M Com Sem -4

Taxation-2

Lecture-4

Taxation of Companies

What is Company Taxation?

- Tax levied on the **profits of a company** by the government.
- Companies pay taxes just like individuals but with different rules.
- Total Income Computed under 4 heads (Excluding Salary Head)
- Aggregating Income section 60 and 61 Shall be applicable. (Clubbing of Income)
- Effect of Set off of losses and Adjustment for brought forward losses will also be done.
- From the Gross Total of Income Deduction of Chapter VIA should be Allowed.

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Corporate Tax Structure

1 Domestic Companies

Criteria	Tax Rate (AY 2024-25)	Tax Rate (AY 2025-26)	Surcharge	Health & Education Cess
Turnover ≤ ₹400 Cr (FY 2021-22 for AY 24-25) (FY 2022-23 for AY 25-26)	25%	25%	7% if income ₹1 Cr & ≤ ₹10 Cr 12% if income > ₹10 Cr	4% on total tax + surcharge
Turnover > ₹400 Cr	30%	30%	7% if income ₹1 Cr & ≤ ₹10 Cr 12% if income > ₹10 Cr	4% on total tax + surcharge

Corporate Tax Structure

1 Domestic Companies

Criteria	Tax Rate (AY 2024-25)	Tax Rate (AY 2025-26)	Surcharge	Health & Education Cess
Opting for Section 115BAA *(Lower tax regime without incentives/deductions)*	22%	22%	10% (fixed, irrespective of income level)	4% on total tax + surcharge
New Domestic Manufacturing Companies (Section 115BAB) *(Incorporated after 01-Oct-2019 & commencing before 31-Mar-2024)*	15%	15%	10% (fixed, irrespective of income level)	4% on total tax + surcharge

Corporate Tax Structure

2 Foreign Companies

Criteria	Tax Rate (AY 2024-25)	Tax Rate (AY 2025-26)	Surcharge	Health & Education Cess
General Income	40%	**35%**	2% if income ₹1 Cr & ≤ ₹10 Cr 5% if income > ₹10 Cr	4% on total tax + surcharge
Royalties or Technical Service Fees *(Under agreements made after 31-Mar-1961 & before 1-Apr-1976)*	50%	50%	2% if income ₹1 Cr & ≤ ₹10 Cr 5% if income > ₹10 Cr	4% on total tax + surcharge

Corporate Tax and Marginal Relief

Marginal Relief

- **Marginal Relief** is a benefit given to taxpayers when their **taxable income slightly exceeds the threshold limit** where a higher **surcharge** is applicable.

- It ensures that the additional tax due to surcharge is **not more than the income exceeding the threshold**.

Marginal Relief

When is Marginal Relief Applicable?

Marginal Relief applies when:

- The taxpayer's income **exceeds ₹1 crore and ₹10 crores.**
- The increase in total tax (including surcharge) is more than the **excess income over the threshold**.
- Marginal relief **reduces the excess tax** to bring it in line with the actual increase in income.

Step For Calculation Marginal Relief

Step-1 Determine Total income
Step-2 Calculate Income Tax on total Income
Step-3 Surcharge On Income Tax
Step-4 Tax Deductible Amount
(a) Excess amount over 1 Cr Less Income Tax
(b) Excess amount over 10 Cr (Surcharge on Tax of 10Cr + Excess amount over 10Cr less Income Tax)
Step -5 Consider Lower Amount from a following as a surcharge
Surcharge calculate as per step 3
or
Deductible amount as per step-4
Step- 6 Total Income tax payable
Total Income Tax + Surcharge + HE Cess

Today’s Topic

- ✓ Practical Examples
  - -Tax Calculation
  - -Marginal Relief
- ✓ MAT and AMT

Calculation Marginal Relief

Practical Examples

Minimum Alternate Tax (MAT)

Introduction

- Many large and profitable companies paid **little or no tax** due to various deductions, exemptions, and incentives available under the **Income Tax Act, 1961**.
- These companies, often called **“zero-tax companies”**, showed low or nil taxable income even when their **book profits (as per Companies Act) were high**.
- To address this, the Indian government introduced MAT.

Minimum Alternate Tax (MAT)

Meaning of MAT

- MAT is a **minimum tax** that companies must pay, even if their regular taxable income (as per Income Tax Act) is **low or nil** due to deductions and exemptions.

- It is calculated as a **percentage of "book profits"** instead of regular taxable income.

Minimum Alternate Tax (MAT)

📌 Objective of MAT

- To **bring zero-tax companies into the tax net**, ensuring fair taxation.
- To prevent **excessive use of exemptions, deductions, and incentives** that reduce taxable income.
- To **maintain fairness** in the tax system so that even profit-making companies contribute to the economy.

Minimum Alternate Tax (MAT)

History of MAT

Year	Development in MAT
1983	**Concept Introduced** (Section 80VVA) – Required companies to pay a **minimum tax of 30%** of their adjusted income. However, this was soon by Finance Act, 1990
1997	**Formal Introduction of MAT (Section 115JA)** – Companies had to pay a minimum tax of **30% of book profits** (excluding surcharge & cess)
2000	**MAT Replaced by Section 115JB** – A more structured MAT was introduced with a **rate of 7.5% on book profits**.
2020	MAT exemption granted to companies opting for the **new tax regime** under Section 115BAA & 115BAB.
2023-24	MAT continues at **15%** of book profits, applicable to companies not opting for the new concessional tax regime.

