

Minimum Alternate Tax (MAT)



SECTION 115JB OF IT ACT, 1961

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Meaning of MAT



- Minimum Alternate Tax is the minimum tax payable by any company.
- This tax is computed using a separate charging section altogether. The manner of computation of MAT has been prescribed in Section 115JB.
- It is calculated on “book profit”.
- Book profit is arrived at by adjusting the Net Profit, as declared by the company under Companies act, for various components.

Objective for Introducing MAT



- Emergence of “**Zero Tax Companies**”-
 - Companies showing huge book profits in the profit and loss account laid in the AGM,
 - Distributed huge dividends,
 - However did not pay any taxes as taxable income as per Income tax Act was either NIL or negative or insignificant.
 - This was due to higher rates of depreciation and various incentives given to companies under the Income tax Act , 1961.

History of MAT



- MAT was introduced for the first time by Finance Act, 1987 by inserting **Section 115J** in the IT Act, 1961. **Rate of MAT – 30%**
- It was subsequently withdrawn by Finance Act, 1990.
- MAT was later reintroduced by inserting **Section 115JA** by Finance Act, 1996. **Rate of MAT – 30%**
- Subsequently Section 115JA was replaced by **Section 115JB** by Finance Act, 2000. **Rate of MAT – 18%**
- Rate of MAT was increased to **18.5%** by Finance Act 2011.

Charging Section – 115JB



- According to section 115JB, every assessee, being a **company**, is liable to pay MAT if the **income tax**, payable on the total income as computed under this Act, in respect of any assessment year, is less than **18.5%** of its **book-profit** + surcharge + education cess + secondary and higher education cess.
- If a company pays tax as per MAT provisions, then total income of the company is deemed to be its book profits.

Applicability of MAT



Applicable to	Not Applicable to
❖ Domestic Company	❖ Life Insurance Company
❖ Foreign Company	❖ Developer of a SEZ
❖ Private Limited	❖ Unit in a SEZ
❖ Public Limited	❖ Certain foreign companies.

Applicability of MAT



- MAT is not applicable to the following **Foreign Companies**:
 - Foreign companies which is resident in a country with which India has entered into a DTAA and the company does not have a Permanent Establishment in India.
 - Foreign companies which is resident in a country with which India has **not** entered into a DTAA and the company is **not required** to obtain a registration under any law in India.

Preparation of Profit & Loss Account



- Every company, shall prepare its Profit & Loss account in accordance with –
 - the provisions of Part II of Schedule VI to the Companies Act, 1956 (Corresponding to Schedule III of the Companies Act, 2013), or
 - the provisions of the Act governing such company. Eg. Electricity company, Banking company.

Preparation of Profit & Loss Account



- The Profit & Loss account for the purpose of this section shall be prepared using the accounting policies, the accounting standards and the method & rate of depreciation as have been adopted for the purpose of preparing such accounts laid before the company at the AGM.
- This provision has been introduced to ensure that a company does not evade taxes by following a preferential accounting policy for preparation of accounts u/s 115JB.

Computation of Book Profits



- For the purposes of this section, “book profit” means the net profit as shown in the profit and loss account for the relevant previous year prepared as per section 115JB(2) above, **as increased by –**
(The following amounts will be added back to the Net profit only if they are debited in Profit & Loss account)

Clause (a): the amount of income tax paid or payable, and the provision thereof;

Computation of Book Profits (Contd..)



Analysis-

- The following amounts are to be considered as payment of Income tax-
 - DDT paid u/s 115-O or u/s 115R.
 - Surcharge, Education Cess and Secondary and Higher Education Cess on Income tax.
 - Interest paid under the Income Tax Act, 1961. Eg: Interest u/s 234A, 234B, 234C, 200A, etc.
 - Penalties paid under any law would not be added back.
 - STT & CTT is not to be added back.

Computation of Book Profits (Contd..)



Clause (b): the amounts carried to any reserves by whatever name called, other than a reserve under section 33AC.

Corresponding reduction from Net Profit-

Clause (i): the amount withdrawn from any reserves or provisions if any such amount is credited to the profit and loss account.

