"MINIMUM ALTERNATIVE TAX (MAT)"

Section 115JB: *"MINIMUM ALTERNATIVE TAX"* :-

(1) - *Notwithstanding anything contained in any other provisions of the Income-tax Act,*
- Where in case of a ***company*,**
- the income tax payable on the total income as computed under the Income-tax Act
- is less than ***15% of book profit***,
- such book profit shall be deemed to be the total income of the assessee and
- the tax payable on such total income shall be the amount of income tax @ **15%.**

Exams oriented approach for the aforesaid provision of section 115JB:-

It over-rides the other provisions of the I.T. Act.

It is applicable in case of ALL companies (whether public / private / Indian / Foreign# / Banking / Insurance / Electricity / Govt. company, etc.)

If……

Income tax payable (under normal provisions)	: ✓	<	*15 % of Book Profit	: ✓
(+) Surcharge (as applicable)	: ✓		(+) Surcharge (as applicable)	: ✓
(+) Health & Education cess @ 4%	: ✓		(+) Health & Education cess @ 4%	: ✓
	—			—

then

Book Profit →
- **shall be deemed to be the total income; and**
- × **15%*** (+ Surcharge, as applicable + Edu. cess) = ….. **Final payable sum (✓)**

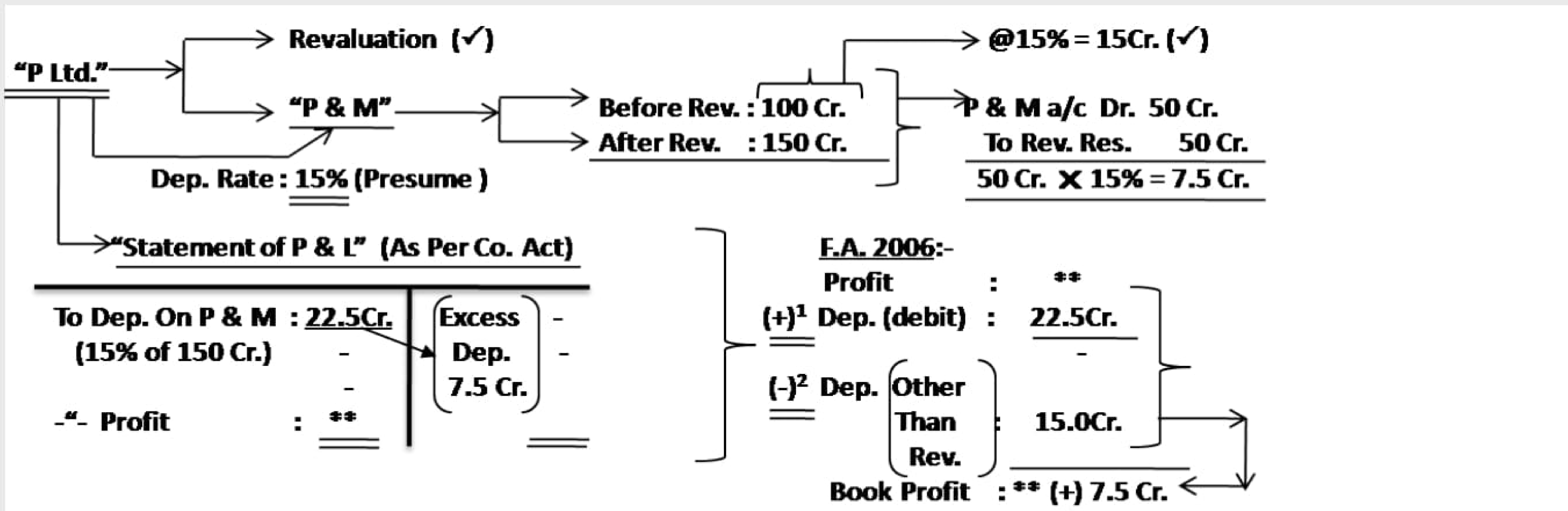
*If Company →
- is **located in International Financial Service Centre**
- **and**
- derives income solely in convertible foreign exchange

