Minimum Alternate Tax (MAT)

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Introduction

MAT ensures that companies pay a minimum amount of tax if their tax liability under normal provisions of the Income-tax Act is less than 15% of their book profit. This tax is applicable even if a company reports nil income or has tax losses.

Applicability

MAT applies to all companies, including foreign and domestic, except:

- Companies in life insurance or shipping (subject to specific provisions).
- Foreign companies taxable under presumptive schemes (Section 44B, 44BB, 44BBA, or 44BBB) or without a Permanent Establishment in India.
- Foreign companies resident in non-DTAA countries and not required to register in India under any law relating to companies.
- Companies opting for concessional tax rates under Sections 115BAA or 115BAB.

Rate of MAT

- MAT is 15% of book profit, plus applicable surcharge and cess.
- For companies in International Financial Services Centres (IFSC) deriving income solely in convertible foreign exchange, the MAT rate is 9%.

Calculation of MAT Liability

The higher of:

a) Tax on total income computed under normal provisions.

b) 15% of book profit (or 9% for eligible IFSC units)

The tax computed as per normal provision or as per MAT shall be further increased by the applicable surcharge and health & education cess before comparing the higher of the two.

Computation of Book Profit

Net profit computed as per the financial statement shall be adjusted with certain positive and negative adjustments. The resultant figure, as obtained after these adjustments, shall be deemed the book profit.

The financial statement shall be prepared as per Schedule III of the Companies Act, 2013, or as per the provisions of the Act governing such company.

Power of the Assessing Officer

The Assessing Officer can recalculate net profit if financial statements deviate from the Companies Act or accounting policies and standards.

Certification Requirement

Companies liable for MAT must file a Chartered Accountant's certificate (Form 29B) electronically at least one month before the due date for filing the return under Section 139(1) or along with the return in response to a notice under Section 142(1)(i).

Calculation of Book Profit for MAT

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Book profit for MAT is determined by adjusting net profit as per the statement of profit and loss in accordance with the Companies Act, by making specified additions (positive adjustments) and deletions (negative adjustments).

Positive Adjustments

The following items, if debited to the statement of profit and loss, must be added back:

- Income-tax, including interest, surcharge, cess, and provisions.
- Reserves created (except Section 33AC reserve).
- Provisions for unascertained liabilities or losses of subsidiary company.
- Dividend paid or proposed.
- Expenses relating to exempt income under Sections 10, 11, or 12.
- Expenditure related to a company's share in AOP/BOI's income on which no income tax is payable under Section 86.
- Expenses related to passive income of foreign companies, taxed at rates lower than the MAT rate (e.g., capital gain, interest, dividend, royalty, and FTS).
- Notional losses on exchange of SPV shares for business trust units.
- Actual gain on transfer of business trust units that were received in exchange of SPV shares.
- Expenditure related to royalty in respect of patents taxable under section 115BBF.

- Depreciation.
- Deferred tax liabilities and provision therefore.
- Provisions for diminution in asset value.
- Revaluation reserves upon asset retirement/disposal.

Negative Adjustments

The following items, if credited to the statement of profit and loss, are deducted:

- Amounts withdrawn from any reserve or provision.
- Exempt incomes under Sections 10, 11, or 12.
- Depreciation (excluding revaluation-related depreciation).
- Deferred Tax Asset if credited.
- Amounts withdrawn from revaluation reserves (up to the amount of depreciation debited).
- Company's share in AOP/BOI's income on which no income tax is payable under Section 86.
- Passive income of foreign companies, taxed at rates lower than the MAT rate.
- Notional gains on exchange of SPV shares for business trust units.
- Actual loss on transfer of business trust units that were received in exchange of SPV shares.
- Royalty for patents under Section 115BBF.
- Unabsorbed depreciation and brought-forward losses of insolvent companies or companies whose board of directors is suspended by NCLT.
- Unabsorbed depreciation or brought-forward losses, whichever is less, in case of companies (other than insolvent companies)
- Profit of sick industrial company

MAT Computation for Ind as Compliant Companies

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Ind AS-compliant companies calculate book profit for MAT as per Section 115JB, adjusted by specified additions and deletions. These adjustments account for items included in the Statement of Profit and Loss and Other Comprehensive Income (OCI).

