

MINIMUM ALTERNATE TAX

SECTION 115JB: BOOK PROFITS

Where in case of a company, **the income-tax payable under normal provisions of the Income-tax Act in respect of any assessment year is less than 15% of its book profits**, such **book profits shall be deemed to be the total income** of the assessee and the **tax payable on such total income shall be computed at the rate of 15%**.

Notes:

- (1) **For a company located in International Financial Services Center** and deriving its income solely in convertible foreign exchange, **the rate shall be 9%** instead of 15%.
- (2) **Section 115JB shall not be applicable to a foreign company, if—**
 - (i) assessee is a resident of a country or a specified territory with which India has a DTAA or TIEA and the assessee does **not have a permanent establishment in India**; or
 - (ii) assessee is a resident of a country with which India does not have DTAA or TIEA and the assessee is **not required to seek registration under any law for the time being in force**.
- (3) **As per Explanation 4A inserted by Finance Act, 2018, section 115JB shall not apply to a foreign company, if its total income solely comprises of profits and gains from business referred in the following provisions and such income or loss is offered to tax at rates specified in those sections:**

Section	Providing for
44B	Special provision for computing profits and gains of shipping business in the case of non-residents.
44BB	Special provision for computing profits and gains in connection with the business of exploration, etc. of mineral oils.
44BBA	Special provision for computing profits and gains of the business of operation of aircraft in the case of non-residents.
44BBB	Special provision for computing profits and gains of foreign companies engaged in the business of civil construction, etc., in certain turnkey power projects.

- (4) **PROVISIONS OF MAT SHALL NOT APPLY TO A COMPANY WHICH HAS OPTED FOR SECTION 115BAA OR SECTION 115BAB.**

SECTION 115JB(2): PREPARATION OF P&L A/c

Every company, shall for the purposes of this section prepare its Profit & Loss Account for the relevant previous year in accordance with the provisions of Schedule III to the Companies Act, 2013.

While preparing the annual accounts including P&L A/c-

- (i) accounting policies;
- (ii) accounting standards adopted for preparing such accounts;
- (iii) method and rates adopted for calculating the depreciation,

shall be the same as adopted for the purpose of preparing such accounts as laid before the company at its annual general meeting.

EXPLANATION TO SECTION 115JB- COMPUTATION OF BOOK PROFITS

"**Book profit**" for the purpose of this section means the net profit as shown in the profit and loss account for the relevant previous year, as INCREASED and DECREASED by certain prescribed items, as tabulated hereunder:

COMPUTATION OF BOOK PROFITS

Particulars	Amount				
Net profit as per statement of profit and loss account	XXX				
ADD: FOLLOWING ITEMS, ONLY IF THEY ARE DEBITED TO PROFIT & LOSS ACCOUNT					
(a) Income tax paid or payable, and the provision thereof	XXX				
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">To be added</th> <th style="text-align: center;">Not to be added</th> </tr> </thead> <tbody> <tr> <td style="padding: 5px;"> 1. Income tax paid/ payable. 2. Provision for income-tax. 3. Interest under Income-tax Act 4. Surcharge and Education Cess </td><td style="padding: 5px;"> 1. Security Transaction Tax 2. Interest under any other Acts 3. Penalties 4. Commodities Transaction Tax </td></tr> </tbody> </table>	To be added	Not to be added	1. Income tax paid/ payable. 2. Provision for income-tax. 3. Interest under Income-tax Act 4. Surcharge and Education Cess	1. Security Transaction Tax 2. Interest under any other Acts 3. Penalties 4. Commodities Transaction Tax	
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(b) Amounts carried to any reserves by whatever name called Note: A. Transfer to reserves is to be added back B. Excess provisions are reserves and are to be added back C. Transfer to reserves under section 10AA, etc. shall be added back	XXX				
(c) Provisions made to meet unascertained liabilities	XXX				
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(d) Provisions for losses of subsidiary companies Note: Even the actual loss of the subsidiary company debited to	XXX				