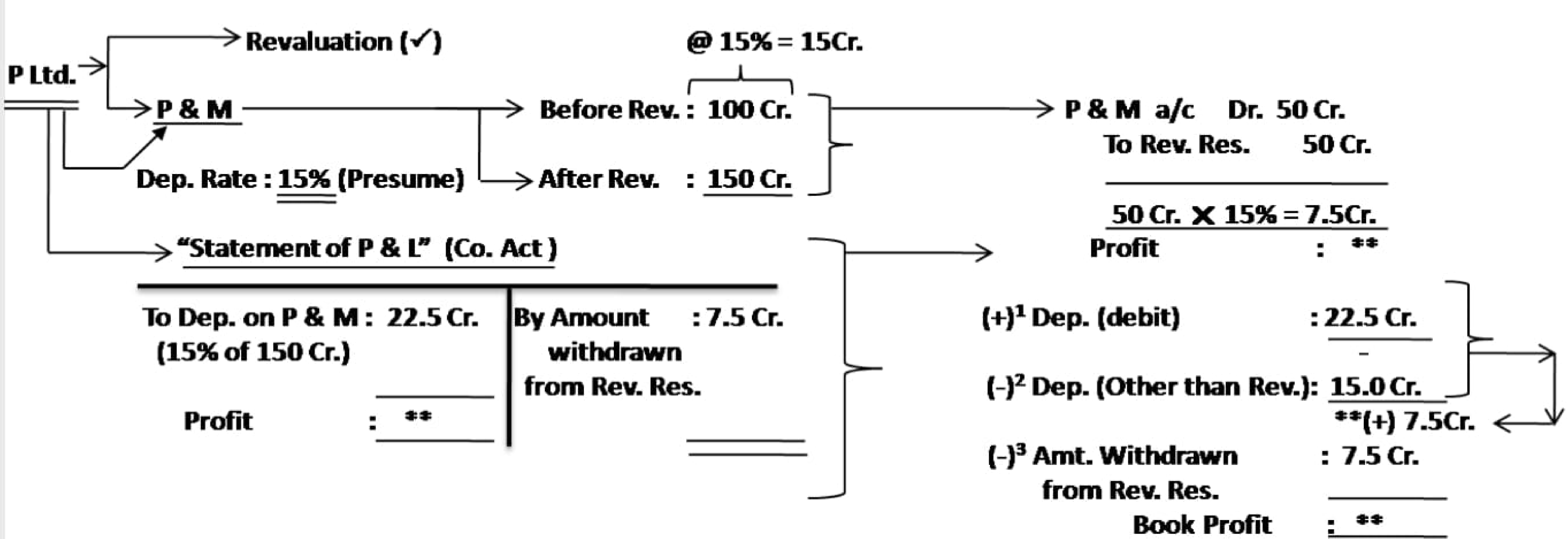
then → **Rate shall be 9%** (Instead 15%).

MAT Provisions shall not apply *to a foreign company* →
- **If it is a resident of country / territory with which….**
  - **India has DTAA** but such foreign company **does not have permanent establishment in India.**
  - **OR**
  - **India does not have DTAA** and such foreign company is **not required to seek registration under any law.**
- **OR**
- **If its total income comprises solely of income of business as referred to in section 44B, 44BB, 44BBA, or 44BBB, and** ***such income has been offered to tax as per the rates of those sections.***

(2)	"COMPUTATION OF BOOK PROFIT"	
As per Explanation 1 to section 115JB, Book profit MEANS –		
	Profit as shown in statement of Profit and Loss	-
ADD: Following items *if these are debited in Statement of profit and loss:*		
(1)	**Income tax** (whether paid / payable / provision thereof) **including Interest charged under Income tax Act,** surcharge & cess.	+
	EXPLANATORY REMARKS:- (i) **Any other tax** *like* securities transaction tax, commodities transaction tax, etc. **will not be added.** (ii) **Interest charged under any other Act, and penalty of any Act** *even of I.T. Act* **will not be added.**	
(2)	**Deferred tax** (including provision their of)	+
(3)	Amount of **dividend paid / proposed** (whether relates from equity / preference shares)	+
(4)	**Amount transferred to ANY reserves** (whether general / statutory / made as per direction of RBI)	+
(5)	**Provision for unascertained liabilities** (*like,* provision for contingency, provision for gratuity on adhoc basis etc.)	+
	EXPLANATORY REMARK: **Provision for ascertained liabilities** (*like* provision for gratuity on actuarial valuation basis, provision for leave encashment / warranty, etc. made on scientific/rational basis), **will not be added.**	
(6)	**Provision for diminution in value of any asset** (*like,* **provision for bad debt**, provision as per AS-13 / AS-28, etc.) [It may be noted that actual amount of bad debt (as debited) will not be added back]	+
(7)	**Losses (including provision their of) of subsidiary company**	+
(8)	**Expenditure related to income exempt u/s 10/11/12**	+
(9)	**Expenditure related to** income i.e. **member's share** in income of AOP/BOI, which is exempt u/s 86	+
(10)	– Expenditure incurred by **foreign company** on earning of – **Capital gain relating to securities, dividend, interest, royalty or fees for technical services** – *if otherwise applicable tax rate on such income is less than MAT Rate (15%).*	+
(11)	Expenditure related to **royalty income from patent** which is taxable at concessional rate u/s 115BBF	+
(12)	**Depreciation** (in totality as debited to profit & loss)	+
		✓
ADD:	**Amount standing in revaluation reserve on retirement or disposed of such revalued asset,** ***if not credited to statement of profit & loss***	+
		✓

