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MAT (Minimum Alternate Tax) (sec 115JB)

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→ In the case of company assessees, the tax liability is higher of (i) tax as per the normal provisions of the Act and (ii) tax calculated as per MAT provisions.

→ MAT is calculated on book profit whereas normal tax is calculated total Income.

→ Taxable Income and tax liability in the case of Company assesses.

Taxable Income will be determined as under:

step: 1
Determine the Income of company under different heads.

step2
Income of other persons that may be included in the total Income of the company u/s 60 and u/s 61.
sec 60: Transfer of Income without transfer of assets.
sec 61: Revocable transfer of assets.

step3
current and brought forward losses should be adjusted according to the provisions of sec 70 to sec 80.

sec 70 → 80: set off & carry forward of losses.

- The total of Income so computed under different heads is gross total Income.

step4
From the gross total Income so computed, The deductions permissible under chapter - VI - A ~~are~~ (i.e 80C to 80U etc) are to be made
- The resultant figure is known as NET INCOME

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MAT (Minimum Alternate Tax) (Sec 115JB)

Tax liability in the case of companies:

- In the case of corporate assesses, Tax liability will be the higher of tax amount determined under the (i) NORMAL PROVISIONS of the Income tax Act. and (ii) tax amount determined under the MAT provisions.

I. Computation of tax under normal provisions:

① Find out taxable income under normal provisions.

② Find out income tax @30% [In the case of foreign companies it is 40%] on income computed under step 1.

③ Add surcharge @5% of ②. Surcharge will be applicable only if net income exceeds ₹1 crore [surcharge for foreign companies 2%]

④ Find out ② + ③

⑤ Add 3% of ④ towards education cess and higher education cess.

⑥ Deduct tax rebate (or) tax credit u/s 86, 89, 90, 90A and 91 (see note)

⑦ Find out ⑤ − ⑥ [It can not be less than zero].

note: → ~~for future~~

Sec 89: marginal relief, means if company taxable income exceeds 1 crore, Because of that reason, tax liability exceeds income in excess of 1 crore, in that situation tax liability limited to whatever income in excess of 1 crore.

Ex: one company taxable income is situation 1 : 1,00,00000/-
situation 2 : 1 crore 100000/-

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situation 1 tax liability.

~~99 Lakhs~~ 1 crore × 30% = ~~29.7~~ 30 Lakhs (Excluding Education cess)

situation 2 tax liability:

1 crore 100000/- × 30% = 30,30,000/-

Add: surcharge (since Income exceeded 1 crore) = 1,51,500.

30 30000 × 5% (Domestic company)

Total tax excluding education cess = 31 81500

In the above example because of taxable Income exceeds 1 crore, Exceeded amount is 1 lakhs, But tax liability Increased by 1,81,500 (i.e 3181500 - 30 lak)

→ company need to pay only ~~30~~ 31 Lakhs (30 + 1)

∴ marginal relief = ~~3181500~~ 181500 - 100000 = 81500

sec:86: Assessment of share in the hands of member (Joint venture) (sec:89) A

Sec 90, 90A and 91

Suppose 1 person earning Income outside India, But that person resident In India, In that situation, Resident Is liable to pay tax on global Income. (All Incomes taxable In India).

→ In the above example that resident ~~p~~ supposed to pay tax In India as well as foreign (outside).

→ As per constitution, same Income ~~can~~ should not be taxed twice.

• If taxed, Then that Is called double taxation.

to avoid double taxation govt (Gi) will enter into agreement (or) arrangement with foreign countries to avoid double taxation such agreements (or) arrangements are called Double Taxation Avoidance Agreements (DTAA)

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→ If any DTAA is there the above said Resident can claim relief of whatever taxed paid outside India.

Sec 90, 90A :- If DTAA is there, Then relief.

Sec 91 : If there is no DTAA, Then relief.

→ Computation of tax liability as per normal provisions:

Particulars	₹
(a) Income taxable under the head "Salaries"	xxx
(b) " " " " "IHP"	xxx
(c) " " " " "PGBP"	xxx
(d) " " " " "Capital Gains"	xxx
(e) " " " " "IOS"	xxx

note: Effect is to be given to clubbing provisions and set off and brought forward losses with regard to each head of Income.