	Profit & Loss Account shall be added back	
(e)	Dividends paid or proposed	XXX
(f)	Expenditure relatable to income exempt under section 10, section 11 or section 12	XXX
(fa)	Expenditure relatable to, income, being share of the assessee in income of an AOP/ BOI, on which no income-tax is payable under section 86	XXX
(fb)	Expenditure relatable to income accruing or arising to a foreign company, from,— A. capital gains arising on transactions in securities; or B. interest, dividend, royalty or fees for technical services chargeable to tax at the rates given in section 115A, if the income-tax payable thereon is less than 15%	XXX
(fc)	Amount representing: A. notional loss on transfer of shares of a special purpose vehicle to a business trust in exchange of units allotted by the trust referred under section 47(xvii); or B. notional loss resulting from any change in carrying amount of said units or the amount of loss on transfer of units referred under section 47(xvii)	XXX
(fd)	Expenditure relatable to income by way of royalty in respect of patent chargeable to tax under section 115BBF	XXX
(g)	Depreciation debited to Profit & Loss Account(including depreciation on revalued assets)	XXX
(h)	Deferred tax and provision thereof	XXX
(i)	Provision for diminution in the value of any asset Note: Following shall be added back while computing the book profits: A. Provision for bad and doubtful debts as it amounts to provision for diminution in value of assets, namely, debtors. B. Provision for diminution in value of any investment or asset as per AS-13/AS-28.	XXX
(j)	Amount standing in revaluation reserve relating to revalued asset on retirement or disposal of such asset, if such amount is not credited to the Profit & Loss Account	XXX
(k)	Amount of gain on transfer of units referred under section 47 (xvii) computed by taking into account the cost of shares exchanged with such units.	XXX

REDUCE: FOLLOWING ITEMS

(i)	Amount withdrawn from any reserves or provisions Note: Amount withdrawn from any reserve or provision, credited to profit & loss account. The reduction shall be made only if the book profit of the previous year in which such reserve or provision was made, were increased by such reserve or provision under clause (b) above.	(XXX)
(ii)	Incomes which are exempt under section 10, section 11, section 12 Note: Income exempt under section 10AA, and Chapter VI-A, e.g. 80-IA/ 80-IAB/ 80-IAC/ 80-IBA/ 80-IE etc. shall not be reduced.	(XXX)
(iia)	Depreciation debited to Profit & Loss Account(excluding depreciation on revaluation of assets)	(XXX)
(iib)	Amount withdrawn from revaluation reserve and credited to	(XXX)

	P&L A/c, to the extent it does not exceed the amount of depreciation on account of revaluation of assets	
(iic)	Income, being the share of the assessee in income of an AOP/BOI, on which no income-tax is payable under section 86	(XXX)
(iid)	Income accruing or arising to an assessee, being a foreign company, from,— A. capital gains arising on transactions in securities; or B. interest, dividend, royalty or fees for technical services chargeable to tax at the rates specified in section 115A, if the income-tax payable thereon is less than 15%	(XXX)
(iie)	Amount representing,— A. notional gain on transfer of shares of a special purpose vehicle to a business trust in exchange of units allotted by the trust referred under section 47(xvii); or B. notional gain resulting from any change in carrying amount of said units; or C. gain on transfer of units referred under section 47(xvii)	(XXX)
(iif)	Loss on transfer of units referred under section 47(xvii) computed by taking into account the cost of shares exchanged with such units.	(XXX)
(iig)	Income by way of royalty in respect of patent chargeable to tax under section 115BBF	(XXX)
(iih)	the aggregate amount of unabsorbed depreciation and loss brought forward in case of a— A. company, and its subsidiary and the subsidiary of such subsidiary, where, the NCLT, on an application moved by the Central Government has suspended the Board of Directors of such company and has appointed new directors; B. company against whom an application for corporate insolvency resolution process has been admitted by the Adjudicating Authority under the Insolvency and Bankruptcy Code, 2016. Note: “loss” shall not include depreciation.	(XXX)
(iii)	the amount of loss brought forward or unabsorbed depreciation, whichever is less as per books of account in case of a company other than the company referred to in clause (iih). Note: A. Loss shall NOT include Depreciation B. Where LOSS BROUGHT FORWARD or UNABSORBED DEPRECIATION is NIL, nothing shall be deducted	(XXX)
(iv)	Profits of sick industrial company till its net worth becomes zero/ positive	(XXX)
(v)	Deferred tax, if credited to profit & loss account	(XXX)
BOOK PROFITS FOR COMPUTATION OF MAT		XXX

KEY NOTES:

- **Company can carry forward losses and depreciation** to the extent it could have carried forward had section 115JB not there
- **Company to which MAT applies shall be liable to pay advance tax, interest under sections 234A, 234B and 234C.** Company shall also be liable to pay penalty for understatement or misreporting of income

• **Illustration on clause (iih) & (iii) :**

The profit of a company as per Statement of Profit and Loss prepared as per Schedule VI is ₹50,00,000. The brought forward losses and depreciation as per books of account is as under:

	CASE I	CASE II	CASE III
B/f Loss including Depreciation:	11,00,000	11,00,000	11,00,000
B/f Depreciation included in above	2,00,000	8,00,000	NIL

Now for computing the book profits the least of the following shall be reduced from net profits.

