

Provisions of Tax by Company under Section 115JB (Minimum Alternate Tax – MAT)

Introduction

Section 115JB of the Income Tax Act, 1961 deals with the concept of **Minimum Alternate Tax (MAT)**. This section was introduced to ensure that companies which show substantial profits in their books of accounts but pay little or no income tax due to various exemptions, deductions, and incentives should pay a minimum amount of tax to the government. Such companies are popularly known as “**zero tax companies.**”

Meaning of Section 115JB

Under Section 115JB, if the **income tax payable by a company on its total income** as computed under the normal provisions of the Income Tax Act is **less than a prescribed percentage of its book profit**, then the **book profit shall be deemed to be the total income**, and the company shall be liable to pay tax on such book profit.

Thus, MAT is based on **book profits** rather than taxable income.

Applicability of Section 115JB

- Section 115JB applies to **all companies**, including foreign companies (subject to certain conditions).
 - It is applicable when tax payable under normal provisions is **lower than MAT**.
 - It does **not apply** to companies engaged in generation and distribution of electricity (under specific circumstances) and certain foreign companies as notified.
-

Meaning of Book Profit

Book profit means the **net profit** as shown in the **profit and loss account**, prepared in accordance with the provisions of the **Companies Act**, as adjusted by certain additions and deductions specified under Section 115JB.

Computation of Book Profit

Book profit is calculated as follows:

Additions to Net Profit

The following amounts, if debited to the profit and loss account, are added back:

- Income tax paid or payable and provision for tax
- Amounts carried to reserves (other than specified reserves)
- Provision for unascertained liabilities
- Provision for losses of subsidiary companies
- Depreciation (except depreciation on revaluation)
- Deferred tax and provision thereof

Deductions from Net Profit

The following amounts, if credited to the profit and loss account, are deducted:

- Amount withdrawn from reserves (if previously added)
- Income exempt under certain sections (if credited to P&L)
- Depreciation (excluding depreciation on revaluation)
- Brought forward loss or unabsorbed depreciation, whichever is less
- Profits of sick industrial companies (under specified conditions)

After making these adjustments, the resulting figure is treated as **book profit**.

Rate of MAT

- MAT is levied at a **prescribed percentage of book profit**, along with applicable **surcharge and health & education cess**.
- (The exact rate may change from time to time as per Finance Acts.)

MAT Credit

- If a company pays tax under Section 115JB, it is allowed **MAT credit**.
- MAT credit can be carried forward for a specified number of years.
- Such credit can be set off in future years when tax payable under normal provisions exceeds MAT.
- This provision ensures that MAT is not an additional permanent burden but only a **timing difference**.

Filing of Return and Audit Requirement

- Companies covered under Section 115JB must file their return of income.
- A **report from a Chartered Accountant** certifying the correctness of book profit calculation in the prescribed form must be submitted.

Objectives of Section 115JB

- To bring zero-tax companies under the tax net
 - To ensure fair contribution by profitable companies
 - To prevent misuse of tax exemptions and incentives
 - To increase transparency and equity in corporate taxation
-

Section 115JB plays a significant role in the Indian taxation system by ensuring that companies earning substantial book profits pay a minimum level of tax. The provisions of Minimum Alternate Tax help maintain equity, prevent tax avoidance, and safeguard government revenue, while also allowing relief through MAT credit in future years.