SUBJECT:- BUSINESS TAXATION

UNIT 4:- ASSESSEMENT OF COMPANIES

6TH SEMESTER B.COM

BANGALORE UNIVERSITY.

BY:-

MOHAMMED TARIQ NAYAAB
ASSISSTANT PROFESSOR
SBMJEC
BANGALORE

SANTOSH BENDIGIRI
ASSISSTANT PROFESSOR
SBMJEC
BANGALORE

INTRODUCTION

The companies in India are governed by the Indian Companies Act ,1956 amended 2013. The Act defines a "Company as an artificial person created by law, having a separate legal entity, with perpetual succession and a common seal ".

From the tax point of view also, a company is treated as a separate person and Income of the company is computed and assessed separately in the hands of the company. In addition to Income Tax, a company is also required to pay tax u/s 115 O on the amount distributed as profits to its shareholders. However, such distributed profits are exempt from tax in the hands of shareholders.

Meaning of Company and Types of Companies

1. **Company (Section 2(17))**
   Company means any Indian company; or anybody corporate incorporated by under any laws of a country outside India or any institution, association or body, declared by general or special order of the Board to be a company for specified assessment years.
2. **Indian Company (Section 2(26))**
   Indian company means a company formed and registered under the Companies Act, 1956 and includes statutory corporation; and any institution, association or body declared by the Board to be a Company. If the registered /principal office of the company, corporation, institution, association or body is in India.
3. **Domestic Company (Section 2(22A))**
   Domestic Company means an Indian Company, or any other company, which has made prescribed arrangement for declaration and payment within India of the dividends payable out of its taxable income.
4. **Foreign Company (Section 2(23A))**
   Foreign Company means a company, which is not a domestic company
5. **Company in Which the Public are substantially interested (Section 2(18))**
   It means a;

- A company owned by Government /RBI or which 40% or more of the share are held by the government or RBI or a corporation owned by RBI; or
- A company which is registered under section 25 of the companies Act ,1956; or

- A company having no share capital, if it is declared for specified years by order of the Board (CBDT) to be a company in which the public are substantially interested, or Nidhi or Mutual benefit finance company; or
- Company wherein 50% or more of the voting power was throughout the previous year held by one or more co – operative societies; or
- A company listed company which is listed on a recognised stock exchange in India as on the last day of the previous year; or
- A public company, if its 50% or more of voting power was throughout the previous year held by a) government b) statutory corporation; or c) any company in which public are substantially; or d) any 100% subsidiary of a company in which public are substantially interested

6. **Investment Company**
   Investment company means a company whose gross total income consists mainly of income which is chargeable under the Heads Income from house property or and Capital gains or and Income from other sources.
7. **Widely -held Company**
   A company in which the public are substantially interested is known as widely held company
8. **Closely held Company**
   A company in which the public are not substantially interested is known as closely held company.

Residential Status of Company (Section 6(3).

For the purpose of determining residential status of the company, companies are classified into two types.

1. Indian company: It is always a Resident company
2. Foreign company: It can hold two types of residential status i.e., either Resident or Not Resident.
   a) Foreign company is resident in India only if, during the previous year, control and managed of its affairs is situated wholly in India.
   b) Foreign company is Non-resident in India only if, during the previous year, control and managed of its affairs wholly or partly situated out of India.

Methods of maintaining books of Accounts:

There are two methods of maintaining books of accounts. They are

Basis	Cash System	Mercantile System
Meaning	In this system to find net profit of the business or profession actual cash receipts and payments are considered.	In this system to find net profit of business or profession, Income earned and expenses incurred are considered. (i.e., Even if they are not received or paid, on due basis it will be recognised.)
Adopted by	It is adopted by small business concerns and professions.	It is adopted by large business and profession and Companies.

Note: As per new amended Act, 2013 it is mandatory to follow Mercantile System of Accounting only.

DEPRECIATION AS PER INCOME TAX – SECTION 32

BASICS OF DEPRECIATION

Depreciation is allowable as expense in Income Tax Act, 1961 on basis of block of assets on Written Down Value (WDV) method. Depreciation on Straight Line Method (SLM) is not allowed.

- Block of assets means group of assets falling within a class of assets for which same rate of depreciation is prescribed.
- GOODWILL & LAND is not eligible for depreciation.
- Depreciation is allowable only to the owner of the asset.
  > A lessee is not the owner of the property therefore depreciation is allowed only to lessor. If furniture or any part is constructed by the lessee then depreciation on that is allowed to lessee.
  > If property purchased under hire purchase contract then depreciation is allowed to the

purchaser.

> In case of co-ownership, depreciation is allowable in ratio of their ownership.

- Asset must be used for the purpose of business or profession.
- If the assessee doesn't claim the amount of depreciation as deduction, even then the amount of WDV carried forward to next year is reduced by the depreciation amount.
- If profit is calculated on presumptive basis under section 44AD or 44AE then such reported profit is considering after all the expenses and depreciation allowable under section 32.
- Depreciation under Income Tax Act is different from that of Companies Act, 1956. Therefore dedpreciation rates prescribed under income tax is only allowable whatever the depreciation is charged in books of accounts.
- If a new addition is made in a existing asset then it is consider as an asset if it increase the capacity of the existing asset or reduce per unit cost otherwise it should be treated as an expense.
- If there are some spare parts/machines and they are not actually used, depreciation is allowable on them because they are used for purpose of business/profession.
- Lower Depreciation – Depreciation can be claimed at lower rate as per income tax act. But for the next year your wdv will be considered as reduced by the percentage of depreciation prescribed. For eg if an asset is of Rs. 1 lakh and 80% depreciation is prescribed for the asset and you charge only rs. 30,000 as depreciation, in this case next year wdv will be considered as rs. 20,000 only not rs. 70,000.
- Depreciation is not allowed on GST component if the person wants to claim Input Tax Credit of such GST paid.