	CASE I	CASE II	CASE III
(i) B/f Loss excluding depreciation	9,00,000	3,00,000	11,00,000
(ii) B/f Depreciation	2,00,000	8,00,000	NIL
Amount deductible from net profits	2,00,000	3,00,000	NIL
Book Profits	48,00,000	47,00,000	50,00,000

In case of a company, against whom an application for corporate insolvency resolution process has been admitted under the Insolvency and Bankruptcy Code, 2016: or a company whose directors have been suspended by Central Government and new directors appointed by Central Government.

	CASE I	CASE II	CASE III
Aggregate of unabsorbed depreciation and Loss brought forward (excluding depreciation)	11,00,000	11,00,000	11,00,000
Book Profits	39,00,000	39,00,000	39,00,000

MAT CREDIT

1. MAT credit shall be allowed to be carry forward and set-off upto **15 Assessment Years.**

2. **MAT credit available =**

Tax paid under section 115JB	(-)	Tax payable under the normal provisions of the Act had section 115JB not been there
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3. **MAT credit shall be allowed in the assessment year in which**

Tax payable under the normal provisions of the Act	>	Tax payable under section 115JB
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4. **MAT credit to be allowed shall be**

Tax payable under the normal provisions of the Act	(-)	Tax payable under section 115JB
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5. **The amount of MAT credit will be reduced by the following :**

Foreign Tax Credit allowed against MAT minus Foreign Tax Credit allowed against normal income tax.

6. **In case of conversion of a company into LLP, MAT credit available in hands of company shall not be allowed to LLP.**

APOLLO TYRES LTD. vs. CIT (SC)

Company changed the method of depreciation retrospectively and provided the arrears of depreciation in the current year. The Supreme Court held that A.O. was unjustified in excluding such arrears of depreciation while determining the "book profits" under section 115JB. Where the profit & loss account is prepared in accordance with Parts II and III of Schedule VI to the Companies Act, 1956, the A.O. could not re-compute the profits in the profit and loss account by excluding provisions made for arrears of depreciation. Therefore, the action of A.O. was unjustified.

MALAYALA MANORAMA CO. LTD. (SC)

Where assessee was consistently charging depreciation in its books of accounts at rates prescribed in Income-tax Rules and accounts of the assessee had been prepared and certified as per the provision of Companies Act, 2013, Assessing Officer would not have any jurisdiction under section 115JB to rework net profits of assessee by substituting the rates of depreciation prescribed in Companies Act.

Illustration 1:

- Manufacturing Profit	₹ 500 lakhs
- Cost of shares of SPV in hands of shareholder being company (Acquired on 01.01.2014)	₹ 1,000 lakhs
- Shares of SPV transferred to Business Trust and Business Trust allot 120 lakh unit of face value of ₹ 10/- each (Market value of unit is ₹ 11/- per unit) on 01.01.2022	₹ 1,200 lakhs
- Units are sold by shareholder being Company on stock exchange on 31-03-2023 ₹ 20 per unit	₹ 2,400 lakhs

Accounting Entries in books of shareholder being company in P.Y. 31.3.2022 & P.Y. 31.3.2023

1. Units of Business Trust Dr.	₹ 1,320 lakhs
To Shares in SPV A/c	₹ 1,000 lakhs
To Profit on sale of shares	₹ 320 lakhs

[Units of Businesses Trust are recorded at their FMV since ICDS requires that when security A is exchanged with security B, then security B should be recorded in books of account at FMV of security B]

This profit of ₹ 320 lakhs is exempt in terms of section 47(xvii). This profit of ₹ 320 lakhs comprise of ₹ 200 lakh profits on exchange of shares of SPV of ₹ 1,000 lakhs with units of business trust of ₹ 1,200 lakhs and ₹ 120 lakhs notional gain on recording the units at their FMV.

2. Bank A/c	Dr. ₹ 2,400 lakhs
To Units of Business Trust	₹ 1,320 lakhs
To Profit of sale of Units of Business Trust	₹ 1,080 lakhs

However, for income tax purpose, the cost of these units shall be taken to be cost of shares of SPV and holding period of shares of SPV shall also be considered.