Minimum Alternate Tax (MAT)

Basic Provisions of MAT (As per Section 115JB of the Income Tax Act, 1961)

✅ **Applicability :** Applicable to all **domestic & foreign companies**

✅ **Payment Obligation :**

Will Be higher of the Following

(a) Tax Liability as per Regular Tax rate
(Tax Calculate on Taxable Income)
(b) Tax Liability as per MAT Rate
(Tax Calculate on Book Profit)

✅ **Exempted Companies :**

Companies opting for the new tax regime under Sections 115BAA and 115BAB are exempt from MAT.

Minimum Alternate Tax (MAT)

Basic Provisions of MAT (As per Section 115JB of the Income Tax Act, 1961)

✅ **Not Applicable:**

- Domestic Companies opting for the new tax regime under Sections 115BAA and 115BAB are exempt from MAT.
- Any income accruing or arising to a company from the life insurance business referred to in section 115B
- Shipping company, the income of which is subject to tonnage taxation.

Tonnage Taxation is a **special taxation system for shipping companies**, where **income tax is levied based on the tonnage of ships owned or operated**, rather than actual profits.
This system provides **tax certainty, reduces compliance burden, and prevents profit manipulation** by shipping companies.

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MAT Rate for the assessment year 2023-24 and 2024-25

1 MAT Rates for Domestic Companies

Gross Book Profit (₹)	MAT Rate	Surcharge	H E Cess	Effective MAT Rate
Up to ₹1 Crore	15%	Nil	4%	15.60%
₹1 Crore – ₹10 Crore	15%	7%	4%	16.692%
Above ₹10 Crore	15%	12%	4%	17.472%

MAT Rate for the assessment year 2023-24 and 2024-25

2 MAT Rates for Foreign Companies

Gross Book Profit (₹)	MAT Rate	Surcharge	H E Cess	Effective MAT Rate
Up to ₹1 Crore	15%	Nil	4%	15.60%
₹1 Crore – ₹10 Crore	15%	2%	4%	15.912%
Above ₹10 Crore	15%	5%	4%	16.38%

3 MAT Rates for IFSC (International Financial Services Centre) Companies

Gross Book Profit (₹)	MAT Rate	Surcharge	H E Cess	Effective MAT Rate
Any Amount	9%	Nil	4%	9.36%

MAT Credit – Section 115JAA

1 What is MAT Credit?

- **MAT Credit** is the excess tax paid under **Minimum Alternate Tax (MAT) (Section 115JB)** over the regular tax liability under **normal provisions of the Income Tax Act**.

- This excess MAT can be **carried forward and adjusted** against future tax liabilities under normal provisions.

MAT Credit – Section 115JAA

2 How is MAT Credit Generated?

👉 When a company's **MAT liability (15% of book profit)** is **higher** than the tax payable under normal provisions, the excess **MAT paid can be carried forward** as MAT Credit.

📝 **Formula:**

MAT Credit = MAT Paid – Normal Tax Liability

MAT Credit – Section 115JAA

3 MAT Credit Carry Forward Rules

✓ **MAT Credit can be carried forward for up to 15 years** (Section 115JAA(3A)).

✓ MAT Credit **can be set off only against future normal tax liability**, not against future MAT.

✓ If a company is paying **only MAT continuously**, MAT Credit cannot be utilized.

MAT Credit – Section 115JAA

4 MAT Credit Adjustment Process

✓ In future years, if the **normal tax liability becomes higher than MAT liability**, the company can **use MAT Credit** to reduce the total tax payable.

✓ However, MAT Credit utilization **cannot reduce tax below the MAT liability** for that year.

Report and Forms :

For **Minimum Alternate Tax (MAT) computation under Section 115JB**, the following forms are applicable:

1 Form 29B – Audit Report for MAT Computation

✓ Mandatory for Companies liable to pay MAT under Section 115JB
✓ Issued by a Chartered Accountant (CA)
✓ Certifies that the MAT computation is as per the Income Tax Act, 1961

📌 Who needs to file Form 29B?

All companies required to pay **MAT under Section 115JB** must obtain a **CA-certified Form 29B** and submit it along with their **Income Tax Return (ITR-6)**.

Report and Forms :

For **Minimum Alternate Tax (MAT) computation under Section 115JB**, the following forms are applicable:

1 Form 29B – Audit Report for MAT Computation

✓ **Mandatory for Companies liable to pay MAT under Section 115JB**
✓ **Issued by a Chartered Accountant (CA)**
✓ **Certifies that the MAT computation is as per the Income Tax Act, 1961**
✓ **Company files Form 29B electronically** on the Income Tax Portal.

📌 Who needs to file Form 29B?

All companies required to pay **MAT under Section 115JB** must obtain a **CA-certified Form 29B** and submit it along with their **Income Tax Return (ITR-6)**.

Alternate Minimum Tax (AMT) – Section 115JC to 115JF

Alternate Minimum Tax (AMT) is a tax imposed on **non-corporate taxpayers** to ensure they pay a **minimum amount of tax** when they claim excessive deductions or exemptions.
It is similar to **Minimum Alternate Tax (MAT),** which applies to companies.

🔷 Applicability of AMT – Section 115JC

✅ AMT applies to the following taxpayers if their **Adjusted Total Income (ATI) exceeds ₹20 lakh**:

- **Individuals & Hindu Undivided Families (HUFs)**
- **Partnership Firms & Limited Liability Partnerships (LLPs)**
- **Any other non-corporate taxpayers**

❌ **AMT does not apply to**:

- Companies (MAT applies under **Section 115JB**).
- Non-corporate taxpayers who do not claim specified deductions/exemptions.

MAT and MAT Credit

Practical Examples