DEPRECIATION IN THE YEAR IN WHICH ASSET IS PURCHASED

- Deprecation is allowed only if the asset is put to use in the year of purchase.
- Degree of utilization of assets will not be considered while determining whether the asset is put to use or not. For example if the asset is used for trial run then it is considered the asset is put to use.
- If asset is put to use for less than 180 days then amount equal to 50% of the amount calculated using normal depreciating rates is allowed as depreciation. i.e Asset put to use on or before 3rd oct of the year (4th oct in case of leap year) then 100% depreciation is allowed, otherwise 50%.
- Deprecation will be allowed on the basis of block of asset method.

DEPRECIATION IN SUBSEQUENT YEARS

- If asset is not put to use in the year of purchase or put to use for less than 180 days even then full depreciation is allowed in the subsequent years if the below condition satisfies.
- Depreciation is allowed on whole block of asset even if only a single asset in that block is used during the year at any point of time.

ADDITIONAL DEPRECIATION UNDER SECTION 32(1)(IIA)

Additional depreciation shall be allowed if following condition are fulfilled by the assessee:

1. Additional deprecation is allowed only on new machinery or plant excluding ships and aircraft which has been purchased and installed after 31-03-2005
2. The assessee shall be engaged in the business of manufacturing and production of any article or thing (computers used for data processing in industrial premises are eligible for additional depreciation). From financial year 2016-17 additional depreciation is also allowed to assessees engaged in business of generation and distribution of power. Printing and Publishing is also considered as manufacturinG
3. Depreciation @ 20% of actual cost of assets is allowed as additional depreciation.
4. If assessee is engaged in production or manufacturer of any article or thing on or after 1st Apr, 2015 in any notified backward area of Andhra Pradesh, Bihar, Telangana, West

Bengal and acquires and installs any new machinery or plant during 1st April, 2015 to 31st March 2020 then additional depreciation is allowed at the rate of 35%.

5. However if the asset is put to use for less than 180 days then additional deprecation will be allowed at half of actual rate i.e 10% or 17.5% as the case may be. From financial year 2015-16, if additional depreciation is allowed in year of put to use at half of the rate then remaining half depreciation is allowed in the succeeding year.

Specific cases in which depreciation is not allowed

- Second hand plant and machinery – Plant and machinery which, before installation by assessee, was used whether inside and outside India by any person.
- Any office appliance or road transport vehicle.
- Any machinery or plant installed in any office premises or any residential accommodation, including accommodation in the nature of guest house
- Any plant and machinery, the whole of the actual cost of which is allowed as a deduction (whether by way of depreciation or otherwise) in computing income chargeable under the head "Profits and gains of business or profession" of any on previous year.

UNABSORBED DEPRECIATION

If there is a loss under business and profession and the reason for such loss is depreciation, then it is called unabsorbed deprecation and it shall be allowed to be carried forward.

Additional Points

1) The depreciation shall be carried forward even the business/profession to which is relate even of the business/profession not in existence.
2) Return of loss is not required to be submitted for carry forward of unabsorbed depreciation
3) The assesse should set off brought forward losses in the following manner: –
4) First of all current year depreciation will be adjusted.
5) Then brought forward business losses will be set off (speculative or non-speculative)
6) Then unabsorbed depreciation will be set-off against business income.
7) Unabsorbed depreciation can be carried forward for indefinite number of years.
8) Unabsorbed depreciation can be set off from any head of income other than Salary and Capital Gain in any year.

CALCULATION OF DEPRECIATION

WDV of an asset = Actual cost to the assesse – All depreciation actually allowed to him (included unabsorbed depreciation, if any)

WDV of Block of Assets

Aggregate of WDV of all the assets falling within that block at the beginning of the year	XXX
Add: Actual cost of any assets falling within block acquired during the previous year	XXX
Less: Money received or receivable in respect of any asset in the block which is sold, discarded, demolished or destroyed during the previous year	XXX
WDV at the end of the year	XXX
Less: Depreciation at block rate (if WDV at the end of year is positive)	XXX

If the amount of WDV comes at a negative amount then no depreciation is allowed and the amount will be considered as capital gain and the closing WDV will be zero.

If such amount is positive and no asset exists in the block then such amount will be treated as short term capital loss and no depreciation is alllowed.

DEPRECIATION RATES AS PER I.T ACT FOR MOST COMMONLY USED ASSETS

Rates has been changed for financial year 2017-18 and onwards. Now the maximum rate of depreciation is 40%.

