

MINIMUM ALTERNATE TAX [MAT] (Section 115 JB)

INTRODUCTION:-

- ① MAT is Applicable on all Companies (whether Indian, foreign, resident, non-resident, closely held or widely held Companies).
- ② The Provisions of MAT applies on Companies because Company may reduce their Tax liability by claiming various exemptions, deductions, depreciations etc. under Income Tax Act, 1961.
- ③ Due to increase in the number of Such Cases then the Provisions of MAT was introduced w.e.f 1.4.1997.
- ④ By the provisions of MAT on a company, we calculate revised income / profit of the company which will be known as Book Profit and apply such prescribed Tax on Such Book Profit then Amount of Tax as per MAT will reveal.
- ⑤ And in last we compare Such Tax Amount as per MAT with Tax Amount as per Normal PGBP Provisions, then higher Tax Amount will be the final Tax liability of a Company, which will be known as MAT.
- ⑥ Then Surcharge, reliefs, cess will be levy.

Hence the Steps to Solve the Questions of MAT are as follows :-

- ① Prepare or Take Profit / loss as per Profit & loss Account as per Schedule III of Companies Act, 2013.
- ② Adjust Such Profit / loss with prescribed Adjustment under MAT provisions.
- ③ Compute Tax Amount as per MAT @ 15% on Such Adjusted Amount.
- ④ Compare Such Tax Amount as per MAT with Tax Amount as per PGBP provisions.
- ⑤ Then higher of Tax Amount will be final Tax Liability i.e. MAT.

Profit / loss as per Schedule III

₹

XXX

Add / less : Adjustments

XXX / (XXX)

Book Profit

XXX

higher \rightarrow Tax @ 15% on Book profit XXX
will be \rightarrow MAT i.e. final Tax liability. XXX
 \rightarrow Tax as per PGBP XXX

Such Prescribed Adjustments are as follows :-

- (A) Add the following items in the Profit / loss as per Schedule III of Companies Act :-
- (1) The amount of Income Tax Paid or Payable and their provision (i.e Interest, Dividend distribution Tax, Surcharge & Cess).
→ ignore (not add or nor less) :- Penalty, Penalty or Interest under Wealth Tax Act or other Act, STT.
- (2) The amount carried / Transfer to any reserve because at that time profit was reduced.
- (3) The amount of provision regarding uncertain liabilities
→ But the provision of gratuity as per Actuarial Valuation shall be ignore.
- (4) The amount by way of Provisions for losses of Subsidiary Companies.
- (5) The amount of dividends Paid or Proposed.
- (6) The amount of expenditure related to any income to which Section 10 or Section 11 or Section 12 applies because such income also exempted.

- (7) The amount of Expenditure related to profit share from AOP, if such share is exempt u/s 86 (means AOP already Paid Tax on Such share)
- (8) The amount of Expenditure related to following income of a foreign Company if Tax Payable on Such Income under normal provision is less than 15% :-
- (A) the Capital gains arising on Transactions in Securities or
- (B) the interest, royalty or fees for technical Services chargeable at lower rate rather than 15%.
- (9) Notional loss on Transfer of a Capital asset, being share on Special Purpose Vehicle to a business Trust in Exchange of units allotted by Such Trust. Or

Notional loss resulting from any change in Carrying Amount of Such Business Trust's unit or loss on Transfer of Such unit.
[if debited to Profit & loss Account]

- (10) The amount of Expenditure related to Royalty income in respect of Patent chargeable to Tax u/s 115BBF. i.e @ 10%.

- ⑪ The amount of Depreciation as per Companies Act, 2013.
- ⑫ The amount of deferred Tax and their provisions if debited to Profit & Loss Account.
- ⑬ The amount set aside as provision for diminution in the value of any asset (like asset written-off etc.)
- ⑭ The amount standing in revaluation reserve relating to revalued asset on retirement or disposal of such asset (if not credited to the Statement of Profit and loss) \hookrightarrow means now we add back in Profit.
- ⑮ Gain on Transfer of unit of such Business Trust referred to in Point ⑨ (means now we sold them)

$$\text{Gain} = \text{Sale Value} - \text{Cost / carrying amount}$$

(B) Reduced the following items from the profit / loss as per Schedule III :-

- ① The amount withdrawn from reserve or from provisions if such amount credited to Profit & loss Account, because it increases the profit.
- ② The amount of Income to which any of the provisions of Section 10 or Section 11 or Section 12 applies, if such amounts is credited to the Statement of Profit and loss.
- ③ The Amount as share of profit from AOP, if Such share is exempt u/s 86 (means AOP already Paid Tax on Such share).
- ④ The Amount of a foreign Company's income if Tax Payable on Such income under normal Provision is less than 15%, namely :-
 - (A) the Capital gains arising on transactions in Securities
 - (B) the interest, royalty or fees for technical services chargeable to Tax at a lower rate rather than 15%.

⑤ Notional Gain on Transfer of a Capital asset, being share on Special Purpose Vehicle to a business Trust in exchange of units allotted by Such Trust, or

Notional Gain resulting from any change in Carrying Amount of Such Business Trust's unit or Gain on Transfer of Such units,

if credited to Statement of Profit and Loss.

⑥ Loss on Transfer of unit of Such Business Trust referred to in point ⑤ (means now we sold them)

$$\text{Loss} = \text{Sale Value} - \text{cost /Carrying amount.}$$

⑦ The amount of Income by way of royalty in respect of Patent chargeable to Tax u/s 115BBF. i.e e 10%.

⑧ The amount of depreciation debited to the Statement of profit and loss as per Companies Act, 2013 (excluding the depreciation on Account of revalued Asset).

⑨ The amount withdrawn from revaluation reserve and credited to the Statement of profit and loss, to the extent it does not exceed the amount of depreciation on account of revalued asset

it means amount which is supposed to get reducing not exceeds depreciation amount calculated on revaluation of asset.

⑩ Lower of the two following Amounts :-

- (A) Brought forward losses ; or
- (B) Unabsorbed depreciation.

→ However if the director of any companies removed by Tribunal upon reference made by central Government and appoint nominee director of C.G and or if the CIRP (Corporate insolvency Resolution process) against any Company has been admitted by the Adjudicating Authority under IBC, 2016

then both such amounts will be reduced from Profit / loss as per Schedule III.

⑪ The amount of deferred Tax, if such amount is credited to the Statement of Profit and loss.

⑫ The amount of profits of Sick Industrial Company for the A.Y commencing on and from the A.Y relevant to P.Y in which the said Company has become a Sick Industrial Company and ending with the A.Y during which the entire Net worth of such Company becomes equal to or more than the Accumulated losses.

→ Sick industrial Company \rightarrow losses \geq Networth.
where,

Net worth = Paid up Capital + Free Reserve.