Provided that this reduction would be made only if the reserve/provision was previously created by debiting Profit and Loss account and was subjected to MAT.

Computation of Book Profits (Contd..)



Analysis

- Any amount which is transferred to any reserve shall be added back.
Eg. Dividend equalization reserve, debenture redemption reserve, general reserve, investment fluctuation reserve, etc.
- Any transfer made to any reserve created under section 80IA, 10AA, etc. shall also be added back.
- The proviso nullifies the tax planning of crediting incomes directly to a dummy reserve account which is later transferred to Profit & Loss account and thereby claiming a reduction in the book profits of the amount credited.

Computation of Book Profits (Contd..)



Clause (c): the amount or amounts set aside to provisions made for meeting liabilities, other than ascertained liabilities.

Analysis

- Provision for leave encashment made on a scientific basis, provision for gratuity made as per actuary, provision for warranty or losses made on a scientific basis are examples of ascertained liabilities.
- Provision for gratuity, leave encashment, warranty made on ad-hoc basis are examples of unascertained liabilities.

Computation of Book Profits (Contd..)



Clause (d): the amount by way of provision for losses of subsidiary companies.

Analysis

- A company is not required to create a provision for losses of subsidiary companies as per the applicable accounting standards or Schedule III of Companies Act, 2013.
- If such a provision is made then it is to be disclosed separately in notes to accounts.

Computation of Book Profits (Contd..)



- Even the actual loss of a subsidiary company debited to Profit & Loss account shall be added back.
- Share of loss from a firm debited to Profit & Loss account cannot be added back for calculating net profit as the words used are “subsidiary companies” and not “subsidiaries” .

[Dy. CIT v. Metro Exporters Ltd. (2006) 10 SOT 647 (Mum.)]

Computation of Book Profits (Contd..)



Clause (e): the amount or amounts of dividends paid or proposed.

Analysis

- Any provision made for payment of dividend in accordance with AS 4 which is debited in the Profit & Loss account shall be added back.
- As per Ind AS-10, a company is merely required to disclose the amount of proposed dividend in its notes to accounts.

Computation of Book Profits (Contd..)



Clause (f): the amount or amounts of **expenditure** relatable to any income to which **section 10** (other than the provisions contained in section 10(38) thereof) or **section 11** or **section 12** apply.

Corresponding reduction from Net Profit-

Clause (ii): the amount of **income** to which any of the provisions of **section 10** (other than the provisions contained in section 10(38) thereof) or **section 11** or **section 12** apply, if any such amount is credited to the Profit & Loss account.

Computation of Book Profits (Contd..)



Analysis

- Only income covered u/s 10 (other than section 10(38)), 11 and 12 of the Income Tax Act, 1961 are to be reduced while calculating book profits, if it is credited to the Profit & Loss account.
- Income by way of LTCG referred to in section 10(38) is not to be reduced and the same is liable to MAT.
- Income covered u/s 10AA is not to be reduced and the same is liable to MAT.

Computation of Book Profits (Contd..)



Clause (fa): the amount or amounts of **expenditure** relatable to, income, being share of the assessee in the income of an association of persons or body of individuals, on which no income-tax is payable in accordance with the provisions of section 86.

Computation of Book Profits (Contd..)



Corresponding reduction from Net Profit-

Clause (iic): the amount of **income**, being share of the assessee in the income of an association of persons or body of individuals, on which no income-tax is payable in accordance with the provisions of section 86, if any such amount is credited to the Profit & Loss account.

Computation of Book Profits (Contd..)



Analysis

- Section 86 provides exemption from Income tax to the share of income earned by a member of an AOP or BOI under certain circumstances. This income was earlier liable to MAT.
- However, share of income from a Partnership firm was not liable to MAT.
- Therefore, to bring parity in the MAT provisions, share of income from AOP or BOI have been excluded from MAT w.e.f. AY 2016-17.

Computation of Book Profits (Contd..)



Clause (fb): the amount or amounts of **expenditure** relatable to income accruing or arising to an assessee, being a **foreign company**, from-

(A) the capital gains arising on transactions in securities; or

(B) the interest, royalty or fees for technical services chargeable to tax at the rate or rates specified in Chapter XII,

if the income-tax payable thereon in accordance with the provisions of this Act, **other than the provisions of this Chapter**, is at a rate **less** than the rate specified in sub-section (1) (i.e., less than 18.5%).