LESS: Following items *if these are credited in Statement of P&L [Except item (7), (9) & (10)]:*		
(1)	Amount **withdrawn from any reserve** / provision subject to the condition that book profit has been increased by the amount transferred to such reserve *in the year of creation of such reserve / provision*	–
(2)	**Deferred tax**	–
(3)	**Income** which is **exempt u/s 10 / 11 / 12** **EXPLANATORY REMARK:** ➢ Income covered u/s **10AA / under Chapter VI-A** (*like,* section 80IA, etc.) **shall not be reduced.**	–
(4)	Income i.e**. member's share in Income of AOP/BOI which is exempt u/s 86**	–
(5)	– Income of **foreign company** by way of – **capital gain relating to securities, dividend, interest, royalty or fees for technical services** – ***if otherwise applicable tax rate on such income is less than MAT Rate (15%).***	–
(6)	**Royalty income from patent** which is chargeable to tax at concessional rate @ 10% u/s 115BBF	–
(7)	Depreciation debited **(excluding relating to revaluation component) to statement of P&L**	–
(8)	**Amount withdrawn from revaluation reserve (to the extent of depreciation relating to revaluation component)**	–

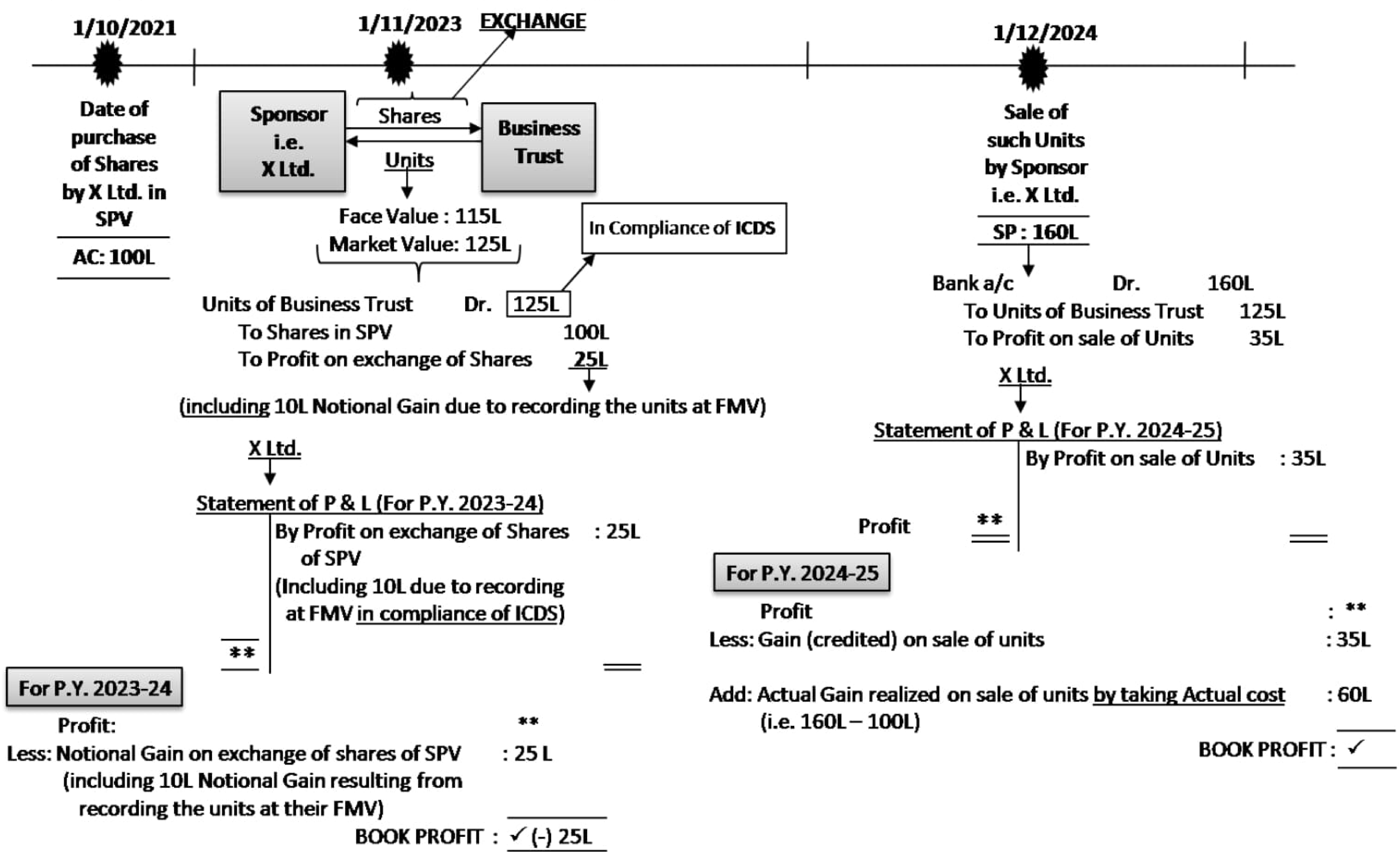