Therefore, for Income tax purposes, the holding period of units shall be from 01.01.2014 to 30.03.2023 and COA of these units shall be taken to be ₹ 1,000 lakhs. If the units are sold on stock exchange and STT has been paid on sale, then the LTCG shall be taxable @ 10% under section 112A. Therefore, long term capital gain of ₹ 2,400 lakhs - 1,000 lakhs = ₹ 1,400 lakhs are taxable @ 10% under

section 112A. But MAT shall be levied on ₹ 1,400 lakhs even if LTCG are taxable @ 10% under section 112A and such LTCG of ₹ 1,400 lakhs shall form part of book profit.

Profit & Loss Account
31.3.2022

Particulars	Amount (₹ in Lakhs)	Particulars	Amount (₹ in Lakhs)
Net Profit	820	Manufacturing Profit Profit on shares sold to Business trust (Includes notional gain of ₹ 120 lakhs on recording units at their FMV in terms of ICDS)	500 320
Total	820	Total	820

Profit & Loss Account
31.3.2023

Particulars	Amount (₹ in Lakhs)	Particulars	Amount (₹ in Lakhs)
Net Profit	1,580	Manufacturing Profit Profit on sale of units	500 1,080
Total	1,580	Total	1,580

31.3.2022
Total Income as per Income Tax Act

Particulars	Amount (₹ in Lakhs)
Income under the Head Profits and Gains of Business or Profession	
Net Profit	820
Less: Profit on Sale of shares to Business Trust exempt under section 47(xvii)	320
Total Income	500

Book Profit as per section 115JB

Particulars	Amount (₹ in Lakhs)
Net Profit as per Profit & Loss Account	820
Add: As per clause (k) of section 115JB	N.A.
Less: As per clause (iie)	
As per Clause (iie) (A) + (B)	320
As per Clause (iie) (C)	N.A.
Book Profit	500

Therefore, no impact of MAT in the year of conversion of shares into units if units are not sold during the year. Notional profit on exchange of shares with units continue to be exempt from MAT.

31.3.2023

Total Income as per I.T. Act

Particulars	Amount (₹ in Lakhs)
Income under the Head Profits and Gains of Business or Profession	
Net Profit	1,580
Less: Profit on sale of units treated separately under the head capital gains	1,080
	500
Income under the head Capital Gains	
Period of Holding (Long Term) 01-01-2014 to 30-03-2023	
Sale Consideration	2,400
Cost of Acquisition (being cost of shares of SPV)	1,000
Long Term Capital Gains taxable @ 10% under section 112A	1,400
Total Income	1,900

Book Profit as per section 115JB

Particulars	Amount (₹ in Lakhs)
Net Profit as per Profit & Loss Account	1,580
Add: As per clause (k) of section 115JB	1,400
Less: As per clause (iie)	
As per Clause (iie) (A) + (B)	Nil
As per Clause (iie) (C)	1,080
Book Profit	1,900

Therefore, Book Profit include the Long Term Capital Gains of ₹ 1,400 lakhs which are taxable @ 10% under section 112A. Therefore, MAT shall be levied on the Long Term Capital Gains of ₹ 1,400 lakhs in the year of transfer of units of Business Trust.

Illustration 2:

Wythe Ltd prepares the following Statement of Profit and Loss for the year ended 31.03.2023:

Expenditures	Amount	Incomes	Amount
Opening stock	32,00,000	Sales	1,40,00,000
Purchases	70,00,000	Closing stock	36,00,000
Salaries	12,00,000	Profit on sale of Plot	90,00,000
Rents and Rates	5,00,000	Exempt income u/s 10	1,50,000
Provision for warranties	8,00,000	Sale of Agricultural Produce	6,90,000
Provision for Diminution in Value of investment	4,00,000	Income of Developer of SEZ from development of SEZ	5,00,000
Provision for losses of subsidiary company	3,75,000	Withdrawal from General Reserve	3,00,000
Collection charges of income exempt u/s 10	50,000	Profits from undertaking located in Assam	9,00,000
Expenses on cultivation	1,10,000		

General Expenses	3,60,000	Profits from business of generation of power LTCG taxable under section 112A	60,00,000
Donation to Mafia Don	1,00,000	Transfer from Revaluation Reserve Account	25,00,000
Penalties	60,000	Share of income from AOP	2,00,000
Secret Commission	1,40,000		
CSR Expenditure	15,000		
Provision For Doubtful Debts	70,000		
Sales tax (not paid)	25,000		
Deferred Tax	30,000		
Customs Duty	1,80,000		
Depreciation	5,95,000		
Provision for Income Tax Interest under Income tax Act	3,00,000		
Provision for unascertained liability	44,000		
Proposed dividend	56,000		
Net Profits	3,30,000		
	2,21,00,000		
	3,80,40,000		3,80,40,000