Computation of Book Profits (Contd..)



Corresponding reduction from Net Profit-

Clause (iic): the amount of **income** accruing or arising to an assessee, being a **foreign company**, from-

(A) the capital gains arising on transactions in securities; or

(B) the interest, royalty or fees for technical services chargeable to tax at the rate or rates specified in Chapter XII,

if such income is credited to the Profit and Loss account and the income-tax payable thereon in accordance with the provisions of this Act, **other than the provisions of this Chapter**, is at a rate **less** than the rate specified in sub-section (1) (i.e., less than 18.5%).

Computation of Book Profits (Contd..)

Analysis

- These clauses were introduced by Finance Act, 2015 w.e.f. AY 2016-17.
- Cases where capital gain on transactions in securities is chargeable at a rate lower than 18.5% :

Nature of Income	Section	Rate of Tax
STCG on sale of Equity Shares/EOMF/units of BT (STT suffered)	111A	15%
LTCG on sale of Equity Shares/EOMF/units of BT (STT suffered)	10(38)	NIL

Computation of Book Profits (Contd..)

Nature of Income	Section	Rate of Tax
LTCG on listed securities (except units) and ZCB without applying indexation	Proviso to 112	10%
LTCG on transfer of units purchased in foreign currency arising to overseas financial organization	115AB	10%
LTCG on transfer of GDRs purchased in foreign currency arising to a non- resident	115AC	10%
LTCG on transfer of securities arising to a Foreign Institutional Investor	115AD	10%

Computation of Book Profits (Contd..)

- Cases where interest, royalty and fees for technical services is taxable at a rate below 18.5 %:

Nature of Income	Section	Rate of Tax
Royalty received from Government or an Indian Company by a non-resident in pursuance to an agreement approved by the Government	115A	10%
Fees for technical services received from Government or an Indian Company by a non-resident in pursuance to an agreement approved by the Government	115A	10%

Nature of Income	Section	Rate of Tax
Interest received from an Infrastructure Debt fund referred to in section 10(47) by a non resident	115A	5%
Interest received from Indian Company or a Business Trust by a non-resident on money advanced to it under a loan agreement approved by the Government (194LC)	115A	5%
Interest received from any person by a FII or a QFI on rupee denominated bond of Indian Company or on Govt. security (194LD)	115A	5%
Interest received from SPV which is in-turn distributed by a business trust to a non-resident unit holder (Section 194LBA)	115A	5%

Computation of Book Profits (Contd..)



- This reduction is available only if the rate of tax under other provisions of the IT Act is less than 18.5%.
- Clause (fb) was introduced in order to disallow expenses which have been incurred in relation to earning these incomes which are excluded from the levy of MAT.
- These amendments were introduced in order to attract further investment by foreign companies.

Computation of Book Profits (Contd..)



Clause (fc): the amount representing

(A) **notional loss** on transfer of a capital asset, being share of a special purpose vehicle to a business trust in exchange of units allotted by the trust referred to in clause (xvii) of section 47 or

(B) **notional loss** resulting from any change in carrying amount of said units or

(C) **loss** on transfer of units referred to in clause (xvii) of section 47

Computation of Book Profits (Contd..)



Corresponding reduction from Net Profit-

Clause (iie): the amount representing

(A) **notional gain** on transfer of a capital asset, being share of a special purpose vehicle to a business trust in exchange of units allotted by the trust referred to in clause (xvii) of section 47; or

(B) **notional gain** resulting from any change in carrying amount of said units; or

(C) **gain** on transfer of units referred to in clause (xvii) of section 47

if any credited to the Profit & Loss account.

Computation of Book Profits (Contd..)



Analysis

- These clauses were introduced by Finance Act, 2015 w.e.f. AY 2016-17.
- Capital Gain arising on transfer of shares of SPV to the business trust in exchange of units of business trust is exempt u/s 47(xvii).
- However, the gain arising on this exchange would be credited to the Profit & Loss account of the shareholder company and would thus be liable to pay MAT on the same.