(9)	**Brought forward loss (other than depreciation) or unabsorbed depreciation,** whichever is less, **as per books of account (not as per I.T. Act)**	–
	✓ Aforesaid loss / unabsorbed depreciation shall be considered **on cumulative basis.**	
	EXCEPTION: *In the following two cases,* ***aggregate amount of brought forward loss (other than depreciation) or unabsorbed depreciation, shall be allowed as deduction in computing book profit:*** **(A)** *In case of a company against whom application for corporate insolvency process under the Insolvency and Bankruptcy Code, 2016 has been admitted by the Adjucating Authority (NCLT).* **(B)** In case of a company, and its subsidiary and the subsidiary of such subsidiary, *where, the National Company Law Tribunal, on an application moved by the Central Government u/s 241 of the Companies Act, 2013 has suspended the Board of Directors of such company* ***and*** *has appointed new directors who are nominated by the Central Government, u/s 242 of the said Act.*	
(10)	**Profit of sick industrial company** (upto the previous year in which Net worth ≥ Accumulated loss)	–
		✓

SPECIAL ADJUSTMENTS RELATING TO ALLOTMENT & TRANSFER OF UNITS OF BUSINESS TRUST:

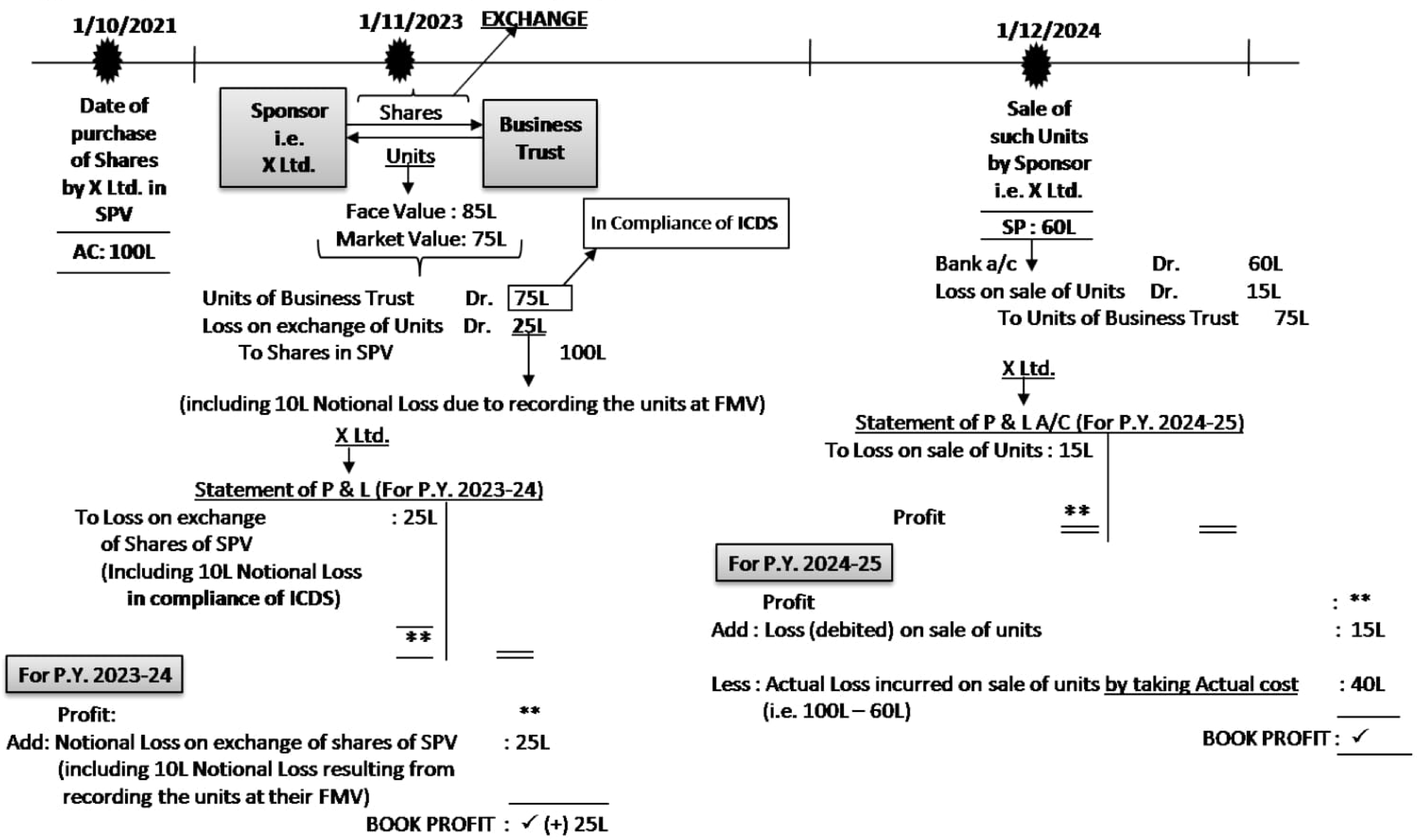
Suppose , Sponsor i.e. shareholder (being a company) is X Ltd.