(f) Gross total Income (Income under 5 heads) [salaries + IHP + PGBP + CG + IOS] after effecting Inter head and intra head adjustments, clubbing provisions. xxx

(g) Less: deductions U/s 80C to U/s 80U [i.e chapter VI-A deductions] xxx

(h) net Income / taxable Income / total Income [Rounded to nearest 10 rupees U/s 288-A]. xxx

(i) Segregate the net Income into
- Income taxable at normal rates.
- Income taxable for special rates (LTCG, Casual Income, unexplained cash credits, etc, falling U/s 68, 69, 69A to 69D)

(j) Find tax on net Income
- Income taxable at normal rates x Relevant rate. xxx
- Income taxable at special rates x Relevant rate. xxx
- Total of these two is called BASIC TAX LIABILITY xxx

Continue.....

(J) previous page. xxx.

(k) Add: Surcharge [Dom. Companies @5% and foreign companies @ 2%] : xxx.
To be quantified as a %age of the basic tax liability. (as a % of "J")

(l) Total tax liability after surcharge.

(m) Add: Education cess @3% of "l" [2% towards education cess and 1% towards secondary and higher education cess]. xxx.

(n) Total tax liability (Basic tax + Surcharge + education cess) xxx.

(o) Less: Rebate U/s 86 ; 89 ; 90 ; 90A, 91 xxx

(p) Less: MAT credit U/s 115JAA ~~and A~~ (see note) xxx

(q) net tax liability. xxx

(r) Add: Interest and penalty. xxx

(s). Less: prepaid taxes (TDS/TCS/Self asst tax (Self assessment tax), Advance tax xxx

(t) net tax payable. xxx.

note: MAT credit U/s 115JAA:

- Excess of MAT over normal tax is eligible to be carried forward for 10 subsequent assessment years. Even if the assessee files a belated return, ~~MAT~~ MAT credit will not be lost.

- This credit is allowed to be adjusted in the year in which the company is liable to pay tax as per the normal provisions of the Act.

- It is further provided that ~~M~~ MAT credit is allowed to be adjusted to the extent of excess of tax liability as per the normal provisions over the MAT liability.

II. Computation of tax under MAT provisions.

① Find out book profit.

② Find out 18.5% of book profit.

③ Add surcharge @5% of ②. Surcharge will be applicable only if the book profit exceeds ₹1 crore. [Also, in the case of foreign companies, the same will be added @2%.]

④ Find out ② + ③

⑤ Add 3% towards education cess and higher education cess.

⑥ Find out ④ + ⑤.

→ How to calculate book profit U/s 115JB?

- Net profit shall be determined as per the P&L ~~A/c~~ statement prepared in accordance with parts II of schedule VI of the Companies Act, 1956.
- Accounting policies, Accounting standards, The methods and rates of depreciation adopted shall be the same which were followed for preparing the profit & loss statement which is laid before the AGM in accordance with the provisions of sec 210 of the companies Act.

(In short net profit as per P&L statement)

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Statement showing Computation of MAT Liability:

Net profit as per P & L ~~A/c~~ statement XXX.

Add: positive adjustments.

(i) Income tax/Interest under any provisions of Income tax/distribution tax u/s 115-R. (by mutual funds)/dividend tax paid.

(ii) The amounts carried to any reserves (other than a reserve for shipping business u/s 33AC)

(iii) provisions for unascertained liabilities.

(iv) provisions for losses of subsidiary companies

(V) Dividends paid/proposed.

(vi) Expenditure relating to exempted income u/s 10, 11, 12 [Except 10(38)].

(vii) Amount of depreciation.

(viii) Amount of deferred tax and provisions there for

(ix) provision for diminution in the value of assets say, provision for bad debts, provisions made for diminution in the value of investments etc, ~~[no parallel adjustment on the credit side]~~ ~~i.e~~

(x) Amount standing in the revaluation reserve relating on to the revalued asset which has been retired (or) disposed, ~~off~~ If the same has not been credited to the profit & loss statement [w.e.f AY 2013-14 onwards]

Continue....

Less: Negative Adjustments:

(i) The amount with-drawn from reserves (or) provisions if any such amount is credited to the P&L statement.

(ii) The amount of exempted Income U/S 10, 11, 12 [Except Incomes of nature specified U/S 10(38)] if such Incomes are credited to P&L statement. (See note)

(iii) Depreciation debited to P&L statement [except depreciation on revaluation of an asset].

(iv) The amount withdrawn from revaluation reserve credited to P&L A/c statement to the extent that it does not exceed the amount of depreciation on A/c of revaluation of assets.

(v) Lower of (a) loss brought forward and (b) unabsorbed depreciation as per the books of account.
[Loss for this purpose does not include depreciation]

(vi) The amount of profits of a sick Industrial company under the SICA, 1985

(vii) profits of a tonnage tax company (as per books)

(viii) The amount of deferred tax, If any such amount is credited to the profit and loss statement.