Computation of Book Profits (Contd..)



- Similarly, in order to comply with AS 13, a company may have to revalue the units of the business trust at its FMV and the gain or loss arising on this credited or debited to the Profit & Loss account was earlier liable to MAT.
- By introducing these clauses, this notional income has been excluded from calculation of Book Profit.
- The notional loss arising on these transactions is also excluded from calculation of Book Profit.

Computation of Book Profits (Contd..)



- The gain arising on transfer of units of SPV may be taxable u/s 111A @ 15% if it is STCG and it may be exempt u/s 10(38) if it is LTCG. However, this income is liable to MAT.
- This gain is calculated by taking the cost of acquisition of the shares of the SPV originally exchanged to acquire the units in BT.
- However the capital gain credited in Profit & Loss account would have been worked out by taking FMV of the units recorded in the books.

Computation of Book Profits (Contd..)



- This profit arising in the books of accounts has been excluded from the purview of MAT and hence it is reduced from the Profit & Loss account.
- Similarly, book losses debited in the books of accounts is also excluded from the purview of MAT and hence it is added back to the Profit & Loss account for calculating the Book Profit.

Computation of Book Profits (Contd..)



Clause (fd): the amount or amounts of **expenditure** relatable to income by way of royalty in respect of patent chargeable to tax under section 115BBF.

Corresponding reduction from Net Profit-

Clause (iig): the amount of **income** by way of royalty in respect of patent chargeable to tax under section 115BBF.

Computation of Book Profits (Contd..)



Analysis

- These clauses were introduced by Finance Act, 2016 w.e.f. AY 2017-18.
- As per section 115BBF, any income in the nature of royalty, derived by an assessee, from any patent developed and registered by him/it in India shall be chargeable to tax @ 10%.
- However, if this income is earned by a company and credited to its profit and loss account then it would be liable to MAT.

Computation of Book Profits (Contd..)



- Thus, the company would end up paying tax @ 18.5% instead of 10%.
- To avoid this anomaly, this income has been excluded from the levy of MAT and hence it is reduced from the Net Profit.
- Similarly, expenses incurred in relation to this income is also added while computing the book profits.

Computation of Book Profits (Contd..)



Clause (g): the amount of depreciation

Corresponding reductions from Net Profit-

Clause (iia): the amount of depreciation debited to the Profit & Loss account (excluding the depreciation on account of revaluation of assets)

Clause (iib): the amount withdrawn from revaluation reserve and credited to Profit & Loss account, to the extent it does not exceed the amount of depreciation on account of revaluation of assets referred to in clause (iia)

Computation of Book Profits (Contd..)



Analysis

- Upward revaluation of assets was used as a tax planning tool in order to claim higher depreciation and thereby reduce the book profit u/s 115JB.
- However, this has been taken care with the help of clauses (g) and (iia). The net impact of these clauses is that a company cannot claim a reduction of depreciation on revalued portion of a depreciable asset.

Computation of Book Profits (Contd..)



- The Companies Act, 1956 required that the additional depreciation arising on upward revaluation of an asset, which is debited in the Profit & Loss account should be compensated by a corresponding credit of the same amount in the Profit & Loss account from the revaluation reserve created earlier.
- The depreciation on revalued portion is not allowed as a deduction under clauses (g) & (iia). To avoid double taxation, the amount withdrawn from revaluation reserve and credited to Profit & Loss account to the extent of excess depreciation is to be reduced.

Computation of Book Profits (Contd..)



Clause (h): the amount of deferred tax and the provision therefor.

Corresponding reduction from Net Profit-

Clause (viii): the amount of deferred tax, if any such amount is credited to the Profit & Loss account.

Computation of Book Profits (Contd..)



Analysis

- Deferred tax is the tax effect of timing differences.
- When the tax effect of timing difference results in a deferred tax liability, the same is debited in Profit & Loss account. This amount is to be added back by virtue of clause (h).
- When the tax effect of timing difference results in a deferred tax asset, the same is credited to Profit & Loss account. This amount is to be deducted by virtue of clause (viii).

Computation of Book Profits (Contd..)



