MINIMUM ALTERNATE TAX

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Minimum Alternate Tax

- Minimum Alternative Tax (MAT) on companies was introduced by the Finance (No.2) Act, 1996, with effect from 1.4.1997 with a view to ensure that companies with business profits do not regularly avoid paying tax.
- MAT is levied under Section 115J of the Income Tax Act. While corporate tax at the rate of 35 per cent is levied on all companies declaring profits, MAT is levied on all other companies including those which claim zero tax liability as it is based on book profits.

Scope of MAT

“Every Company to which this section applies......"

“Notwithstanding anything contained in any other provision of this Act”

“The income-tax, payable on the total income as computed under this Act in respect of any previous year relevant to the assessment year commencing on or after the 1st day of April, 2001, is less than seven and one-half per cent. of its book profit “

Scope of MAT

- Export profits under section 80HHC, 80HHE and 80HHF are kept out of the purview of this provision during the period of phasing out of deductions available under those provisions.
- Export-oriented units and the units in Free Trade Zones, which are set up before 1.4.2000, would be out of the purview of new provisions of MAT.
- There is no clear reference to section 10C which grants exemption in respect of certain industrial undertakings in North Eastern Zone.

Computation of MAT

Every assessee, being, a company, shall, for the purposes of this section

- Prepare its profit and loss account for the relevant previous year in accordance with the provisions of Parts II and III of Schedule VI to the Companies Act, 1956

- Require Audit report certifying that book profit has been computed in accordance with the provisions of section 115JB and such report is required to be filed along with the return of income.

Computation of MAT

For the purpose of MAT, "***Book profit***" means

i.e. **Profit as per Books of Accounts**	**XXX**
Add :- Items not Allowed under this Section	**XX**
Deduct :- Items Allowed under this Section	**XX**
Book Profit for MAT	**XXX**

Major Difference

ADD

- The amount of income-tax paid or payable, and the provision thereof;
- The amounts carried to any reserves, by whatever name called;
- The amount or amounts set aside to provisions made for meeting liabilities, other than ascertained liabilities;

Major Difference

ADD

- The amount by way of provision for losses of subsidiary companies;
- The amount or amounts of dividends paid or proposed;
- The amount or amounts of expenditure relatable to any income to which section 10 or section 10A or section 10B or section 11 or section 12 apply,

Major Difference

DEDUCT

- The amount withdrawn from any reserves or provisions, credited to the profit and loss account:
- The amount of income to which any of the provisions of section 10 or section 10A or section 10B or section 11 or section 12 apply, credited to the profit and loss account;
- The amount of loss brought forward or unabsorbed depreciation, whichever is less as per books of account.

Major Difference

DEDUCT

- The amount of profits eligible for deduction under section 80HHC, computed under clause (a) or (b) or clause (c) of sub-section (3) or sub-section (3A)

- The amount of profits eligible for deduction under section 80HHE computed under sub-section (3) or sub-section (3A)

Major Difference

DEDUCT

- The amount of profits eligible for deduction under section 80HHF computed under sub-section (3);

- The amount of profits of sick industrial company for the assessment year commencing on and from the assessment year relevant to the previous year in which the said company has become a sick industrial company and ending with the assessment year during which the entire net worth of such company becomes equal to or exceeds the accumulated losses.

Tax Credit 115JAA

Tax credit scheme was introduced by which MAT paid can be carried forward for set-off against regular tax payable during the subsequent five year period subject to certain conditions, as under:-

- An amount which is the difference between the amount payable under MAT and the regular tax.
- Carry forward facility for a period of 5 assessment years immediately succeeding the assessment year in which MAT is paid.

Tax Credit

- Unabsorbed MAT credit will be allowed to be accumulated subject to the five year carry forward limit.

- In the assessment year when regular tax becomes payable, the difference between the regular tax and the tax computed under MAT for that year will be set off against the MAT credit available.

- The credit allowed will not bear any interest.

Tax Credit

- Tax credit scheme is however not available from, the proposed amendment with effect from 1st April, 2001 and will, accordingly, apply in relation to assessment year 2001-2002 and subsequent years.

- However, the credit for the brought forward MAT paid under the existing provisions will be allowed against the regular tax payable but not against the tax payable under the new provision.

Pros n Cons of MAT

- The original idea behind MAT was to prevent people with very high incomes from using special tax benefits to pay little or no tax.

- But for various reasons the MAT reaches more people each year, including some people who don't have very high income and some people who don't have lots of special tax benefits.

- No credit of MAT paid under the new provision will be available.

News & Views on MAT

- The minimum alternate tax was introduced in 1987 and withdrawn in 1990. It was re-introduced in 1996 and amended in 2000 to provide for a 7.5 per cent rate.

- The tax is charged at 7.5 per cent of the book profit and nets around Rs. 3,000 crore (Rs. 30 billion).

- The corporate sector has strongly pitched for phasing out MAT, the government feels that unless all the exemptions are wiped out, MAT cannot be dispensed with.

News & Views on MAT

- A detailed presentation on this was made to the task force on direct taxes headed by Vijay Kelkar recommended elimination of the tax, stating that the divergence between taxable income and book profit undermined corporate governance.

- An earlier tax advisory group headed by Parthasarathi Shome, too, had pointed out that the tax was based on income reported by companies, unmindful of widely prevalent under-reporting or companies make various adjustments before arriving at book profits.

News & Views on MAT

- The government is considering tightening the norms for calculation of minimum alternate tax on zero tax companies in the forthcoming Budget. The move, which forms part of the rationalization process of the corporate tax structure for domestic companies.

- The importance that the government accords to MAT can be gauged from the fact that there has been more than one committee on the subject in the past one year.

Thank You

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