Additional information:

1. Depreciation as per Companies Act of ₹ 5,95,000 includes depreciation of ₹ 2,00,000 on account of revaluation of assets.
2. Depreciation as per Income-tax Act is ₹ 15,00,000.
3. Plot of land was purchased for ₹ 70,00,000 and is sold for ₹ 3,60,00,000 on 21.01.2023. The entire capital gains have been invested in the units referred to in section 54EC. You are given that capital gains are long term and indexed cost of acquisition of land is ₹ 2,93,77,050.
4. The plot of land was revalued by the company in previous year 31.3.2023 by ₹ 2 crores and therefore appeared in books at ₹ 2,70,00,000. ₹ 2 crores was debited to plot account and credited to Revaluation Reserve. The company in previous year 31.3.2023 on sale of plot of land debited the Revaluation reserve by ₹ 2 crores and credited the said sum to General Reserve.
5. Deduction under section 80-IA is 100% for business of power generation.
6. Deduction under section 80-IE is 100% for the undertaking in Assam.
7. Customs duty is not paid till the due date of filing of return of income.

Answer:

TOTAL INCOME AS PER NORMAL PROVISION OF INCOME TAX ACT

INCOME UNDER HEAD P/G/B/P

Net Profit as per Statement of Profit & Loss	2,21,00,000
Add: Expenses disallowed	
(i) Provisions for warranties (Assuming on Scientific Basis allowed as per Supreme Court in Rotork Control (P.) Ltd.)	NIL

(ii)	Provision for diminution in value of investment	4,00,000
(iii)	Provision for loss of subsidiary company	3,75,000
(iv)	Collection charges of exempt income u/s 10	50,000
(v)	Expenses on cultivation since agricultural income is exempt u/s 10	1,10,000
(vi)	Donation to Mafia Don	1,00,000
(vii)	Penalties	60,000
(viii)	Secret Commission	1,40,000
(ix)	CSR Expenditure	15,000
(x)	Provision for Doubtful Debts	70,000
(xi)	Sales Tax (Not paid)	25,000
(xii)	Deferred Tax	30,000
(xiii)	Custom Duty Disallowed u/s 43B	1,80,000
(xiv)	Depreciation as per books	5,95,000
(xv)	Provision for Income tax	3,00,000
(xvi)	Interest under Income tax Act	44,000
(xvii)	Provision for unascertained liability	56,000
(xviii)	Proposed dividend	3,30,000
		28,80,000
		2,49,80,000

Less:

(i)	Profit on sale of plot assessable as capital gains	90,00,000
(ii)	Income exempt u/s 10	1,50,000
(iii)	Sale of Agricultural produce exempt u/s 10	6,90,000
(iv)	Withdrawal from General Reserve	3,00,000
(v)	Transfer from Revaluation Reserve Account	2,00,000
(vi)	LTCG taxable under section 112A	25,00,000
(vii)	Share of income from AOP exempt under section 86	2,00,000
(viii)	Depreciation as per Income Tax Act	15,00,000
		1,45,40,000
		1,04,40,000

INCOME UNDER HEAD CAPITAL GAINS

LTCG on shares	25,00,000
LTCG on sale of Plot	
Sale Price of plot	3,60,00,000
Less: Indexed Cost of plot	2,93,77,050
	66,22,950
Less: Exempt u/s 54EC	50,00,000
Long Term Capital Gains	16,22,950
	41,22,950

Gross Total Income **1,45,62,950**

Less:	Deduction Under Chapter VI-A	
(i)	u/s 80-IA – 100%	60,00,000
(ii)	u/s 80-IE – 100% of 9,00,000	9,00,000
(iii)	u/s 80-IAB Developer of SEZ – 100%	5,00,000
	Net Taxable Income (Rounded off)	74,00,000
		71,62,950

Tax thereon:

On 24,00,000 @ 10.4%	2,49,600
On 16,22,950 @ 20.80%	3,37,574
On Balance 30,40,000 @ 26%	7,90,400
	13,77,574

COMPUTATION OF BOOK PROFIT AS PER SECTION 115JB

Net Profit as per P & L Account

2,21,00,000

Add:

(i)	Provisions for warranties (Assuming on Scientific Basis allowed as per Supreme Court in Rotork Control (P.) Ltd.)	NIL
(ii)	Provision for diminution in value of investment	4,00,000
(iii)	Provision for loss of subsidiary company	3,75,000
(iv)	Collection charges on exempt income u/s 10	50,000
(v)	Expenses on cultivation since agricultural income is exempt under section 10	1,10,000
(vi)	Provision for Income tax	3,00,000
(vii)	Provision for unascertained liability	56,000
(viii)	Provision for Doubtful Debts	70,000
(ix)	Interest under Income tax Act	44,000
(x)	Proposed dividend	3,30,000
(xi)	Deferred tax	30,000
(xii)	Amount standing in the Revaluation Reserve A/c relating to revalued plot of land since this amount is not credited to Statement of Profit and Loss on sale of asset [As per Clause (j)]	2,00,00,000
(xiii)	Depreciation	5,95,000 2,23,60,000 4,44,60,000

Less:

(i)	Income exempt u/s 10	1,50,000
(ii)	Sale of Agricultural produce exempt under section 10	6,90,000
(iii)	Withdrawal from General Reserve	3,00,000
(iv)	Depreciation excluding depreciation on revaluation of assets [Clause (iiia)]	3,95,000
(v)	Amount transferred from Revaluation Reserve [Clause (iib)]	2,00,000
(vi)	Share of income from AOP	2,00,000
(vii)	Income of Developer of SEZ	NIL 19,35,000
BOOK PROFIT AS PER SECTION 115JB		4,25,25,000
Tax as per section 115JB (16.692% of 4,25,25,000) <i>(Rounded off)</i>		70,98,273
		70,98,270

Therefore Co. shall pay tax of ₹ 70,98,270.

MAT CREDIT AVAILABLE = ₹ 57,20,699

SECTION 115JB: MAT AND IND-AS

(2A) For a company whose financial statements are drawn up in compliance to the Indian Accounting Standards the book profit as computed in accordance with Explanation 1 to sub-section (2) shall be further—

- (a) increased by all amounts credited to other comprehensive income in the statement of profit and loss under the head "Items that will not be reclassified to profit or loss"; (Except gain on PPE, intangible assets and investment in equity instruments).
- (b) decreased by all amounts debited to other comprehensive income in the statement of profit and loss under the head "Items that will not be reclassified to profit or loss"; (Except loss on PPE, intangible assets and investment in equity instruments).

- (c) increased by amounts or aggregate of the amounts debited to the statement of profit and loss on distribution of non-cash assets to shareholders in a demerger in case of demerged company.
- (d) decreased by all amounts or aggregate of the amounts credited to the statement of profit and loss on distribution of non-cash assets to shareholders in a demerger in case of demerged company:

Sl. No.	Items	Point of time
1	Changes in revaluation surplus of Property, Plant or Equipment (PPE) and Intangible assets (Ind AS 16 and Ind AS 38)	To be included in book profits at the time of realisation/ disposal/ retirement or otherwise transferred
2	Gains and losses from investments in equity instruments designated at fair value through other comprehensive income (Ind AS 109)	To be included in book profits at the time of realisation/ disposal/ retirement or otherwise transferred
3	Remeasurements of defined benefit plans (Ind AS 19)	To be included in book profits every year as the remeasurements gains and losses arise
4	Any other item	To be included in book profits every year as the gains and losses arise

Note: The book profits shall be further increased or decreased by 1/5th of the Transition Amount.

(2B) In the case of a resulting company, where the property and the liabilities of the undertaking or undertakings being received by it are recorded at values different from values appearing in the books of account of the demerged company immediately before the demerger, any change in such value shall be ignored for the purpose of computation of book profit of the resulting company under this section.

Illustration:

Zenith Formulations Ltd., an Indian Company engaged in pharmaceutical formulations in Tamil Nadu, started adoption of Ind AS compliance with effect from 1st April, 2019. The following particulars are furnished for the year ended 31st March, 2023:-

- (i) The book profits after adjustments of all items specified in section 115JB(2) amounted to ₹ 52.26 lakhs (except the adjustment for brought forward losses), for the year ended 31.3.2023.
- (ii) Brought forward losses as per books are as under: (₹ In lakhs)

Financial year	Business loss	Depreciation
2018-19	4.60	4.90
2019-20	1.75	2.20

- (iii) The business loss of ₹ 4.60 lakhs and ₹ 1.75 lakhs have been deducted while computing book profits under section 115JB for the assessment years 2021-22 & 2022-23, respectively.