Clause (i): the amount or amounts set aside as provision for diminution in the value of any asset.

Analysis

- Example- Provision for bad and doubtful debts, provision for diminution in the value of investment or asset.
- This clause was introduced to nullify the decision of Supreme Court in the case of *HCL Comnet Systems and Services Ltd. (2008) 305 ITR 409 (SC)*

Computation of Book Profits (Contd..)



- It was held that provision for bad and doubtful debts can neither be said to be amount set-aside for meeting unascertained liability nor amount set apart to any reserve. Thus, it cannot be added back under clause (b) or (c).
- The court held that this is an allowable expenditure while computing book profits even though the same is not allowable while computing total income under IT act, 1961.
- Bad debts actually written off is an allowable expenditure for computing book profits.

CIT v. Yokogawa India Ltd. [2012] 17 taxmann.com 15 (Kar.)

Computation of Book Profits (Contd..)



Clause (j): the amount standing in revaluation reserve relating to revalued asset on the retirement or disposal of such asset, if such amount is **not** credited to Profit & Loss account.

Analysis

- As per AS 10, revaluation reserve is created on upward revaluation of assets by crediting revaluation reserve account and debiting the respective asset account.
- The amount credited to Revaluation reserve represents unrealized gain and the same is not taxable under MAT or other income tax provisions.

Computation of Book Profits (Contd..)



- However, after disposal of the asset, the amount standing in revaluation reserve represents realized gain.
- AS 10 provides that “The amount standing in revaluation reserve, following the retirement or disposal of an asset, which relates to that asset may be transferred to **general reserve**.” This amount escapes the levy of MAT when it is not credited to the Profit & Loss account.
- Thus, clause (j) was introduced by Finance Act, 2012 to tax such amounts if they are not credited to Profit & Loss account.

Computation of Book Profits (Contd..)



- Amount of revaluation reserve related to the revalued asset disposed of or retired should be lying unutilized in revaluation reserve at the time of retirement or disposal of revalued asset. It should not have been utilized for any purpose, such as, writing off additional depreciation on revalued portion of a fixed asset.

Computation of Book Profits (Contd..)



➤ **Illustration-**

- ❖ ABC Ltd. revalued its plot of land in Pune (original cost Rs. 10,00,000) at Rs. 3,00,00,000 in financial year 2010-11.
- ❖ The resulting surplus on revaluation Rs. 2,90,00,000 was credited to revaluation reserve and has since been appearing in the balance sheet.
- ❖ The company sold the plot on 10-8-2013 at Rs. 4,00,00,000 and credited the difference of Rs. 1,00,00,000 (between sale proceeds Rs. 4,00,00,000 and revalued amount of Rs. 3,00,00,000) to P & L account. Further, the company transferred the revaluation reserve balance of Rs. 2,90,00,000 to general reserve.

Computation of Book Profits (Contd..)



➤ **Solution-**

- ❖ The profit on sale of Rs.1,00,00,000 which is credited in the Profit & Loss account is liable to be included in book profit.
- ❖ Further, clause (j) will come into play since sale of plot of land has taken place on or after 1-4-2012 and Rs. 2,90,00,000 is liable to be added to net profit for calculating 'book profit'.

Computation of Book Profits (Contd..)



Clause (k): the amount of gain on transfer of units referred to in clause (xvii) of section 47 computed by taking into account the **cost of the shares exchanged** with the units referred to in the said clause or the carrying amount of the shares at the time of exchange where such shares are carried at a value other than the cost through Profit & Loss account, as the case maybe.

Computation of Book Profits (Contd..)



Corresponding reduction from Net Profit-

Clause (iif): the amount of loss on transfer of units referred to in clause (xvii) of section 47 computed by taking into account the **cost of the shares exchanged** with the units referred to in the said clause or the carrying amount of the shares at the time of exchange where such shares are carried at a value other than the cost through Profit & Loss account, as the case maybe.

Computation of Book Profits (Contd..)



Analysis

- These clauses have been introduced by Finance Act, 2015.
- Capital gain on sale of units of business trust, referred to in section 47 (xvii) is computed by taking into account the cost of original shares exchanged.
- Such capital gain may be taxable @ 15% u/s 111A or exempt u/s 10(38), but the same is liable MAT.