Note:
Sec 10: Exempted Incomes
Sec 11: Income from property held for charitable (or) religious purposes.
Sec 12: Incomes of trusts (or) Institutions from contributions (Related to trusts)

Report of CA in form no. 29B:
certifying that the 'Book profit' has been computed in accordance with the provisions of Sec 115JB shall be filed along with return of Income filed U/s 139(1) (or) in response to notice U/s 142(1).

problems

1 X Ltd is engaged in the business of manufacture of Garments.

particulars	Amount (₹)
sale proceeds of goods (domestic sale)	2223900
sale proceeds of goods (exports)	576,100
Amount withdrawn from general reserve (Reserve created in 1997-98 by debiting P&L A/c)	200000
Amount withdrawn from revaluation reserve	150000
Total	31,50,000
Less: Expenses:	
Depreciation (normal)	6,16,000
Depreciation (Extra depreciation on A/c of revaluation)	270000
Salaries & wages	210000
Fringe benefit tax	10,000
Income tax	350000
outstanding customs duty (not paid as yet)	17500
proposed dividend	60000
Consultation fees paid to a tax expert	21000
other expenses	139000
net profit	14,56,500

→ For the tax purposes the company wants to claim the following: Deduction U/s 80-IB (30% of ₹14,56,500/-); Depreciation U/s 32 (₹536000/-). The company wants to setoff the following losses/allowances:

particulars	for tax purposes	for accounting purposes
B/F loss of 2005-06	1480000	400000
unabsorbed depn	—	70000

- Compute the tax liability of x Ltd for AY 2013-14 assuming that x Ltd has a (deemed) long term Capital gain of ₹60000/- under proviso (i) to sec54(2) which is not credited in the P&L statement.

Sol I. Tax as per MAT provisions.

net profit as per P&L statement	1456500
Add :- (i) Depreciation (Dr to P&L statement)	6,16,000
(ii) Dep on A/c of revaluation	270000
(iii) FBT (Fringe benefit tax)	—
(iv) Income tax	350000
(v) O/s customs duty	—
(vi) proposed dividend	60000
Less :-	
(vii) Amount withdrawn from general reserve	(200000)
(viii) Amount withdrawn from revaluation reserve	(150000)
(ix) Dep attributable to actual cost of assets	(6,16000)
(x) Lower of Brought forward losses & un absorbed dep. ie 400000 & 70000 (as per books.)	(70000)
BOOK PROFIT →	17,16,500

Tax on the above @18.5%	317552.5
Add :- E.C @3%	9526.575
∴ MAT tax	327080

II. Tax as per normal provisions.

N.P as per P&L statement	14,56,500
Add: (i) depreciation Dr to P&L A/c.	6,16,000
(ii) depreciation on A/c of revaluation	2,70,000
(iii) FBT	10,000
(iv) Income tax	350000
(v) O/S customs duty (disallowed u/s 43B)	17500
(vi) proposed dividend.	60000
(vii) Amount withdrawn from G.R	(200000)
(viii) Amount withdrawn from revaluation reserve.	(150000)
(ix) Dep as per IT Act.	536000
PGBP →	4,14,000
Less: B/F losses	14,80,000
∴ PGBP →	4,14,000
Add: LTCG	60000
∴ Gross total Income.	474000
Less: deduction u/s 80 IB (30% of 4,14000)	124200
∴ T.I (Total Income)	3,49,800

Tax liability

349800.

LTCG	Normal Income.
60000	298800
@20%	@30%
12000	86940.

Total tax = 12000 + 86940 = 98940.

Add: E.C @ 3% 2968

101908

continue....

Summary

I. Tax liability as per MAT provisions - 327080
II. Tax liability as per normal provisions - 101908.

∴ Final Tax liability higher of the above 2 - 327080 (MAT)

∴ MAT Credit 327080 - 101908 = 2,25,172.

→ Contrary view is expressed in "Richa global exports" case, where by it was held that MAT credit is not available w.r.t E.C & surcharge. i.e. 317553 - 101908 = 215645 only available.
E.C i.e 9526 not available as credit.

END

Some explanations :- (Relating to tax as per normal provisions)

① Meaning of unabsorbed depreciation:

step 1 : claim deduction of current year depreciation from the business to which it relates.

step 2 : Deficiency in step 1 can be set off against profits (or) gains of any other business of the ~~business~~ CY

step 3: Deficiency in step 2 can be set off against any other head of income of current year.

step 4: Deficiency in step 3 is "UNABSORBED DEPRECIATION" for the current previous year.