LESS:	(i) **Notional gain** (including from recording such units at FMV) **credited on exchange of shares of SPV with units** *as allotted by business trust*	–

LESS:	(ii) **Gain on actual sale credited in statement of Profit & Loss** (i.e. Sale price of units – FMV of units in books as cost)	–
ADD:	(iii) **Actual gain realized on actual sale of such units** (i.e. Sale price of units – Cost of shares of SPV exchanges with such units, as cost of such units)	+

Suppose, Sponsor i.e. shareholder (being a company) is X Ltd.



ADD:	(i) **Notional loss** (including from recording such units at FMV) **debited on exchange of shares of SPV with units** *as allotted by business trust*	+
ADD:	(ii) **Loss on actual sale debited in statement of profit & loss** (i.e. Sale price of unit – FMV of units in books at cost)	+
LESS:	(iii) **Actual loss incurred on actual sale of such units** (i.e. Sale price of units – Cost of shares of SPV exchanged with such units, as cost of such units).	–
	BOOK PROFIT (except for IndAS compliant company):	✓

ADDITIONAL EXPLANATORY REMARKS (w.r.t. calculation of book profit):-

(1)	**If incomes chargeable under other heads of income (like CG, I/O/S, etc.) are credited in Statement of profit and loss, then these will not be excluded from Profit.**
(2)	**It may additionally be noted here that no exemption u/s 54 to 54GB or Deductions under Chapter VI-A (i.e. 80C to 80U) will be allowed in computing Book Profit. [N. J. JOSE & Co. (P) Ltd. (Ker.)]**

Contrary Ruling:

In the case of **CIT v/s Metal and Chromium Plater (P) Ltd.,** the **Madras High Court** has held that sub-section (5) of section 115JB allows for application of all other provisions contained in the Income-tax Act *except specifically barred by that section itself.* **Thus, the "book profit" would be further eligible to the benefits set out in the other provisions of the Act,** accordingly, held that *capital gain which form parts part of the net profit in the statement of profit and loss, in respect of which exemption u/s 54EC is available, should not be taken into account for calculation of minimum alternative tax on book profits u/s 115JB.*

In view of this ruling, such exempted capital gain will not form part of book profit.

Additional adjustments for IndAS compliant company:

Since **Ind AS,** inter alia, in certain cases as part of recognition and measurement principles, **requires adoption of fair value accounting.** *It may lead to recognition of income / (gains) or expenses / (losses) in accounting or determining profit otherwise than on historical cost basis and the one which has neither accrued or nor realized or incurred. In their case, thus, book profit is likely to be different compared to companies pursuing AS. Therefore,* **for company following Ind AS, Book Profit shall be computed in the following manner –**

Step 1	**Find out net profit [before other comprehensive income (OCI)] as per statement of profit and loss.**
Step 2	Make adjustment which are given under the **existing provisions** u/s 115JB(2) [i.e. Normal adjustments].
Step 3	**Make further adjustment pertaining to OCI items that will be permanently recorded in reserves (i.e. never to be reclassified to the statement of profit and loss).**

These items **shall be included in book profit** for MAT purpose at the point of time as follows:

Different Items	**Point of time**	**Reason**
➢ **Changes in revaluation surplus of PPE (Property, Plant or Equipment) and intangible assets (Ind AS 16 and Ind AS 38)**	– Revaluation reserve credited / debited to other comprehensive income **shall not be adjusted in the book profit in which it is debited or credited.** – **It shall be included in book profit of the year *in which such asset is retired, disposed, realised / otherwise transferred.***	**Profit is not actually realised, or loss does not arise;** **Taxability arises in the year of realization.**
➢ **Gains and losses from investments in equity instruments designated at fair value through OCI (Ind AS 109)**	– Gain / loss from such investments credited / debited to other comprehensive income **shall not be adjusted in the book profit in which it is debited or credited.** – **It shall be included in book profit of the year *in which the investment is realised, retired or disposed.***	**Profit is not actually realised, or loss does not arise;** **Taxability arises in the year of realization.**

	➢ **Remeasurements of defined benefit plans (Ind AS 19)** ➢ **Any other item**	To be included in book profits every year as the remeasurements gains and losses arise. <u>In other words,</u> Gain – Add in Book Profit Loss – Deduct from Book Profit.	**In As, it is recognised to P&L.** **However,** <u>as per Ind AS</u>, **this is non-reclassification adjustment (i.e. such gain / (loss) is not recognised in P&L).**

<u>**Transitional adjustment:**</u>

- ➢ In a case where a company adopts Ind AS for the first time, the adjustments arising on account of transition to Ind AS are required to the recorded directly in other equity.
- ➢ <u>In computing book profit of the year of convergence (i.e. year of transition) and each of the following four years</u>, **1/5 of transition amount will be added each year** (if credit balance of transition amount has been given). Conversely, **1/5 of transition amount will be deducted each year** (if debit balance of transition amount has given).