Computation of Book Profits (Contd..)



- The book profit or loss on exchange of shares with the units of a business trust, or on revaluation of units of business trust or on sale of units of business trust is outside the purview of MAT.
- Thus, the book profit or loss is reduced from or added back to the Net profit vide clauses (iie) and (fc) respectively.
- However, the capital gain on sale of units computed by taking into account the original cost of shares exchanged is taxable and is to be added back to or reduced from the net profit under clauses (k) and (iif) respectively.

Computation of Book Profits (Contd..)



- The following amounts are to be reduced from the Net Profit while computing the Book Profit u/s 115JB:

Clauses (i), (ii), (iia), (iib), (iic), (iid), (iie), (iif), (iig) and (viii) have already been discussed with their corresponding additions.

Clause (iii): the amount of loss brought forward or unabsorbed depreciation, whichever is less **as per books of account**.

Computation of Book Profits (Contd..)



Explanation to Clause (iii): For the purposes of this clause-

- (a) Loss shall not include depreciation
- (b) If the amount of loss brought forward or unabsorbed depreciation is **NIL**, then nothing shall be deducted under this clause.

Computation of Book Profits (Contd..)



Analysis

- The loss appearing in the books of accounts is allowed to be reduced from Net Profit.
- The unabsorbed business loss is to be computed without giving effect to the book depreciation (i.e. loss before depreciation).
- The accounting standards does not require losses to be split into business loss and unabsorbed depreciation.
- Section 115JB does not provide the method of computation of losses and unabsorbed depreciation.

Computation of Book Profits (Contd..)



- The assessing officer cannot apply the principles prescribed in section 70-79 for computation of accumulated losses as per books of accounts as these provisions prescribe the method of computation of losses as per Income tax Act.
Sushi Sea Foods (P) Ltd. v. Asst. CIT [2011] 15 taxmann.com 232 (Vishakha.)
- The consolidated amount of unabsorbed business losses of all the past years is to be compared with the consolidated amount of unabsorbed depreciation of all the past years.

Computation of Book Profits (Contd..)

- This is because the word employed in the provision is the “amount” and not the “amounts” of loss brought forward or unabsorbed depreciation, whichever is less.
- This shows the intention of the Legislature for considering one consolidated figure of brought forward loss or unabsorbed depreciation for earlier years in totality and not on year to year basis- *Amline Textiles (P.) Ltd. v. ITO* [2009] 27 SOT 152 (Mum.)

Computation of Book Profits (Contd..)

➤ Illustration

FY (1)	B/f business loss (Rs.) (2)	B/f depreciation loss (Rs.) (3)	B/f Loss after depreciation (Rs.) (4)	Lower of col. (2) & (3) (Rs.)
2005-06	100	10	110	10
2006-07	2	10	12	2
2007-08	9	10	19	9
2008-09	0	10	10	0
2009-10	3 (profit)	10	7 (loss)	0
Total	108	50		21

- The loss available for set here is Rs. 50 and not Rs. 21.

Computation of Book Profits (Contd..)



- FIFO method should be used to appropriate the losses of earlier years against the profit of the current years, i.e., the loss of the earliest year is to be first set off against the profit of the current year- *CIT v. Carbon & Chemicals India Ltd. [2011] 196 taxmann 302 (Ker.)*.
- The loss outstanding at the beginning of the year is to be considered for computation of loss available for set off.
CIT v. Sumi Motherson Innovative Engg. Ltd. [2010] 195 Taxman 353 (Delhi).

Computation of Book Profits (Contd..)



Clause (vii): the amount of **profits** of sick industrial company for

- the assessment year commencing on and from the assessment year relevant to the previous year in which the said company has become sick industrial company under sub-section (1) of section 17 of the Sick Industrial Companies (Special Provisions) Act, 1985 (1 of 1986) and
- ending with the assessment year during which the entire net worth of such company becomes equal to or exceeds the accumulated losses.

Computation of Book Profits (Contd..)