(iv) The particulars of Other Comprehensive Income for the year ended 31.03.2023:

A: Other Comprehensive Income (OCI) that may be re-classified to profit and loss:		Debit	Credit
(i)	Deferred gain Cash flow hedges		5.50
(ii)	Deferred costs of hedging	1.00	
(iii)	Comprehensive income from discontinued operations		4.20
(iv)	Exchange Differences of foreign exchange operations	2.30	
TOTAL		3.30	9.70

B: Other Comprehensive Income (OCI) that will not be re-classified to profit and loss:		Debit	Credit
(i)	Changes in fair values of equity instruments	10.00	
(ii)	Deferred gains on cash flow hedges		7.25
(iii)	Deferred costs of hedging	4.10	
(iv)	Share of other comprehensive income of other associates		3.20
(v)	Re-measurements of post employment benefit obligations		4.45
(vi)	Revaluation surplus for assets		
Total		14.10	22.40

- (v) The transition amount as on convergence date (01-04-2019) stood at ₹ 52.50 lakhs (credit balance) including capital reserve of ₹ 8 lakhs and adjustment of ₹ 4.50 lakhs relating to translation difference in a foreign operation.
- (vi) The National Company Law Tribunal (NCLT), Chennai Bench has admitted an application under section 7 of Insolvency and Bankruptcy Code, 2016(IBC) made by financial creditor against the company for initiation of Corporate Insolvency Resolution Process on 30th March, 2023.
- (1) Compute the MAT liability for the assessment year 2023-24, applying the provisions relating to Ind AS compliant companies.
- (2) Assuming that the income tax under normal provisions of income-tax Act, 1961 for the assessment year 2023-24 works out to ₹ 9.20 lakhs, compute the tax credit, if any, to be carried forward by the company including the period up to which it will be available to be carried forward.

Answer

(1) Computation of MAT liability of Zanith Formulations Ltd. Under section 115JB for A.Y. 2023-24

Particulars	₹	₹
Book profit after adjustment of items under section 115JB(2) [except brought forward business loss and unabsorbed depreciation]		52,26,000
Less: Brought forward business loss ₹4,60,00 + ₹ 1,75,000]		Nil
Unabsorbed depreciation [₹ 4,90,000 + ₹ 2,20,000] [Since Zenith Formulations Ltd. is a company against which an application for corporate	7,10,000	7,10,000

insolvency resolution process has been admitted by NCLT under section 7 of the Insolvency and Bankruptcy Code, 2016, **the aggregate amount of loss brought forward and unabsorbed depreciation is allowed** to be reduced from the book profit for the purposes of levy of MAT under section 115JB. However, the business losses of ₹ 6,35,000 which have been deducted while computing the book profits of assessment year 2021-22 and 2022-23 shall not be deducted again from book profits].

Book profit computed in accordance with Explanation 1 to section 115JB(2)

Add: Items credited to OCI that will not be reclassified to profit or loss:

- (i) Deferred gains on cash flow hedges 7,25,000
- (ii) Share of Other Comprehensive Income of Other Associates 3,20,000
- (iii) Re-measurement of post-employment benefit obligations 4,45,000
- (iv) Revaluation surplus for assets ₹7,50,000 [Book profit not to be increased by revaluation surplus for assets as per proviso to section 115JB(2A)] Nil

45,16,000

Less: Items debited to OCI that will not be reclassified to profit or loss:

- (a) Deferred costs of hedging 4,10,000
- (b) Changes in fair values of equity instruments ₹10,00,000 [Book profit not to be decreased by changes in fair value of equity instruments as per proviso to section 115JB(2A)] Nil

14,90,000

60,06,000

Add: One-fifth to Transition amount [Credit balance]

Transition amount

55,96,000

Less: Amounts to be excluded from above:

Capital Reserve

52,50,000

Transition difference in foreign operations

8,00,000

One-fifth of ₹40,00,000

4,50,000

Book Profit for levy of MAT

MAT on book profit under section 115JB = 15% of ₹63,96,000

40,00,000

ADD: Health & Education cess @ 4%

8,00,000

MAT liability for A.Y. 2023-24

63,96,000

9,59,400

38,376

9,97,776

(2) Computation of tax credit to be carried forward

Particulars	₹
MAT liability for A.Y. 2023-24 (rounded off)	9,97,776
Income-tax computed as per the normal provisions of the Act for A.Y. 2023-24	9,20,000
Since the income-tax liability computed as per the regular provisions of the income-tax Act, 1961 is less than the MAT payable, the book profit would be deemed to be the total income and tax is leviable @ 15%: The	

total tax liability is ₹ 9,97,776.

