal provisions (other than provisions governing MAT) is less than the rate of MAT (applicable from the assessment year 2016-17); and
  - royalty in respect of patent chargeable to tax under section 115BBF.
11. Depreciation (other than because of revaluation of assets) debited to profit and loss account (applicable from the assessment year 2007-08 onwards)
  12. Amount withdrawn from revaluation reserve credited to profit and loss account to the extent it does not exceed the amount of depreciation on account of revaluation of assets [applicable from the assessment year 2007-08].
  13. Aggregate amount of unabsorbed depreciation and loss brought forward in case of a company against whom an application for corporate insolvency resolution process has been admitted by the Adjudicating Authority under section 7/9/10 of the Insolvency and Bankruptcy Code (applicable from the assessment year 2018-19)
  14. Amount of loss (before depreciation) brought forward or unabsorbed depreciation, whichever is less, as per books of account [not being a company which is covered by Item 12A (supra)]
  15. Amount of profit eligible for deduction under sections 80HHC, 80HHE and 80HHF
  16. Profit of sick industrial unit
  17. The amount of deferred tax, if any such amount is credited to the profit and loss account.
  18. Amount of income/loss in the case of units referred to in section 47(xvii)