S No.	Asset Class	Asset Type	Rate of Depreciation
1	Building	Residential buildings except hotels and boarding houses	5%
2.	Building	Hotels and boarding houses	10%
3.	Building	Purely temporary erections such as wooden structures	40%
4.	Furniture	Furniture – Any furniture / fittings including electrical fittings and air conditioners	10%
5.	Plant & Machinery	Motor car, motor cycle,bike, scooter other than those used in a business of running them on hire, Mobile phone	15%
6.	Plant & Machinery	Motor buses/taxies/lorries used in a business of running them on hire	30%
7.	Plant & Machinery	Computers, Laptops, computer software, Printer, Scanner, UPS and other peripheral devices	40%
8.	Plant & Machinery	Books owned by assessee, carrying on profession being annual publications	40%
9.	Plant & Machinery	Books owned by assessee, carrying on profession not being annual publications	40%
10.	Plant & Machinery	Books owned by assessee, carrying on business in running lending libraries	40%
11.	Intangible Assets	Know how, patents, copyright, trademark, license, franchise or any other business or commercial rights of similar nature	25%

COMPUTATION OF TAXABLE INCOME OF COMPANIES:-

Income Tax: This tax is paid by the taxpayers other than companies registered under company law in India on the income earned by them. They are taxed on the basis of slabs at different rates.

Corporate Tax: This tax is paid by the companies registered under company law in India on the net profit that it makes from businesses. It is taxed at a specific rate as prescribed by the income tax act subject to the changes in the rates every year by the IT department.

Corporate Tax in India

Domestic as well as foreign companies are liable to pay corporate tax under the Income-tax Act. While a domestic company is taxed on its universal income, a foreign company is only taxed on the income earned within India i.e. is being accrued or received in India.

What is meant as Income of a company?

Before understanding about the rate of taxes and how will the tax be calculated on income of the companies, we should learn about the types of income which a company earns. Here it is :

1) Profits earned from the business
2) Capital Gains
3) Income from renting property
4) Income from other sources like dividend, interest etc.

Tax rates applicable

Taxes on Income

The following rates are applicable to the domestic companies for AY 2019-20 based on their turnover:

Particulars	Tax Rate
Gross Turnover upto Rs. 250 Crore in FY 2016-17	25%
Gross Turnover exceeding Rs. 250 Crore	30%

The following rates are applicable to foreign companies for AY 2019-20 based on their turnover :

Nature of Income	Tax Rate
Royalty received or fees for technical services from government or any indian concern under an agreement made before April 1, 1976 and approved by central government	50%
Any other income	40%

In addition to above rates :

Surcharge rate :

Particulars	Tax Rate
If total income exceeds Rs. 1 crore but not Rs. 10 Crore	7% of tax calculated on domestic company/ 2 % of tax calculated on foreign company as per above rates
If total income exceeds Rs. 10 crore	12% of tax calculated on domestic company/ 5 % of tax calculated on foreign company as per above rates

- **Health & education Cess :**
  Further 4 % of income tax calculated and applicable surcharge will be added to the amount of total tax liability before this cess.
- **Minimum Alternate Tax (MAT)**
  Alternatively, all the companies (including foreign companies) are required to pay minimum alternate tax at the rate of 18.5 % on book profits if the tax calculated as per above rates are less than 18.5% of book profits.
- **Dividend Distribution Tax (DDT)**
  Companies are required to pay tax on the dividend distributed to the shareholders in a particular year. This dividend is exempted in the hands of shareholders upto an amount of Rs. 10 lakh but the companies have to pay tax @ 20.56 %.

SECTION 80G

Contributions made to certain relief funds and charitable institutions can be claimed as a deduction under Section 80G of the Income Tax Act. All donations, however, are not eligible for deductions under section 80G. Only donations made to prescribed funds qualify as a deduction.This deduction can be claimed by any taxpayer – individuals, company, firm or any other person.

What is the mode of payment

From Financial Year 2017-18 onwards: Any donations made in cash exceeding Rs 2,000 will not be allowed as deduction. The donations above Rs 2,000 should be made in any mode other than cash to qualify as a deduction under section 80G.

Amount of Donation: The various donations specified in section 80G are eligible for a deduction of up to either 100% or 50% with or without restriction, as provided in section 80G.

<u>Donations Eligible for 100% Deduction Without Qualifying Limit</u>

1) National Defence Fund set up by the Central Government
2) Prime Minister’s National Relief Fund
3) National Foundation for Communal Harmony
4) An approved university/educational institution of National eminence
5) Zila Saksharta Samiti constituted in any district under the chairmanship of the Collector of that district
6) Fund set up by a State Government for the medical relief to the poor
7) National Illness Assistance Fund
8) National Blood Transfusion Council or to any State Blood Transfusion Council
9) National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation, and Multiple Disabilities
10) National Sports Fund
11) National Cultural Fund
12) Fund for Technology Development and Application
13) National Children’s Fund
14) Chief Minister’s Relief Fund or Lieutenant Governor’s Relief Fund with respect to any State or Union Territory
15) The Army Central Welfare Fund or the Indian Naval Benevolent Fund or the Air Force Central Welfare Fund, Andhra Pradesh Chief Minister’s Cyclone Relief Fund, 1996
16) The Maharashtra Chief Minister’s Relief Fund during October 1, 1993 and October 6, 1993
17) Chief Minister’s Earthquake Relief Fund, Maharashtra
18) Any fund set up by the State Government of Gujarat exclusively for providing relief to the victims of the earthquake in Gujarat

19) Any trust, institution or fund to which Section 80G(5C) applies for providing relief to the victims of the earthquake in Gujarat (contribution made during January 26, 2001, and September 30, 2001) or
20) Prime Minister's Armenia Earthquake Relief Fund
21) Africa (Public Contributions – India) Fund
22) Swachh Bharat Kosh (applicable from FY 2014-15)
23) Clean Ganga Fund (applicable from FY 2014-15)
24) National Fund for Control of Drug Abuse (applicable from FY 2015-16)

Donations Eligible for 50% Deduction Without Qualifying Limit

1) Jawaharlal Nehru Memorial Fund
2) Prime Minister's Drought Relief Fund
3) Indira Gandhi Memorial Trust
4) Rajiv Gandhi Foundation

Donations Eligible for 100% Deduction Subject to 10% of Adjusted Gross Total Income

1) Donations to the government or any approved local authority, institution or association to be utilized for the purpose of promoting family planning
2) Donation by a Company to the Indian Olympic Association or to any other notified association or institution established in India for the development of infrastructure for sports and games in India, or the sponsorship of sports and games in India.

