

# Minimum alternate tax

[Economics](#), [Tax](#)



Minimum Alternate Tax \* Contributed under income tax \* by vakilsearch

Taxation on income is a vital source of revenue for our Government.

Although Companies have to follow a mind-bogglingly complex procedure, the list of exemptions and deductions is long. As a result, a lot of Companies used these deductions and exemptions and escaped tax liability. While they enjoyed book profits as per their profit and loss accounts (and sometimes even distributed dividend), tax liability as per the Income Tax Act was either nil or negative or insignificant.

To counter this “ problem” the government came up with the concept of Minimum Alternate Tax (MAT) in the financial year 1997-1998. What is Minimum Alternate Tax? As per section 115 JA of the Income Tax Act, if a company’s taxable income is less than a certain percentage of the booked profits, then by default, that much of the book profits will be considered as taxable income and tax has to be paid on that. The current rate for MAT is 18%, up from 7.5% in 2001-2002. Since this is a very broad provision, sometime companies who genuinely deserve tax relief get stuck with MAT liability.

Hence, a system of MAT credit entitlement was brought in. MAT Credit Under this system, if a company pays Minimum Alternate Tax, then the difference between the tax that would have been payable if there was no MAT and the actual tax paid under MAT regime can be carried forward as a credit and can be set off against any tax in the future that is not under the MAT regime. For example, if a company has a book profit of 10 lakhs and after applying the provisions of Income tax act, arrives at a taxable income of only Rs. 1 lakh, then MAT becomes applicable as 18% of 10 lakhs is 1.8 lakhs. However, the

difference between the tax paid on 1.8 lakhs and the tax calculation on 1 lakh is carried forward as MAT credit. Say, the next year, a profit of 11 lakhs is booked but this time due to some cost-cutting initiatives, the company calculates a taxable income of 6 lakhs. Hence, MAT is not applicable as the taxable income is more than 18%. Here the company can choose to set off their tax liability with the tax credit they have from the last time when they paid MAT.

Criticisms As can be easily seen, capital intensive companies like steel & construction etc. have long been chronic victims of MAT and have lobbied for its removal ever since its inception. A lot of them are yet to encounter a period where they haven't had to pay MAT. And considering that MAT credit can be carried forward only for a period of ten assessment years at a time, it has led to capital erosion on account of MAT. It is another instance of short-sightedness on the part of the Government; and one among many measures which cripple our global competitiveness for short-term revenue collection. (Contributed to The Hindu Business Line)