Explanation:

(i) **"Transition amount" means** the amount or the aggregate of the amounts adjusted in the other equity *(excluding capital reserve and securities premium reserve)* on the convergence date **but not including the following:—**

(A) Amount or aggregate of the amounts adjusted in the other comprehensive income on the convergence date *which shall be subsequently re-classified to the profit or loss;*

(B) *Revaluation surplus for assets* in accordance with the Indian Accounting Standards 16 and Indian Accounting Standards 38 adjusted on the convergence date;

(C) *Gains or losses from investments in equity instruments designated at fair value* through other comprehensive income in accordance with the Indian Accounting Standards 109 adjusted on the convergence date.

(ii) **Convergence date means** the *first day of the previous year in which such company adopts Ind AS first time (i.e. such transition to Ind AS has been done)*

REMAINING PART OF SECTION 115JB:

Sub sec. (3) & (5)	*Save as otherwise provided in this section,* ***all other provisions such as relating to carry forward & setoff of losses, advance tax, interest u/s 234B, 234C and penalty, etc. shall apply to company*** *even if it is liable for MAT.* <u>Meaning there by</u>, company liable to pay MAT is required to pay advance tax and in case of failure, will be liable to pay interest u/s 234B and 234C. **[JCIT v/s Rolta India Ltd. (2011)[SC]**
(4)	***Report of C.A.*** *certifying correct book profit* <u>must be furnished one month prior to the due date of ROI</u> by company liable for MAT.
(5A)	<u>Any income of a company from life insurance business</u> **will not be liable for MAT.**

Section 115JAA: *MAT CREDIT:-*

Where any tax is paid u/s 115JB by a company *for any assessment year* then credit shall be allowed to such company in the following manner-

Credit shall be allowed of …..	***Tax paid u/s 115JB (-) Tax payable as per normal provisions of the Act.***
Maximum period for C/F & setoff	***15 years succeeding to the P.Y. in which such MAT has been paid.***
Extent to which credit can be claimed in a particular year	***"Normal tax payable (less) Tax payable as per MAT provision"*** ☞ *No interest* shall be payable on tax credit.
If company is entitled to foreign tax credit (i.e. FTC) and which is allowed against MAT [Added by F. A. 2017]	***In this case, MAT credit shall not be allowed to be carried forward up to the following extent:*** **The amount of foreign tax credit (FTC) allowed against MAT** ***Less*** **FTC allowable against the tax computed under normal provisions.**

✓ **Identical amendments, relating to Foreign Tax Credit as well as of extension in limitation period, have been made in section 115JD (which deal with AMT CREDIT).**

CHAR\TS for Basic Provisional understanding– To Be Discussed In Class:

MAT CREDIT:-
"A Ltd."

A.Y. →	"2021-22"	"2022-23"	"2023-24"	"2024-25"	"2025-26"
⇨ Tax as per Normal Provision :	10,000	1,40,000	40,000	1,20,000	25,000
⇨ "MAT" :	1,00,000	25,000	90,000	80,000	40,000
⇨ "Payable Sum" :	1,00,000	1,40,000	90,000	1,20,000	40,000
⇨ Extra burden (Brought Forward) :	–	90,000	–	50,000	10,000
⇨ Extra burden (Adjust) :	–	90,000	–	~~50,000~~ 40,000	NIL
⇨ Extra burden (To be C/F) :	90,000	NIL	50,000	10,000	10,000 [2038-39] 15,000 [2040-41]
⇨ Final payable sum:	1,00,000	50,000	90,000	80,000 ~~70,000~~	40,000

Credit of what :-

⟹ MAT (-) Normal Tax payable = ……..

⟹ 1,00,000 - 10,000 = 90,000

"2019-20"
(+)
15 years
2038-39

Credit to the EXTENT of…….