Donations Eligible for 50% Deduction Subject to 10% of Adjusted Gross Total Income

1) Any other fund or any institution which satisfies the conditions mentioned in Section 80G(5)
2) Government or any local authority, to be utilized for any charitable purpose other than the purpose of promoting family planning
3) Any authority constituted in India for the purpose of dealing with and satisfying the need for housing accommodation or for the purpose of planning, development or improvement of cities, towns, villages or both
4) Any corporation referred to in Section 10(26BB) for promoting the interest of the minority community
5) For repairs or renovation of any notified temple, mosque, gurudwara, church or other places.

Section 80GGB

This section of the Income Tax Act 1961 mainly deals with donations and contributions made by Indian Companies towards political parties or electoral trusts.

To encourage more contributions towards political parties, there is a provision of exemption from taxation under Sec 80 GGB.

Tax Deductions

The political party receiving the donation must be registered under the Section 29A of the Representation of the People Act, 1951. An electoral trust is a non-profit company created under Section 8 of the Companies Act, 2013. An electoral trust can receive voluntary contributions from other companies and then reallocate it to the duly registered political parties.

Rules and Conditions to Claim Section 80GGB Deductions

- Cash contributions are not allowed under Section 80 GGB. Therefore, the respective contributions to political parties must be made through other modes of payments such as Cheque, Demand Draft or Electronic Transfer.
- There is no maximum applicable limit on the contributions made to political parties, under Section 80 GGB of the Income Tax Act. But as per the Companies Act 2013, companies can contribute up to 7.5% of their annual net profit (three years average). It is necessary that the respective company discloses the amount contributed and the name of the political party in its Profit and Loss account for the said financial year.
- The Company can claim 100% deduction against the amount donated to a political party under section 80GGB.

SECTION 80-IA

Tax holiday under section 80-IA is available to the assessees who are engaged in providing infrastructure development facility. Under this section, eligible assessee will get tax deduction on profits under business head for specified period of time.There are some specified undertakings are covered.

Under this section, there are some specified undertaking for which given below is the comprehensive list

1) Provision of infrastructure facility
2) Telecommunication services
3) Industrial parks or special economic zone
4) Power generation, transmission and distribution
5) Undertaking set up for reconstruction of a power unit and
6) A cross country natural gas distribution network

Undertaking	Eligibility	Conditions	Amount of Deduction
Infrastructure facility	An Indian company engaged in infrastructure facility	Commencement between 01 April, 1995 to 01 April, 2017	100% of profit for 10 consecutive A.Y.
		ITR should be filed on time & deduction should be claimed	*Initial A.Y. should start within 15 A.Y. in which assessee start its operation
		Audit to be done by a CA	
Telecommunication services	An undertaking engaged in providing telecommunication services	Commencement between 01 April, 1995 to 31 March, 2005	First 5 years = 100% of profit Next 5 years = 30% of profit
		ITR should be filed on time & deduction should be claimed	*Initial A.Y. should start within 15 A.Y. in which assessee start its operation
		Audit to be done by a CA	
		It should be a new enterprise (with some exceptions discussed below)	
Industrial parks or special economic zone	An undertaking which develops and operates industrial park or special economic zone notified by central government.	Commencement between	100% of profit for 10 consecutive A.Y.
		For SEZ : 01 April, 1997 to 31 March, 2005	*Initial A.Y. should start within 15 A.Y. in which assessee start its operation
		For Industrial parks : 01 April, 2009 to 31 March, 2011	
		ITR should be filed on time & deduction should be claimed	
		Audit to be done by a CA	
Power generation, transmission and distribution	An undertaking which is set up in any part of India for the generation or generation & distribution of power.	Commencement between	100% of profit for 10 consecutive A.Y.
		Operation between 01 April,1993 to 31 March, 2017.	*Initial A.Y. should start within 15 A.Y. in which assessee start its operation

		Transmission between 01 April, 1999 to 31 March, 2017	
		Restoration and Improvement between 01 April, 2004 to 31 March, 2011.	
		ITR should be filed on time & deduction should be claimed	
		Audit to be done by a CA	
		It should be a new enterprise (with some exceptions discussed below)	
Reconstruction of a power unit	An Indian company engaged in set up for reconstruction or revival of a power generating plant	Formation with majority equity participation before 30 November, 2005	100% of profit for 10 consecutive A.Y.
		Operation begins before 31 March, 2011	*Initial A.Y. should start within 15 A.Y. in which assessee start its operation
		ITR should be filed on time & deduction should be claimed	
		Audit to be done by a CA	
Cross country natural gas distribution network	An Indian company engaged in carrying on business of laying & operation cross - country natural gas distribution network including pipelines & storage facilities being an integral part of such network.	Start functioning on or after 01 April, 2007	100% of profit for 10 consecutive A.Y.
		ITR should be filed on time & deduction should be claimed	*Initial A.Y. should start within 15 A.Y. in which assessee start its operation
		Audit to be done by a CA.	
		It should be a new enterprise (with some exceptions discussed below)	