Analysis

- MAT is not applicable on profits earned by a sick industrial company. A sick industrial company is a company whose accumulated losses exceeds its Net worth and it is so declared by the Board for Industrial and Financial Reconstruction.
- Net worth = Total paid up share capital + Free reserves
- Free reserves include all reserves created out of profit including Share premium but does not include revaluation reserves.

Summary of Additions & Reductions



- Book profit is to be computed by making the following adjustments to the net profit declared by the company:

Additions

(if amounts in (a) to (i) are debited and amount in (j) is not credited to Profit & Loss a/c)

(a) The amount of Income tax paid or payable, and the provision therefor

(b) The amount carried to reserves, other than reserve u/s 33AC

(c) The amount set aside to provisions for meeting ascertained liabilities

(d) The amount by way of provision for losses of subsidiary companies

(e) The amount of dividend paid or proposed

(f) Expenses in relation to income u/s 10 (other than income u/s 10(38)) or 11 or 12

Summary of Additions & Reductions



Additions

- (fa) Expenses in relation to share of profit from AOP/BOI, exempt u/s 86
- (fb) Expenses in relation to income of foreign company from capital gains arising on securities or from interest, royalty or fees for technical services.
- (fc) Notional loss arising on exchange of shares of SPV for units of BT or on revaluation of units of BT or on sale of units of BT.
- (fd) Expenses in relation to royalty in respect of patent taxable u/s 115BBF
- (g) The amount of depreciation
- (h) The amount of deferred tax and the provision therefor

Summary of Additions & Reductions



Additions

- (i) The amount set aside as provision for diminution in the value of any asset
- (j) The amount standing in revaluation reserve relating to revalued asset on its disposal
- (k) Gain on transfer of units referred to Section 47(xvii) computed by taking into account the cost of the shares exchanged with the said units

Summary of Additions & Reductions



Reductions

- (i) The amount withdrawn from any reserve or provision
- (ii) Income u/s 10 (other than section 10(38)) or section 11 or section 12
- (iia) Depreciation debited to Profit & Loss account excluding depreciation on account of revaluation of asset
- (iib) The amount withdrawn from revaluation reserve to the extent of depreciation on account of revaluation of asset
- (iic) Share of profit from AOP/BOI exempt u/s 86
- (iid) Income of a foreign company being capital gains on securities and interest, royalty and fees for technical services referred to in Chapter XII.

Summary of Additions & Reductions



Reductions

- (iie) Notional gain on exchange of shares of SPV for units in BT or on revaluation of units of BT or on sale of units of BT
- (iif) Loss on transfer of units referred to Section 47(xvii) computed by taking into account the cost of the shares exchanged with the said units
- (iig) Income by way of royalty in respect of patents taxable u/s 115BBF
- (iii) The amount of loss brought forward or unabsorbed depreciation, whichever is lower as per books of accounts
- (vii) Profit of sick industrial company till its net worth equals or exceeds the accumulated losses

Carry forward of Losses & Depreciation



- As per Section 115JB(3), a company is permitted to carry forward losses u/s 32, 72, 73, 74 or 74A irrespective of whether the company pays taxes as per MAT provisions or normal income tax provisions.
- The company can carry forward losses and depreciation to the extent it could have been carried forward had section 115JB not been applicable.

Furnishing of Report



- As per **Section 115JB(4)**, every company to which this section applies shall furnish a report from a Chartered Accountant in the prescribed form (**Form 29A**)
- certifying that the book profit has been computed in accordance with the provisions of section 115JB and
- such report shall be furnished along-with the return of income.

Tax Credit in respect of Tax paid u/s 115JB



- As per **Section 115JAA**, every company which pays tax as per section 115JB shall be allowed a credit of the taxes so paid.
- Credit = Tax paid as per MAT provisions (-) Tax payable as per other provisions of the IT Act.
- This credit can be carried forward for 10 Assessment years after the assessment year in which the credit arose.

Tax Credit in respect of Tax paid u/s 115JB



- The credit shall be allowed to be set off in a year when tax becomes payable under normal provisions of the IT Act.
- The amount allowed to be set off = Tax on total income as per normal provisions of the IT Act (-) Tax on book profits as per section 115JB

"That's all Folks!"