Computation of tax credit to be carried forward

Tax payable for A.Y. 2023-24 on deemed total income	9,97,776
Less: Income-tax payable as per the normal provisions of the Act	9,20,000
Tax credit in respect of tax paid on deemed income	77,776
[Can be carried forward for 15 Assessment Years i.e., upto A.Y. 2038-39]	

SECTION 115JB(2D): ADJUSTMENT TO BOOK PROFIT

In the case of an assessee being a company, where there is an increase in book profit of the previous year due to income of past year or years included in the book profit on account of an advance pricing agreement entered into by the assessee under section 92CC or on account of secondary adjustment required to be made under section 92CE, the Assessing Officer shall, on an application made to him in this behalf by the assessee, recompute the book profit of the past year or years and tax payable, if any, by the assessee during the previous year under sub-section (1), in such manner as may be prescribed and the provisions of section 154 shall, so far as may be, apply and the period of four years specified in sub-section (7) of that section shall be reckoned from the end of the financial year in which the said application is received by the Assessing Officer:

Provided that the provisions of this sub-section shall apply only if the assessee has not utilised the credit of tax paid under this section in any subsequent assessment year under section 115JAA:

Provided further that the provisions of this sub-section shall also apply to an assessment year beginning on or before the 1st day of April, 2020 and notwithstanding anything contained in any other provisions of this Act, no interest shall be payable to such assessee on the refund arising on account of the provisions of this sub-section.

RULE 10RB: RELIEF IN TAX PAYABLE UNDER SECTION 115JB(1) DUE TO OPERATION OF SECTION 115JB(2D)

- (1) For the purposes of section 115JB(2D), the tax payable by the assessee company under section 115JB(1), for the previous year referred to in that section, shall be reduced by the following amount, namely:—

(A - B) - (D - C), where,

A = tax payable by the assessee company under section 115JB(1) on the book profit of the previous year including the past income;

B = tax payable by the assessee company under section 115JB(1) on the book profit of the previous year after reducing the book profit with the past income;

C = Aggregate of tax payable by the assessee company under section 115JB(1) on the book profit of those past year or years to which the past income belongs;

D = Aggregate of tax payable by the assessee company under section 115JB(1) on the book profit of past year or years, referred to in item C, after increasing the book profit with the relevant past income of such year or years:

Provided that if the value of (A - B) - (D - C) in the formula is negative, its value shall be deemed to be zero.

- (2) For the purposes of sub-rule (1) past income shall be the amount of income of past year or years included in the book profit or the previous year on account of an advance pricing agreement entered into by the assessee under section 92CC or on account of secondary adjustment required to be made under section 92CE.
- (3) On application of provision of sub-rule (1), the tax credit allowed to the assessee under section 115JAA shall be reduced by the amount which is equal to the amount of reduction that has been allowed under sub-rule (1).
- (4) The assessee company shall make a claim for relief under sub-section (2D) of section 115JB in Form No. 3CEEA electronically by uploading signed printout of said Form in the manner specified by the Principal Director General of Income-tax (Systems) or the Director General of Income-tax (Systems), as the case may be.
- (5) Form No. 3CEEA shall be verified by the person who is authorised to verify the return of income of the assessee company under section 140.
- (6) The Principal Director General of Income-tax (Systems) or the Director General of Income-tax (Systems), as the case may be, shall specify the procedure for filing of the Form No. 3CEEA and shall also be responsible for evolving and implementing appropriate security, archival and retrieval policies in relation to the statements so furnished under this rule.

Explanation 1.— The value of amount "A" in the formula shall be deemed to be zero, if there is no tax payable under section 115JB(1) on the book profit of that previous year including the past income.

Explanation 2.— The value of amount "B" in the formula shall be deemed to be zero, if there is no tax payable under section 115JB(1) on the book profit of that previous year after reducing the book profit with the past income.

Explanation 3.— For the purposes of calculation of amount "C" in the formula, if in any past year or years there is no tax payable under section 115JB(1) on the book profit of that year or years, the tax payable for that year or years shall be deemed to be zero.

Explanation 4.—For the purposes of calculation of amount "D" in the formula, if in any past year or years there is no tax payable under section 115JB(1) on the book profit of that year or years after increasing the book profit with the relevant past income of such year or years, the tax payable for that year or years shall be deemed to be zero.