SECTION-80-IB

Deduction In Respect Of Profits And Gains From Certain Industrial Undertakings Other Than Infrastructure Development Undertaking

- Industrial undertaking Producing or Refining Mineral Oil in the North Eastern Region or in any part of India [Section 80-IB(9)]
- Undertaking engaged in the business of processing, preservation and packaging of fruits or vegetables or meat and meat products or poultry or marine or dairy products or integrated business of handling, storage and transportation of food grains [Section 80-IB(11A)]
- Undertaking Operating and Maintaining a Hospital located anywhere in India other than Excluded Area [Section 80-IB(11C)]
- Further Conditions applicable for all Assessees Claiming Deduction under Section 80-IB [Section 80-IB(13)]:

The deduction under this section is available to an assessee whose Gross Total Income includes any profits and gains derived from the business of:

1) Commercial production and refining of mineral oil;
2) Processing, preservation and packaging of fruits or vegetables, meat and meat products or poultry or marine or dairy products;
3) Integrated business of handling, storage and transportation of food grains;
4) Operating and maintaining a hospital located anywhere in india other than the excluded area.

(1) Industrial undertaking Producing or Refining Mineral Oil in the North Eastern Region or in any part of India [Section 80-IB(9)]

Deduction under this section is allowed if an undertaking fulfils any of the following conditions:

1) It should be a new undertaking. It should not be formed by transfer of machinery or plant previously used for any purpose.
2) The undertaking should be located anywhere in India.

3) It should commence production of mineral oil after March 31, 1997 but before April 1, 2017 or refining of mineral oil during October 1, 1998 and March 31, 2012 or production of natural gas (in a specified blocks) on or after April 1, 2009 but before April 1, 2017.

Quantum of Deduction under Section 80-IB(9) :

Deduction shall be available @ 100% of eligible profits for 7 assessment years commencing from the initial assessment year.

2) Undertaking engaged in the business of processing, preservation and packaging of fruits or vegetables or meat and meat products or poultry or marine or dairy products or integrated business of handling, storage and transportation of food grains [Section 80-IB(11A)]

Essential condition:

1) It must begin or operate the business of processing, preservation and packaging of fruits or vegetables or integrated business of handling, storage and transportation of food grains on or after 1.4.2001.
2) The business of processing preservation and packaging of meat and meat products or poultry or marine or dairy products should commence on or after 31.3.2009.

Quantum of deduction under Section Section 80-IB(11A) :

	Assessee	**Period of Deduction (commencing from initial assessment year)**	**% of Profit eligible for Deduction**
(a)	Owned by a Company	First 5 Years	100%
		Next 5 Years	30%
(b)	Owned by any other Assessee	First 5 Years	100%
		Next 5 Years	25%

(3) Undertaking Operating and Maintaining a Hospital located anywhere in India other than Excluded Area [Section 80-IB(11C)]

Essential conditions: The deduction is allowed if the following conditions are satisfied:

1) The hospital is constructed and has started or starts functioning at any time during the period beginning on 1.4.2008 and ending on 31.3.2013;
2) The hospital has at least 100 beds for patients;
3) The construction of the hospital is in accordance with the regulations or bye-laws of the local authority; and
4) The assessee furnishes along with the return of income, a report of audit in such form and containing such particulars, as may be prescribed, and duly signed and verified by an accountant, as defined in the explanation to sub-section (2) of section 288, certifying that the deduction has been correctly claimed.

Quantum and Period of Deduction under Section [Section 80-IB(11C)] :
100% of the profits and gains of such business for a period of 5 consecutive assessment years, beginning with the initial assessment year.

MAT

Minimum Alternative Tax is payable under the Income Tax Act. The concept of MAT was introduced to target those companies that make huge profits and pay the dividend to their shareholders but pay no/minimal tax under the normal provisions of the Income Tax Act, by taking advantage of the various deductions, and exemptions allowed under the Act.

But with the introduction of MAT, the companies have to pay a fixed percentage of their profits as Minimum Alternate Tax. MAT is applicable to all companies, including foreign companies.

MAT is calculated under Section 115JB of the Income-tax Act. Every company should pay higherof the tax calculated under the following two provisions:

1. Tax liability as per the Normal provisions of income tax act(tax rate 30% plus 4% Edu cess plus surcharge (if applicable)

Tax Liability As Per The Normal Provisions Of The Income Tax Act Whose Turnover Or Gross Receipts Was Of Rs. 250cr During The Fy 2016-17.(Tax Rate 25% Plus 4%Education Cess Plus Surcharge(If Applicable)

2. Tax liability as per the MAT provisions are given in Sec 115JB(18.5 % of Book Profits Plus 4 % education cess plus a surcharge if applicable). The tax rate is 15% with effect from AY 2020-21 (FY 2019-20)

How to calculate MAT?