(2)

Computation of Income under the head profits & gains of Business (or) profession. [sec. 29].

Net profit as per P&L statement XXX.

Less:- ((i)) Allowable Expenditure and not debited to P&L statement.

Ex:- Sec 30, 31, 32, 32(1)(iia), 32(2), 33AB/Rule 5AC, 35, 35(1)(iia), 35(2AA), 35ABB, 35AC, 35AD etc*

Add:- (ii) Inadmissible expenditures debited in P&L statement.

Ex:- (a) payments made without deducting TDS.

(b) ~~43B~~ 43B** (see note). etc*

(c) cash paid in excess of ₹20000

Add:- (iii) Sec-41- Deemed business Income.

Less:- (iv) Incomes credited in P&L statement not chargeable to tax under this head.

Ex:- (a) Agriculture Income, (b) Exempted Income U/s10., (c) dividend Income (d) Any reserves withdrawn. etc*

Add:- Expenditure debited to P&L statement but not deductible under this head.

Ex:- Depreciation as per books, Expenditure on agriculture Income, charities and donations, Expenditure incurred in relation to exempted income, etc*

Note:- (next page)

Sec:- ~~43~~ 43 B*

certain deductions to be only on actual payment.
i.e (i) employer's Contribution to RPF.

(ii) ~~or~~ " " " other employee welfare funds.

(iii) Tax, duty etc.

(iv) Bonus (or) commission to employees,

(v) Interest payable to public financial Institution (or) scheduled bank,

(vi) Leave salary.

(vii) ~~Any amounts~~ Gratuity etc.

Conditions / Restrictions

The above payments shall be paid before the due date of filing return, otherwise in the year of provision not allowed as deduction.
- only in the year of payment allowed as deduction.

END (Sec 43B)

(3) All Direct taxes, Interest on direct taxes & penalty on direct taxes is not allowable expenditure. (i.e disallowed)

(4) All Indirect taxes, Interest on Indirect taxes is allowable expenditure (i.e Dr to P&L statement)

** Penalty on Indirect taxes is not allowable expenditure (i.e disallowed).

* Any penalty is disallowed.

problem on MAT

(2) Netherlands oil corporation is a foreign company engaged in the exploration of oil and gas in all countries including India. In respect of it's Indian business, the company has prepared P&L statement in accordance with part II & VI of schedule VI to the Companies Act, 1956 and such P&L statement for the previous year ended 31-3-13 shows a net profit of ₹ 65 lakhs.
The net profit from all other countries stands at ₹ 550 lakhs.
- The company informs that while arriving at the net profit as indicated above in respect of Indian business, the following debits / credits have been made in it's P&L statement.

particulars	₹ in lakhs
→ net agriculture income in India	16
→ share of profits from a firm engaged in business in India	15
→ Amount withdrawn from reserves created during 2008-09 (Book profit was not increased by the amount transferred to such reserves in the year 2008-09)	3
→ profits from an Industrial undertaking covered and qualified for deduction u/s 10B of the Income tax Act, 1960 (presently sec deleted)	30
→ profits from an Industrial undertaking covered and qualified u/s 80-IC.	6

debits to P&L statement.

particulars	
→ Expenditure relating to 10 B undertaking.	12.
→ Depn for the current year under the Companies Act, 1956	25

next page

₹ in Lakhs

→ Interest to financial institutions not paid upto the date of filing the return. 6

→ penalty for ~~infract~~ infraction of law 1

→ proposed dividend. 3

→ provision for taxation (income tax) 2

→ transfer to general reserve. 5

→ provision for unascertained liabilities 2

→ Expenditure relating to 80-IC undertaking 5

The following information is also provided:

- B/F book loss : 12 lakhs (B/F - brought forward)
- depreciation allowable under tax laws : 30 lacs.
- B/F business loss and unabsorbed depn as per income tax law 18 lacs (loss of ₹ 8 lacs and depreciation of ₹ 10 lacs)

→ You are required to compute the total tax liability of the company for the AY : 13-14.

