

Minimum Alternate Tax (MAT)

Meaning of Minimum Alternate Tax (MAT)

Minimum Alternate Tax (MAT) is a provision under the **Income Tax Act, 1961** designed to ensure that companies having substantial book profits and paying little or no income tax due to various exemptions, deductions, and incentives pay at least a **minimum amount of tax** to the government.

MAT was introduced to bring “**zero-tax companies**” into the tax net. Even if a company’s taxable income under normal provisions is low or nil, it must pay tax on its **book profit** as shown in the profit and loss account.

MAT is governed by **Section 115JB** of the Income Tax Act.

Objectives of MAT

1. To ensure that profitable companies contribute a minimum tax.
 2. To prevent misuse of tax incentives and exemptions.
 3. To widen the tax base.
 4. To promote fairness and equity in the tax system.
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Applicability of MAT

MAT is applicable to:

- All companies (domestic and foreign having income in India),
- Including companies enjoying tax holidays or exemptions.

MAT is **not applicable** to:

- Companies engaged in shipping business under Section 115V,
 - Certain foreign companies not having permanent establishment in India.
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Rate of MAT

- MAT is charged at **15% of book profit**
- Plus applicable **surcharge and health & education cess**

(Rate subject to change as per Finance Act)

Meaning of Book Profit

“Book Profit” means the **net profit** as shown in the Profit & Loss Account prepared in accordance with **Schedule III of the Companies Act**, as **adjusted** by specified additions and deductions under Section 115JB.

Main Provisions Regarding Payment of MAT

1. Computation of MAT (Section 115JB)

If the **tax payable under normal provisions** is **less than MAT**, then:

- Book profit is deemed as total income,
 - MAT becomes payable by the company.
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2. Adjustments to Net Profit

Additions to Net Profit:

- Income tax paid or payable,
- Amounts carried to reserves,
- Provision for unascertained liabilities,
- Provision for diminution in value of assets,
- Deferred tax provisions.

Deductions from Net Profit:

- Amount withdrawn from reserves,
 - Depreciation (excluding revaluation),
 - Brought forward loss or unabsorbed depreciation (whichever is less),
 - Income exempt under Sections 10, 11, and 12 (if credited to P&L).
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3. MAT Credit (Section 115JAA)

- Excess MAT paid over normal tax can be carried forward as **MAT Credit**.

- MAT credit can be carried forward for **15 assessment years**.
 - MAT credit can be set off when normal tax liability exceeds MAT.
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4. Payment of Advance Tax

- MAT is subject to **advance tax provisions**.
 - Interest under Sections **234B and 234C** is applicable for default or deferment.
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5. Filing of Return

- Companies liable to MAT must file return of income under **Section 139(1)**.
 - Audit report in **Form 29B** (certified by a Chartered Accountant) must be submitted.
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6. Tax Audit Requirement

- Computation of book profit must be certified by a **Chartered Accountant**.
 - Ensures correctness of MAT liability.
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7. Set-off and Carry Forward

- MAT credit can be utilized only against normal tax liability.
 - No interest is allowed on MAT credit balance.
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8. Applicability to Foreign Companies

- MAT applies to foreign companies only if they have a **permanent establishment** in India or are required to prepare accounts under Companies Act.
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Advantages of MAT

1. Prevents tax avoidance by profitable companies.
2. Ensures steady revenue for the government.
3. Encourages transparency in accounting profits.

Criticism of MAT

1. Increases tax burden on companies under tax holiday.
2. Complex computation process.
3. Affects cash flow of companies.

Minimum Alternate Tax is an important mechanism under the Income Tax Act to ensure that companies earning substantial profits pay a **minimum level of tax** irrespective of exemptions and deductions. Though MAT increases compliance burden, it plays a crucial role in maintaining equity and broadening the tax base of the Indian taxation system.