MAT is equal to 18.5% (15% from AY 2020-21) of Book profits (Plus Surcharge and cess as applicable). Book profit means the net profit as shown in the profit & loss account for the year as increased and decreased by the following items:

Additions to the Net Profit (If debited to the Profit and Loss Account):

1. Income Tax paid or payable if any calculated as per normal provisions of income tax act.
2. Transfer made to any reserve
3. Dividend proposed or paid
4. Provision for loss of subsidiary companies
5. Depreciation including depreciation on account of revaluation of assets
6. Amount/provision of deferred tax
7. Provision for unascertained liabilities e.g. provision for bad debts
8. Amount of expense relating to exempt income under sections 10,11,12 (except sec 10AA and 10(38) This means income under section 10AA & long term capital gain exempt under section 10(38) are subject to MAT.Provision made for diminution in the value of any asset

Deletions to the Net Profit (If credited to the Profit and Loss Account)

1. Amount withdrawn from any reserves or provisions
2. The amount of income to which any of the provisions of section 10, 11 & 12 except 10AA & 10(38) applies.
3. Amount withdrawn from revaluation reserve and credited to profit & loss account to the extent of depreciation on account of revaluation of asset.
4. Amount of loss brought forward or unabsorbed depreciation, whichever is less as per the books of account. However, the loss shall not include the depreciation. (if loss brought forward or unabsorbed depreciation is nil then nothing shall be deducted.)
5. Amount of Deferred Tax, is any such amount is credited in the profit & loss account
6. Amount of depreciation debited to the Profit and Loss Account (excluding the depreciation on revaluation of Assets)

What is MAT Credit?

When any amount of tax is paid as MAT by the company, then it can claim the credit of such tax paid in accordance with the provision of section 115JAA.

Allowable Tax Credit: Tax paid as per MAT calculation — Income tax payable under normal provision of Income-tax Act, 1961.

PROBLEMS ON MAT:-

Computation of tax liability in case MAT credit available

Compute tax payable by Reebok Ltd., for various assessment years from following details assuming that tax rates for future years shall be same as that for the current assessment year (amount in ₹):

Assessment Year	Total Income as per IT Act	Book Profits u/s 115JB
2012-13	7,00,000	30,00,000
2013-14	9,00,000	40,00,000
2014-15	29,50,000	50,00,000
2015-16	5,50,000	25,00,000
2016-17	25,00,000	30,00,000

Solution

Computation of Tax payable & utilization of MAT Credit

Assessment Year	Normal Tax @ 30.9%	MAT 19.055%	Tax due (higher of the both)	Tax Credit (MAT - Normal Tax)	Credit set off	Net Tax payable	Tax credit c/f
2012-13	2,16,300	5,71,650	5,71,650	3,55,350	0	5,71,650	3,55,350
2013-14	2,78,100	7,62,200	7,62,200	4,84,100	0	7,62,200	8,39,450
2014-15	12,20,550	9,52,750	12,20,550	0	2,67,800	9,52,750	5,71,650
2015-16	1,69,950	4,76,375	4,76,375	3,06,425	0	4,76,375	8,78,075
2016-17	7,72,500	5,71,650	7,72,500	0	2,00,850	5,71,650	6,77,225

Note:

a. In this case, neither the total income as per normal provisions of the Act nor book profits u/s 115JB exceed ₹1 Crore. Accordingly, no surcharge is leviable upon the income. Therefore, normal rate of income tax shall be 30.9% (incl cess) and tax rate on book profits shall be 19.055% (incl cess)

b. The above working shows that the tax liability, in any year, cannot be less than the tax on book profits.

Problem on Taxable liability and utilization of MAT Credit

Noble India Limited has a carried forward credit of ₹4 lakhs u/s 115JAA(3A) of the income tax Act from the AY 2015-16. In the AY 2016-17, the company's total income and book profit u/s 115JB are ₹10 Lakhs and ₹ 16 lakhs, respectively. Compute the tax payable by the company for AY 2016-17 and the amount to be carried forward u/s 115JAA.

Solution

Computation of Tax liability under normal provisions and MAT

Particulars	As per Normal Tax provisions	As per MAT provisions
Total Income / Book Profit	10,00,000	16,00,000
Effective tax rate including Cess	30.90%	19.055%
Tax liability	3,09,000	3,04,880

Calculation of amount available for claimed tax credit

Excess amount available to set of Tax credit (3,09,000 – 3,04,880)	4,120	whichever is lower
Tax credit brought forward from AY 2015-16	4,00,000	

Calculation of Tax payable

Particulars	Amount(₹)
Tax due (higher of normal tax or MAT)	3,09,000
Less: MAT credit set-off	4,120
Tax payable	3,04,880
MAT credit to be carried forward to AY 17-18 (4,00,000 – 4,120)	3,95,880

PROBLEMS ON DEPRECIATION

Reliance Power Ltd is in the business of Power generation and distribution. It has one of the Block of assets at 10% depreciation rate. It claims depreciation on SLM Basis. The original cost of the assets in that block is ₹10,00,000 and WDV is ₹7,00,000. Calculate terminal depreciation, Balancing charge and capital gains in each of the following cases, if the assets are sold as under:

(a) ₹6,00,000 (b) ₹8,00,000 (c) ₹12,00,000

Solution:

a) If the assets are sold at ₹6,00,000

Particulars		Amount(₹)
	Sale Consideration	6,00,000
Less:	Opening WDV	7,00,000
	Loss (Terminal Depreciation)	1,00,000

b) If the assets are sold at ₹8,00,000

Particulars		Amount(₹)
	Sale Consideration	8,00,000
Less:	Opening WDV	7,00,000
	Gain (Balancing Charge)	1,00,000

c) If the assets are sold at ₹12,00,000

Particulars		Amount(₹)
	Sale Consideration	12,00,000
Less:	Opening WDV	7,00,000
	Gain	5,00,000
	Difference between Original Cost and WDV will be balancing charge	3,00,000
	Amount received above original cost will be Capital Gain	2,00,000

An electricity company which was charging depreciation on SLM basis and whose actual cost of the asset was ₹5,00,000 and WDV was ₹4,50,000 sold the said asset during the P.Y after 2 years. What will be the tax treatment if the asset is sold for the following amounts?

i. ₹3,50,000 ii. ₹4,80,000 iii. ₹6,00,000

Solution:

i. ₹1,00,000 (4,50,000 – 3,50,000) will be allowed as terminal depreciation for the P.Y.

ii. ₹30,000 (₹4,80,000 – ₹4,50,000) shall be balancing charge and taxable as business income as per section 41(2)

iii. ₹1,00,000 (i.e., ₹6,00,000 - ₹5,00,000) will be treated as Short term capital gain and ₹50,000 (i.e., ₹5,00,000 - ₹4,50,000) shall be balancing charge which is taxable as business income.

Problem on Calculation of Depreciation

Calculate depreciation as per IT Act for the year ending on 31-3-2016.

Particulars	WDV on 1-4-2015	Additions during the year	Money realised on Assets destroyed	Rate of Depreciation
Factory Buildings	350,000	1,00,000	60,000	10%
Residential Houses for employees - plinth area of each unit not exceeding 80 sq mtrs	10,00,000	5,00,000		5%
Furniture and Fittings	15,000	5,000		10%
(a) Plant and Machinery	20,40,000	6,50,000	2,70,000	15%
(b) Air compressor		32,000		15%
(c) Solar Power Generator		1,50,000		80%
(d) Scannar for Office use		8,000		15%

The additions to buildings (factory and residential) were made on 1-5.2015 and furniture were added on 1-8-2015, Plant & machinery, Air Compressor and printers were added on 1-11-2015; Solar generator on 1-10-2015.

Solution:

Computation of Depreciation as per Income Tax Act

	Particulars	₹	₹
I.	**Factory Buildings - [10% Block]**		
	Opening WDV as on 1-4-2015		3,50,000
Add:	Additions made during the year on 1-5-2015		1,00,000
			4,50,000
Less:	Deletions made during the year		60,000
	Balance available for depreciation		3,90,000
Less:	Depreciation (3,90,000 x 10%)		39,000
	Closing WDV		3,51,000
II.	**Residential Buildings - [5% Block]**		
	Opening WDV as on 1-4-2015		10,00,000
Add:	Additions made during the year as on 1-5-2015		5,00,000
	Balance available for depreciation		15,00,000
Less:	Depreciation (15,00,000 x 5%)		75,000
	Closing WDV		14,25,000
III.	**Furniture and fittings - [10% Block]**		
	Opening WDV as on 1-4-2015		15,000
Add:	Additions made during the year as on 1-8-2015		5,000
	Balance available for depreciation		20,000
Less:	Depreciation (20,000 x 10%)		2,000
	Closing WDV		18,000
IV.	**Plant and Machinery [15% Block]**		
	Opening WDV as on 1-4-2015		20,40,000
Add:	Addition made		
	Plant and machinery - 1-11-2015	6,50,000	
	Air compressor - 1-11-2015	32,000	
	Printer for office use -1-11-2015	8,000	6,90,000
			27,30,000
Less:	Deletions		2,70,000
	Balance available for depreciation		24,60,000
Less:	Depreciation		
	Full normal depreciation (24,60,000 - 6,90,000) x 15%	2,65,500	
	Half normal depreciation (6,90,000 x 15% x1/2)	51,750	
	Half additional depreciation (6,82,000 x20% x 1/2)	68,200	3,85,450
	Closing WDV		20,74,550
V.	**Plant and Machinery - [80% Block]**		
	Cost of acquisition as on 1-10-2015		1,50,000
Less:	Normal depreciation (1,50,000 x 80%)	1,20,000	
Less:	Additional depreciation (1,50,000 x 20%)	30,000	1,50,000
	Closing WDV		NIL

Total Depreciation = ₹6,51,450

PROBLEMS ON ASSESSMENT OF COMPANIES:-

Illustration 4.20

Problem on Net Income of Company under normal provisions

Z Ltd is engaged in the manufacturing drugs and pharmaceuticals. Its net profit for the year ending March 31, 2016 after debit/ credit of the following items to the profit and loss account of ₹5,60,000.

a) Income tax paid during the year ₹20,000.

b) Legal fees incurred in connection with purchased of building ₹40,000.

c) Cash payment made to suppliers X and Y ₹15,000 and ₹25,000 respectively.

d) Rent received from letting out a land ₹20,000

e) Paid made to a political party for advertisement in souvenir ₹75,000

f) Capital expenditure incurred for promoting family among employee ₹1,00,000.

g) Interest on investment ₹30,000

h) Travelling expenses ₹45,000 on a foreign tour of a director for negotiating with a foreign manufacturer for purchase of machinery

