



# 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: 18**

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## LECTURE-18



## **MINIMUM ALTERNATE TAX (MAT) [SECTION 115JB]**

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A MAT was introduced for the first time in the AY 1988-89. It was felt that due to various concession provided in Tax Laws big corporate groups become zero tax companies. Therefore, to counter this, as system of MAT was introduced.

*The there is a difference between Two Profits i.e. Regular Profit and Book Profit.*

1. Regular Profit is the profit computed by applying the provisions of Tax Laws. Whereas Book Profit is computed on the basis of Schedule VI of the Companies Act, 1956.
2. Rate of Depreciation is different in Tax Law and Companies Act.
3. In Tax Laws real income is computed, whereas in Companies Act, deductions are allowed for provisions and reserves also which leads to computation of not real income but conservation income.
4. Tax Laws allowed various incentives and deductions from Profits like deduction u/s 80IA , 80IB. This is not so in computation of Book Profit under the Companies Act.

1. Provision of MAT ( Minimum Alternate Tax) for payment of Tax by certain Companies [Section 115JB]

Tax payable for any Assessment year Cannot be Less than 18.5% of Book Profit:

Where in the case of a company, the income-tax payable on the total income as computed under the Income-tax Act, in respect of previous year relevant to the assessment year 2012-13 or thereafter is less than 18.5% 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 (book profit) shall be the amount of the income-tax at the rate of 18.5%.

Thus in case of a company income tax payable shall be higher of the following two amounts:

1. Tax on total income computed as per the normal provisions of the Act by charging applicable normal rates and special rates if any income included in the total income of the company is taxable at special rates.
2. 18.5% of book profit

MAT Rate to be 9% instead of 18.5% in case of a Unit Located in an International Financial Services Center [Section 115JB(7)]

Notwithstanding anything contained in section 115JB(1), where the assessee referred to therein, is a unit located in an International Financial Services Center and derives its income solely in convertible foreign exchange, the provisions of section 115JB(1) shall have the effect as if for the words "eighteen and one-half per cent" wherever occurring in that sub-section, the words "nine per cent" had been substituted.

Provisions of Section-115JB not to apply in certain cases..

The provisions of section 115JB shall not apply in case of the following:

1. Any income accruing or arising to a company from life insurance business referred to in section 115B [Section 115JB(5A)].
2. A foreign company, if—
  - i. the assessee is a resident of a country or a specified territory with which India has an agreement referred to in section 90(1) or the Central Government has adopted any agreement under section 90A(1) and the assessee does not have a permanent establishment in India in accordance with the provisions of such agreement; or
  - ii. the assessee is a resident of a country with which India does not have an agreement of the nature referred to in clause (i) and the assessee is not required to seek registration under any law for the time being in force relating to companies.

2. Book Profit - How to Determine [Section 115JB]

(A). *Positive Adjustment* : Amount to be Added Back if Deducted 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)

### 3. Analysing Computation Of Total Income And Book Profit

#### 4. Minimum Alternate Tax (MAT) Rates for the A.Y. 2018-19 and 2019-20

##### **Assessment Year 2018-19**

	<i>Domestic Company</i>		<i>Foreign Company</i>	
If Book Profit does not exceed Rs. 1 Crore :	IT	18.5 (Note-1)	IT	18.5 (Note-1)
	SC	-	SC	-
	EC+SHEC	0.555	EC+SHEC	0.555
	TOTAL	19.055	TOTAL	19.055
If Book Profit is in the range of Rs.1 Crore – Rs.10 Crore	IT	18.5 (Note-1)	IT	18.5 (Note-1)
	SC	1.295	SC	0.37
	EC+SHEC	0.59385	EC+SHEC	0.5661
	TOTAL	20.38885	TOTAL	19.4361
If Book Profit exceed Rs. 10 Crore	IT	18.5 (Note-1)	IT	18.5 (Note-2)

	SC	2.22	SC	0.925
	EC+SHEC	0.6216	EC+SHEC	0.58275
	TOTAL	21.3416	TOTAL	20.00775

**Assessment Year 2019-20**

	Domestic Company		Foreign Company	
If Book Profit does not exceed Rs. 1 Crore :	IT	18.5 (Note)	IT	18.5 (Note)
	SC	-	SC	-
	EC+SHEC	0.74	EC+SHEC	0.74
	TOTAL	19.24	TOTAL	19.24
If Book Profit is in the range of Rs.1 Crore – Rs.10 Crore	IT	18.5 (Note)	IT	18.5 (Note)
	SC	1.295	SC	0.37
	EC+SHEC	0.7918	EC+SHEC	0.7548
	TOTAL	20.5868	TOTAL	19.6248
If Book Profit exceed Rs. 10 Crore	IT	18.5 (Note)	IT	18.5 (Note)
	SC	2.22	SC	0.925
	EC+SHEC	0.8288	EC+SHEC	0.777
	TOTAL	21.5488	TOTAL	20.202

Note -1 :

*9%, if the assessee is a unit located in an International Financial Services Centre and derives its income solely in convertible foreign exchange.*

Note -2 :

*If book profit of a company exceeds Rs. 1 crore but does not exceed Rs. 10 crore, the minimum alternate tax cannot exceed the following: (Rs. 18.5 lakh + book profit - Rs. 1 crore) + (EC + SHEC) or HEC. If, however, book profit exceeds Rs. 10 crore, the minimum alternate tax cannot exceed the following —*

*a. in the case of domestic company, (Rs. 197.95 lakh + book profit - Rs. 10 crore) + (EC + SHEC) or HEC;*

*or*

b. in the case of a foreign company, (Rs. 188.7 lath + hook profit — Rs. 10 crore) + (EC + SHEC) or HEC.

5. Surcharge : on Minimum Alternate Tax (MAT) / Alternate Minimum Tax (AMT)

<i>If Total Income is in the range of &gt;&gt;&gt;</i>	<i>0— Rs 50 lakh</i>	<i>Rs. 50 lakh- 1 Crore</i>	<i>Rs. 1 Crore Rs. 10 Crore</i>	<i>Above Rs. 10 Crare</i>
- Individuals/HUF/AOP/BOI/ Artificial Juridical Person	<i>Nil</i>	10%	15%	15%
- Firm/Co-Operative Society / Local Authority	<i>Nil</i>	<i>Nil</i>	12%	12%
- Domestic Company	<i>Nil</i>	<i>Nil</i>	7%	12%
- Foreign Company	<i>Nil</i>	<i>Nil</i>	2%	5%