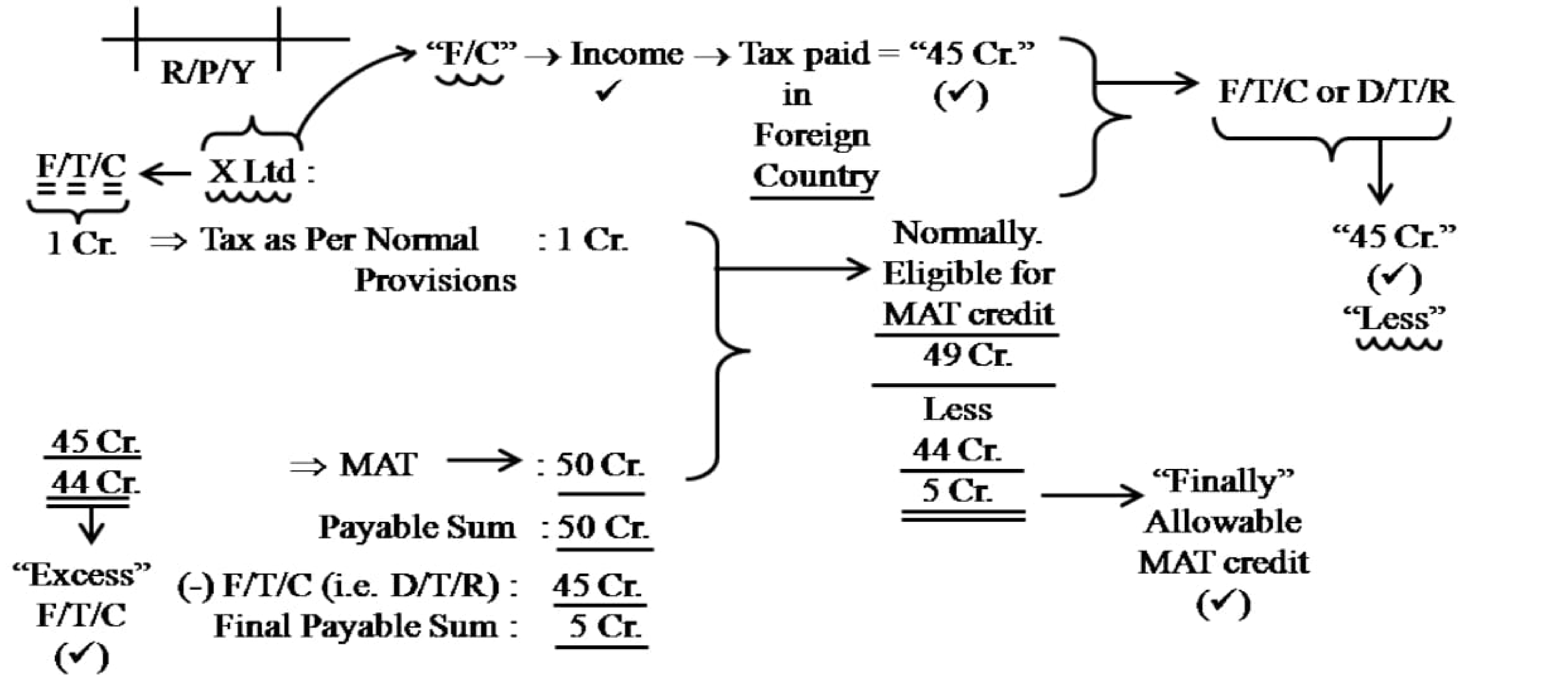
⟹ Normal Tax (-) MAT Payable

⟹ ……. Quantum of Adjustment (✓)

⟹ 1,20,000 - 80,000

⟹ 40,000

Reason for insertion of Finance Act, 2017:

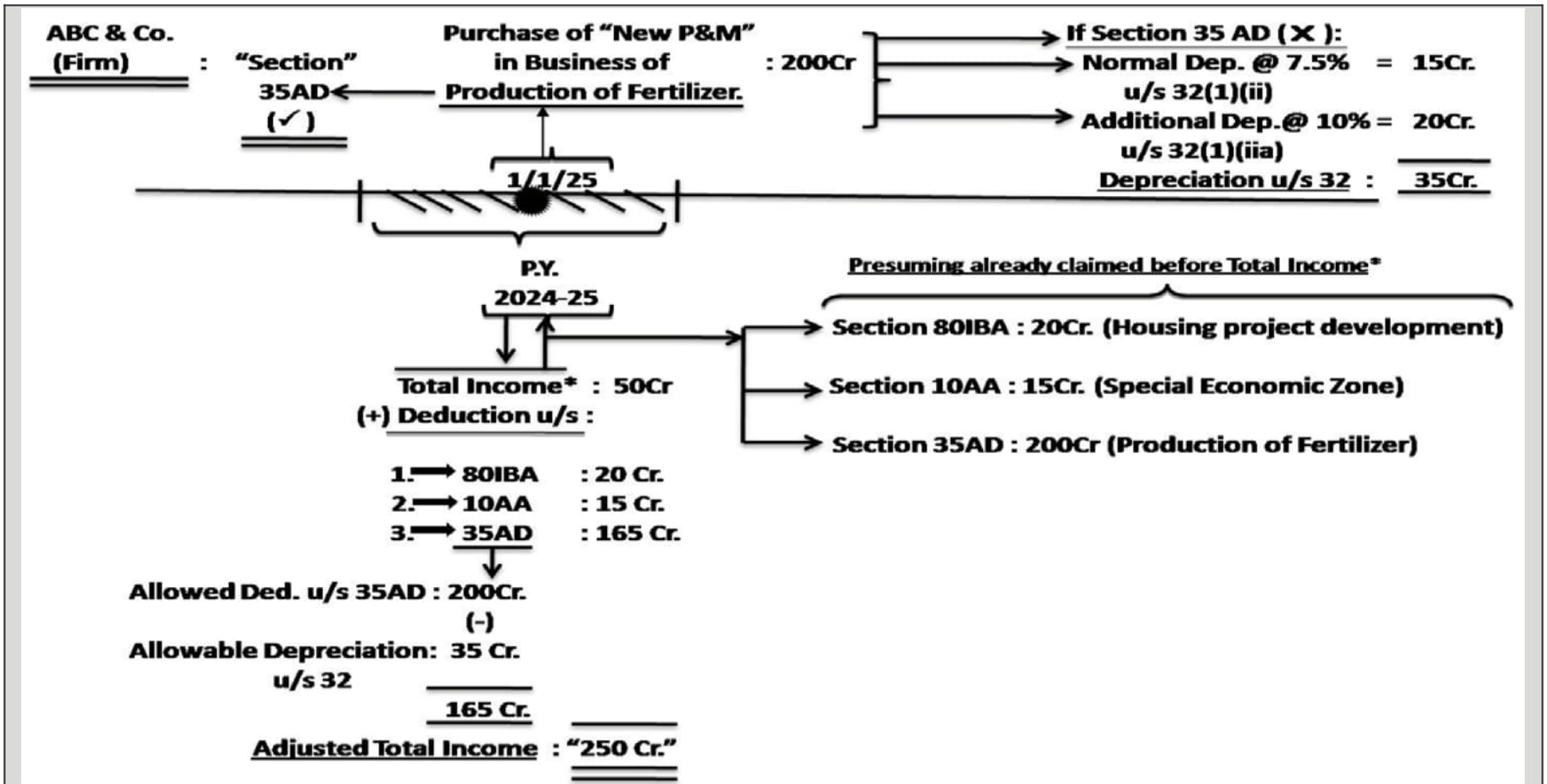


"ALTERNATE MINIMUM TAX FOR PERSON OTHER THAN A COMPANY"

Section 115JC: *Special provisions for payment of tax by certain persons other than company:-*

Eligible assessee	**Any person** ***except company.***
Chargeability	Where, **Regular I.T. payable** (i.e. Tax as per normal provisions) (+) Surcharge (+) Cess, as applicable **<** *** 18.5% of Adjusted Total Income** (+) Surcharge (+) Cess, as applicable in this case **Adjusted TI shall be deemed to be the total income** **&** Adjusted TI × 18.5%* (+) Surcharge & Cess, (as applicable) **will be final payable sum.** *If assessee → is **located in International Financial Service Centre** & derives income solely in convertible foreign exchange then → **Rate shall be 9%** (instead 18.5%) → is Co-operative society: **Rate shall be 15%** (instead 18.5%)
Adjusted Total Income Means…	Total income (as computed as per normal provisions) : ✓ (+) Deduction claimed u/s 80-IA to 80RRB (Except section 80P) : ✓ (+) Deduction claimed u/s 10AA : ✓ (+) Deduction claimed u/s 35AD **as adjusted by** *notional depreciation which would have been allowable* ***in absence of section 35AD*** : ✓ **Adjusted Total Income : ✓**

➢ ***Report of C.A.*** *certifying correct adjusted TI* must be furnished one month prior to the due date of ROI by the assessee liable for AMT.



☞ **AMT as well as AMT Credit Provisions** **shall not apply** ***to a person who pays tax u/s 115BACor who opts for lower tax regime u/s section 115BAD/115BAE.*** **As inserted by the Finance Act. 2023**

Section 115JD: *TAX CREDIT FOR ALTERNATE MINIMUM TAX:-*

❖ **Provisions of AMT Credit are similar to MAT Credit as given u/s 115JAA.**

Section 115JE: *Application of other provisions of this Act:-*

➢ *Save as otherwise provided in this Chapter*, all other provisions of this Act shall apply to such person who is liable to pay AMT.

Section 115JEE: *Conditions for Applicability of this Chapter:-*

➢ This Chapter (i.e. AMT provisions) shall apply **only if:**

(1) **Assessee has claimed deduction u/s 80-IA to 80RRB (except section 80P), 10AA, or 35AD, and**

(2) If assessee is Individual / HUF / AOP / BOI / AJP, then ***adjusted total income should also exceed ₹20 Lacs.***

EXPLANATORY REMARKS:-

(a) In case of an assessee (i.e. any non-corporate person) **who has not claimed any aforesaid deduction,** AMT **provisions shall not apply.**

(b) In case of **Individual / HUF / AOP / BOI / AJP**, **even if they have claimed the aforesaid deduction,** ***if adjusted total income does not exceed ₹20Lacs,*** then, **still AMT provisions shall not apply.**

Credit can be claimed ir-respective of the limitations /conditions as given u/s 115JEE (i.e. even if conditions of claim of deduction u/s 80-IA, etc., **and** in case of individual, etc. adjusted TI does not exceed 20Lacs, **are not being fulfilled in the year of claim of credit, still, credit can be claimed**). **[Part of section 115JD]**