Solution

Computation of Total Income of Z Ltd for the Assessment year 2016-17

Particulars		Amount(₹)	Amount(₹)
	Net profit as per Income and Expenditure account		5,60,000
Add:	**Disallowed expenses:**		
	Income Tax paid	20,000	
	Legal fees in connection with purchase of land (being capital in nature)	40,000	
	Cash payment in excess of ₹20,000 disallowed u/s 40A(3)	25,000	
	Advertisement in souvenir of a political party	75,000	
	Capital expenditure incurred in promoting employees' family planning scheme $\left(1,00,000 \times \frac{4}{5}\right)$	80,000	
	Travelling expenses of a director for negotiating with a foreign manufacturer for purchase of machinery	45,000	2,85,000
			8,45,000
Less:	**Inadmissiable income and allowable expenses:**		
	Rent received from letting out a land (Income from other source)	20,000	
	Interest on Investment	30,000	50,000
	Business Income (PGBP)		7,95,000

	Income from other sources		
	Rent received from letting out a land		
	Interest on Investment	20,000	
	Gross Total Income	30,000	50,000
			8,45,000
Less:	Deduction u/s 80GGB		-75,000
Net Income			7,70,000

Illustration 4.21

Problem on Net Income of Company under normal provisions

From the following P & L Account of Nestle Ltd., calculate income from business.

Particulars	Amount	Particulars	Amount
To General expenses	10,000	By gross profit	2,80,000
To fire insurance premium	8,000	By bad debts recovered (disallowed earlier)	4,000
To bad debts	2,000	By interest on Govt. Securities	6,000
To advertisement (in cash)	44,500	By rent received from employees	24000
To municipal tax of quarters let to employee	10,000	By interest from debtors for delayed payment	12000
To salary	1,30,000		
To interest on capital (own)	4,000		
To income tax	2,000		
To depreciation	4,000		
To advance income tax paid	2,000		
To donation	1,000		
To motor car expenses	1,500		
To proprietor salary	25,000		
To net profit	82,000		
	3,26,000		3,26,000

1. General expenses includes ₹ 5,000 paid as compensation to an old employee whose services were terminated in the interest of the business and ₹ 3,000 by way of help to a poor student.
2. Depreciation calculated according to the rates prescribed by the Act comes to ₹ 3,000

Solution

Calculation of Income from Business of A Ltd.

	Particulars	₹	₹
	N/P as per P & L A/c.		82,000
Add	Disallowed expenses		
	Advertisement (Full Amount)	44,500	
	Proprietor salary	25,000	
	Interest on capital (own)	4,000	
	Income Tax	2,000	
	Depreciation	4,000	
	Advance Income tax paid	2,000	
	Donation	1,000	
	General expenses for poor student	3,000	85,500
			1,67,500
Less	Disallowed Incomes		
	Bad debts recovered disallowed earlier	4,000	
	Interest on Govt. Securities	6,000	
	Depreciation	3,000	13,000
			1,54,500

Note:

a. Bad debts recovered disallowed earlier should be subtracted since it has already been taxed.

b. Municipal tax of quarters let to employees, rent received from employees is allowed since it is related to business.

Illustration 4.30

B.Com April/ May 2015

Rising Sun Co Ltd., is engaged in the business of manufacture of computer components. The profit and Loss account of the Company for the year ending 31-3-2016 is given below

Profit and Loss Account

Particulars	₹	Particulars	₹
To Salary to Staff	3,25,000	By Gross Profit	15,39,000
To Audit fees	12,000	By withdrawn from Gen reserve which was created in 1997-98 by debiting P and L a/c	1,60,000
To Bad debts	15,000		
To Depreciation	1,62,500		
To Icome TAX	75,000		
To Dividend distribution tax	62,500		

To Donation to NDF	60,000		
To Wealth Tax	75,000		
To Custom duty payable	62,000		
To Net Profit	28,50,000		
	36,99,000		36,99,000

Other Information:

- Depreciation allowable as per IT Rules works out to ₹ 1,45,500.
- Brought forward business loss ₹ 350,000
- Brought forward unabsorbed depreciation ₹ 1,45,000
- of the custom duty payable ₹ 12,000 was paid before filing the return.
- Company is eligible for following deductions:
  - Deduction u/s 80IB (25% of 28,50,000)
  - Deduction u/s 80G in respect of Donation to NDF

Calculate the total income of Rising Sun Co Ltd., and Tax Liability for the AY 2016-17

Solution

Calculation of Income from Business of Rising Sun Co Ltd.

	Particulars	₹	₹
	N/P as per P & L A/c.		28,50,000
Add	Disallowed expenses:		
	Depreciation as per P & L a/c	1,62,500	
	Income Tax	75,000	
	Dividend Distribution Tax	62,500	
	Donation to NDF	60,000	
	Wealth Tax	75,000	
	Customs duty Payable (62,000 - 12,000)	50,000	4,85,000
			33,35,000
Less	Disallowed Incomes:		
	Amount withdrawn from Reserves	1,60,000	
	Depreciation allowable as per IT Rules	1,45,500	3,05,500
	PGBP		30,29,500
Less	Adjustments for Set off of Brought forward losses		
	Brought forward business loss	3,50,000	
	Brought forward unabsorbed depreciation	1,45,000	4,95,000
	Gross Total Income		25,34,500
Less	Deduction u/s 80IB [28,50,000 x 25%]	7,12,500	
	Deduction u/s 80G in respect of Donation to NDF	60,000	7,72,500
	Total Income		17,62,000


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