Sol: next page

⑤

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Sol:

(I) Tax as per MAT provisions

N.P as per P&L statement	65 lakhs.
Less: (i) Exempt Income U/s 10(1) i.e agriculture Income	(16)
(ii) profits of a partner from partnership firm exempt U/s 10(2A)	(15)
(iii) Amount withdrawn from reserves (Book profit was not increased earlier ∴ no adjustment is required.	–
Add: (i) Depreciation	25
(ii) proposed dividend	3
(iii) pro" for "tax	2
(iv) transfer to general reserves	5
(V) pro" for unascertained liabilities	2
Less: (iv) Lower of B/F book losses – 12 lakhs. unabsorbed book depr. – NIL	NIL
(V) depn attributable to actual cost of assets	(25)
Book PROFIT →	46 lakhs

Tax @ rate of 18.5% → 851000
Add: E.C @ 3% → 25530
8,76,530

II. Tax as per normal provisions

NP as per P&L statement	65 lakhs
Less :- (i) Agr. Incom (exempted U/s 10(1))	(16)
(ii) profits of a partner from partnership firm exempt U/s 10(2A)	(15)
(iii) Amount withdrawn from reserve (not by profit)	(3)
Add :- depreciation	25
Int to financial institution	6
penalty for infraction of law	1
proposed dividend	3
pro,, for ,, tax	2
Transfer to general reserves	5
pro,, for unascertained liability	2
Less :- dep as per the IT Act	(30 L)
PGBP before Adj of losses →	45
Less :- B/f bus losses	(8)
B/F depreciation	(10)
PGBP (or) GTI	27
Less :- deduction 80-IC 100% of (6L - 5L)	(1 Lakh)
T. I.	26L

T. L - 26L × 40% (foreign company) = 10 Lakhs 40,000/-

Add :- E.C. @ 3% (10,40000 × 3%)	31200
T.T.L	1071200

Summary :-

Tax as per MAT provisions - 876530

Tax as per normal provisions - 1071200.

final tax liability - 1071200

Tax Audit U/s 44AB.

① Applicability:

Tax Audit is applicable in the case of -

ⓐ Assessee carrying on any business where total sale (or) turnover (or) gross receipts exceeds ₹ 1 crore (w.e.f AY 2013-14); or

ⓑ Assessee carrying on profession where gross receipts exceeds ₹ 25 Lakhs (w.e.f AY 2013-14), (or)

ⓒ w.e.f AY 2011-12, Assessee carrying on the business referred to U/s 44AE, 44BB, 44BBB and declaring lower income than prescribed under those sections.

ⓓ w.e.f AY 2011-12, Assessee carrying on the business ~~of~~ referred to U/s 44AD having income exceeding basic exemption, and declaring income lower than prescribed U/s 44AD.

② Audit: Tax audit shall be conducted by an "Accountant" as explained U/s 288 of the IT Act.

③ Specified date for filing of report: Due date as specified U/s 139(1) i.e. Sept 30

④ Forms of report:

nature of person	Audit report	statement of particulars
- Incase of a person who carries on business (or) profession and whose books are required to be audited by (or) under any law.	Form 3CA	Form 3CD
- In case of person who carries on business (or) profession but not being a person referred to above.	Form 3CB	Form 3CD

Note: Form 3CD contains – 32 clauses.

Form ~~3~~CA/3CB : True & fair view
form 3CD : True & correct. (~~or~~ CA should give Report)

Form 3CD

PART-A

clause

1. Name of the assessee.
2. Address.
3. PAN
4. Status.
5. previous year ended.
6. Assessment year.
7. Relating to partnership firm.
8. nature of business / profession
9. ~~maint~~ book maintained, verified / Audited.
10. Sec 44AD, 44AE, 44B, 44AF, 44BB, 44BBA, 44BBB.
11. method of accounting, Change, Details of change, deviation
12. closing stock.
12A. capital asset converted into stock-in-trade.
13. Amounts not credited to P&L statement.
14. Depreciation (as per IT)
15. relating to sec 33AB, 33ABA, 33AC, 35ABB & 35 series
16. ~~43B~~ ~~43 B sec~~. Bonus (or) commission & employee cont PF
17. Amounts debited to the P&L statement.
18. particulars of payments made to persons specified under section 40 A(2)(b)
19. Amounts deemed to be profits & gains U/s 33AB / 33 ABA 33AC
20. Any amount of profit chargeable to tax U/s 41 and computation thereof.
21. sec 43B.
22. Cenvat credit.
23. hundi borrowings & repayments otherwise than cheque (i.e. in cash)
24. sec 269SS loans accepted.
25. B/F loss (or) depreciation.
26. section-wise details of deductions if any admissible under chapter VIA
27. TDS
28. closing stock
29. Dividend distribution tax.
30. Cost audit.
31. Central excise audit.
32. A/cing ratio's with calculations.