Key Adjustments for Book Profit Calculation

a) **OCI Items Not Reclassified to Profit or Loss**

- o Adjustments for OCI items such as revaluation gains/losses on property, plant & equipment and intangible assets, re-measurements of defined benefit plans, and fair value changes in investments in equity instruments designated at FVTOCI.
- o Change in fair value of liability that is attributable to change in credit risk (measured at FVTPL)
- o Change in the time value of options that hedge a transaction-related hedged item if the hedge relates to a non-financial asset/liability or firm commitment thereof.
- o Change in value of the forward element or foreign currency basis spread if the hedged item later leads to recognition of a non-financial asset/liability or firm commitment thereof.

b) **Non-Cash Asset Distribution in Demergers**

- o Adjustments are made for the difference between the carrying amount of assets and dividend payable upon distributing non-cash assets to shareholders.
- o Changes in values of assets and liabilities received by the resulting company in a demerger are ignored for MAT purposes.

c) **Transition to Ind AS**

- o Adjustments arising on the first-time adoption of Ind AS (transition amount) are evenly distributed over five years, starting from the transition year.
- o Exclusions from the transition amount (e.g., revaluation gains/losses on tangible/intangible assets, FVTOCI changes, etc.) are adjusted upon transfer or disposal of the respective asset.

OCI Adjustments

- **Additions to Book Profit**:
  - o Gains credited to OCI that will not be reclassified to profit or loss (e.g., revaluation gains, increase in time value of options/forward contracts, FVTOCI equity gains).
  - o Amount debited to Profit and Loss for non-cash asset distribution in a demerger.
- **Deductions from Book Profit**:

- o Losses debited to OCI that will not be reclassified to profit or loss (e.g., revaluation gains, increase in time value of options/forward contracts, FVTOCI equity gains).
- o Amount credited to Profit and Loss for non-cash asset distribution in a demerger.

MAT Credit

MAT Credit

MAT credit arises when a company's tax liability under Minimum Alternate Tax (MAT) exceeds the tax liability under normal provisions of the Income-tax Act. The excess amount is treated as MAT credit, which can be carried forward for up to 15 assessment years and adjusted against future tax liabilities under normal provisions.

Key Provisions

a) **When Does MAT Credit Arise?**

- o MAT credit is the excess of MAT liability over tax liability calculated under normal provisions.
- o Formula: **MAT Credit = MAT liability - Normal tax liability (including surcharge and cess).**
- o Example: If the MAT liability is Rs. 1.5 crore, and the normal tax liability is Rs. 1 crore, the MAT credit is Rs. 0.5 crore.

b) **Carry Forward of MAT Credit**

- o MAT credit can be carried forward for 15 years (from AY 2018-19 onward).
- o Adjustments occur if normal tax liability changes due to assessment or appellate orders.

c) **Exceptions relating to carry forward of MAT Credit**

- o **Foreign Tax Credit (FTC)**: MAT credit cannot include the difference between the FTC allowed under MAT and the FTC allowed under normal provisions.
- o **Conversion into LLP**: MAT credit lapses upon conversion of a private/unlisted public company into an LLP.
- o **Companies Opting for Section 115BAA or 115BAB**: Companies choosing concessional tax rates under Section 115BAA or 115BAB cannot carry forward or set off unused MAT credit.

d) **Utilisation of MAT Credit**

- o MAT credit is utilised when normal tax liability exceeds MAT liability.
- o Formula:
  MAT Credit Utilised = Normal tax liability - MAT liability.
- o Unutilized MAT credit after 15 years is forfeited.