P.Krishna & Co. Chartered Accontants

MINIMUM ALTERNATE TAX - Sec.115 JB of Income Tax Act 1961 by Vijay Kumar Walande - 9014850750

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MAT

A. Meaning of MAT

MAT stands for Minimum Alternate Tax.

Our Income Tax Act provides many exemptions, deductions and incentives to many companies. So many companies even though having huge profits as per Profit and Loss Account are not paying any taxes to the govt. In order to bring such companies under the Tax Net A special provision called Sec 115 JA was introduced in the year 1997-98 which brought all the companies under tax net. Even the companies which were incurring losses as per their P&L Account were made to pay tax on their book profits which is calculated as per sec 115 JB.

Later from the AY 2001-02 the following provision was given

Section	Applicability for which AY	When these Provisions are applicable	Consequences
115JB	2001-02 Onwards	If tax liability of any company under Normal Provision is lower than 15%* (+SC+EC+SHEC) of book profits#	"Book Profit" shall be deemed as total income and 15% of book profit should be deemed as tax liability

***15%** *has been changed to* **18%** *from the* **AY 2011-12**

 # Book Profits are determined as per Sec 115JB

B. WHEN MAT IS TO BE PAID?

When Normal tax calculated is less than 18% of the book profit then MAT is to be calculated and paid.

C. WHAT IS THE RATE OF MAT?

Mat rate is 15% upto AY 2010-11 and 18% from AY 2011-12. (excluding SC+Ec+SHEC)

Notes:

MAT Provisions are not applicable to any business/services in the hands of an entrepreneur/developer in a Special Economic Zone

D. DETERMINATION OF BOOK PROFITS?

Net Profit in the Profit and Loss account has to be adjusted to the following items to convert into Book Profit.

1. **Positive Adjustment**
   - Income Tax Paid or Payable and the Provision therefor, if it is debited to P&L (Income Tax shall include DDT, Interest u/s234A,B,C,D, Surcharge+EC+SHEC, Wealth tax, CTT, S. 115P Interest in delay in payment of DDT,S. 220(2) Interest in paying demand raised through Demand Notice, 201(1A) Interest for Non deduction or Short Deduction or Non remittance of TDS, 206C(7) Interest for Non collection , Short collection or non remittance of TCS, Interest under Wealth Tax, Penalty under Wealth Tax, Penalty under Excise Law, Penalty under Income Tax Act)
   - Amount carried to any reserves, by whatever name called if it is debited to P&L
   - Amount set aside to provisions made for meeting liabilities which are unascertained
   - Amount or amounts of dividends paid or proposed
   - Amount of Depreciation (including depreciation on revaluation of asset)
   - Amount of Deferred tax and the provisions therefor and the amount set aside as provision for diminuition of asset.
2. **Negative Adjustments**
   - Amount if any credited to P&L Account after withdrawing it from **any** reserves.
   - Income exempt from tax if credited to P&L account (other than on account of revaluation of assets)
   - Amount of Loss brought forward or Unabsorbed depreciation whichever is less.
   - Amount of profits available for deduction u/s 80HHC, 80HHE, 80HHF
   - Profits of Sick Industrial Unit
   - The amount of deferred tax, if any such amount is credited to P&L account

E. PROCEDURE FOR COMPUTATION OF TAX LIABILITY under MAT

1. Compute Taxable Income with the provisions of the Act
2. Compute tax on Taxable Income at the rates normally applicable to the companies
3. Compute Book Profits as per Sec 115 JB
4. Compute 18% on the book profits
5. Tax payable by the company is higher of Step 2 and Step 4
6. Add Surcharge, EC and SHEC to the above arrived Tax

F. MAT CREDIT U/S115JAA

1. S. 115JAA (1A) Availability of Credit:
   Where any amount of tax is paid u/s 115JB by an assessee, being a company for any AY, then credit in respect of tax so paid shall be allowed to him in accordance with the provisions of this section

2. S.115JAA (2A) Quantum of Credit:
   The tax credit to be allowed u/s 115JAA (1A) shall be MAT minus Normal Tax

3. S. 115JAA(3A) Life of the Credit:
   The Credit amount can be carried forward upto 10th AY Succeeding to the AY in which tax credit becomes allowable u/s115JAA(1A)

4. S. 115JAA(4) Year of Set Off of Credit:
   Credit Shall be set off in a year when Normal Tax is More than MAT
   The amount which can be set off is Normal Tax Minus MAT

G. REPORT FROM A CHARTERED ACCOUNTANT

Every Company to which Section 115JB applies shall furnish a report in Form No. 29B from a Chartered Accountant certifying that the book profit has been computed in accordance with the provisions of Section 115JB along with the return of Income filed u/s 139(1) or along with the return of Income furnished in response to a notice u/s 142(1)(i).

H. ACCOUNTING FOR MAT

As per the latest Guidance Note issued by The Institute of Chartered Accountants of India in 2006 the following are the features of Accounting for MAT Credit.

ICAI Guidance Note:

1. A company which has paid MAT will be allowed Credit in respect thereof.
2. Amount of Credit = MAT – Normal Tax
3. No Interest is allowable on such MAT Credit
4. Such Credit can be carried forward till 10 succeeding AY
5. The amount of MAT Credit can be set off only when Normal Tax > MAT (that to, to the extent of Normal Tax – MAT

I. WHETHER MAT CREDIT CAN BE TAKEN AS ASSET IN BALANCE SHEET?

To answer the above question first of all we need to know what is an asset as per the Framework of Accounting.

An Asset is

- A resource controlled by the enterprise
- Arising as a result of past events
- From which future economic benefits are expected to flow to the enterprise.

Accordingly MA Credit is an Asset.

J. PRESENTATION OF MAT CREDIT IN FINANCIAL STATEMENT.

Balance Sheet:

1. MAT Credit can be considered under LOANS AND ADVANCES ON ASSET Side
   The entry passed is
   MAT Credit entitlement account debit
   To Profit and Loss Account
2. In the year of set off of Credit the entry is passed as follows
   Provision for Income Tax Account debit
   To MAT Credit entitlement account
   (Thus Only the unavailed portion of MAT is shown in the balance sheet)

Profit and Loss Account:

1. MAT being current tax it is treated in a normal way i.e., debited to Profit and loss account
2. In the year of Credit utilization credited to Profit and Loss account.

K. DISCLOSURE IN NOTES TO ACCOUNTS

The company has to make disclosure that it following the Guidance Note in respect of MAT

L. EFFECTS OF MAT CREDIT.

1. Creation of Asset by crediting P&L Account thereby increasing the Net worth
2. MAT Credit to the extent of utilization can be taken into consideration for advance tax calculation.

M. GUIDANCE NOTE ON MAT

1. Not Mandatory
2. Important
3. Members should ensure it adherence
4. Non following can be disclosed

Source of Information:

1. *Direct Tax Ready Reckenor*
2. *The Chartered Accountant Journal – Volume No. 59 May 2011*
3. *Article published in The mentor page in Business Line.*
4. *Hand Notes of Vijay Kumar Walande*

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