

Tax Planning under MAT



MAT (minimum alternate tax) was introduced to ensure that companies that did not contribute to the Government by way of corporate tax by taking advantage of various incentives and exemptions provided in the Income-tax Act, pay a fixed percentage of their book profits as MAT. Provisions of the MAT were introduced for such companies, popularly known as Zero-Tax Companies, since they did not pay any tax because income computed as per provisions of the Act was either insignificant, nil or negative, despite showing book profits and declaring substantial dividends to their shareholders. Author presents some suggestions on how to manage taxation under MAT provisions. Read on...

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MAT Provisions were introduced to reduce the differences between the income tax computed on the basis of the IT provisions and the projected tax on profits declared by the companies. In many cases, depreciation rate difference is the main reason of the attraction of MAT. Depreciation rates as per income tax act are more than the depreciation rates in the Companies Act. There are some tax-planning tips under MAT:

01. Depreciation Policy

The Companies Act provides two alternatives of depreciation, i.e. SLM (straight line method) and WDV (written down value); while opting for the method of depreciation, project the depreciation of the next 10 years also under both the methods, and choose the best beneficial method.

Best methodology: WDV method will reduce the tax computed under MAT in case of new projects, as the WDV rates are higher than the SLM rates.

Illustration 1

Particulars	Case-1 WDV	Case-2 SLM	Difference
Profit before Depreciation	15,00,000	15,00,000	-
Cost of Machinery (new)	25,00,000	25,00,000	-
Depreciation rate	13.91%	4.75%	0
Depreciation	3,47,750	1,18,750	2,29,000
Book Profit	11,52,250	13,81,250	(2,29,000)
MAT @ 19.055%	2,19,561	2,63,197	(43,636)
Depreciation as per Income tax act	6,25,000	6,25,000	-
Additional Depreciation	5,00,000	5,00,000	-
Profit as per income tax provisions	3,75,000	3,75,000	-
Tax under normal provision	1,15,875	1,15,875	-
Tax payable	2,19,561	2,63,197	(43,636)

02. Payments Made under Section 43B

If the MAT is going to expire and if we delay the payment under Section 43B that are required to be made for deduction before filing a return, the income tax payable under normal provision will be increased; but the same will be adjusted with MAT which is actually going to expire. The payment made after filing of the return will be deducted in the next assessment year also. However, the MAT provision if applicable in the next will have additional 10 years to set off.

Precautions:

a. Consider the labour laws also before taking any decision.

Best methodology: Do file the returns well before the payment of the bonus so that the excessive tax is adjusted against the MAT.

Illustration 2

Particulars	Case-1	Case-2	Difference
MAT Credit available (last year)	94,000	94,000	-
Profit as per income tax act	15,00,000	15,00,000	-
Add back payments under 43B made /not made	50,000	-	50,000
Profit taxable under income tax	14,50,000	15,00,000	(50,000)
Book Profit under MAT	20,00,000	20,00,000	-
Tax payable under normal provisions	4,48,050	4,63,500	(15,450)
MAT Tax @19.055%	3,81,100	3,81,100	-
Tax payable under normal provisions	4,48,050	4,63,500	(15,450)
Adjustment of MAT	66,950	82,400	(15,450)
MAT credit lost	27,050	11,600	
Case-1 : payment made under 43B made before filing of return			
Case-2 : payment made after filing of return.			

03. Policy Taken for Defined Benefit Plan

If we underpay any MAT that is not recoverable in the coming years, we can avoid taking the contribution plans of the gratuity, leave with wages. Payments made under the contribution plans are deductible under the normal provisions of the Act, but the MAT will remain the same. Difference of the same will be forfeited after 10 years. However, the payment of the gratuity made after the 10 years will also be eligible for deduction under normal provision of the Act.

Precautions:

- Consider the other benefits and labour laws also into consideration.

04. MAT Consideration in Buy Vs. Lease Decision

If we take any buy Vs. lease decision, it is advisable not to consider the full depreciation available for the income tax purposes provided the MAT is not recoverable in the future period, as most of the depreciation provided in the Act will be substituted by the MAT by invoking the provision of the MAT.

05. Partnership Firms as Subsidiary

If a company is running multiple plants and each plant has distinct assets, we can compute the plant-wise normal income tax and MAT. We can identify the plant having the high difference of MAT over normal income tax which is ultimately increasing the MAT of the entire company. It is advisable to convert/transfer the plant into subsidiary as a partnership firm, as a partnership firm does not attract the provisions of MAT. Ultimately, total taxes payable will decrease.

Precautions:

- Consider the provisions of the Section 14A of the Act.
- While analysing, do consider and estimate the future periods. It may be possible that a plant that pays a high MAT also recovers the high amount of MAT after few years.
- Also consider the future expansion into consideration.

06. Foreign Branches

If a company has a foreign branch having separate operations which are in profit and if MAT is applicable to that, the company can convert that foreign branch into the company in that country as subsidiary. The foreign subsidiary does not attract the provisions of MAT.

Precaution:

- Also consider the provision of tax laws and corporate laws of foreign country.
- Also consider the regulation of RBI.

07. Merger of Companies

Synergy benefit can also be gained by adjusting the MAT of the two



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companies. If two companies have different scenarios under MAT, i.e. one company has projected the excess of MAT over normal income tax and another has projected the normal income tax over MAT, re-compute the income tax after the projected merger of the two companies. If total tax computed is reduced, it is advisable to do the merger to reduce the MAT for the coming years.

Precaution:

- Consider the other benefit, income tax and other commercial benefits, which may be lost due to merger.
- Also consider the cost of merger.
- Predict the future expansion and profits.

Best methodology: It is beneficial to the undertaking covered under tax holiday plans.

Illustration 3

Particulars	Plant 1	Plant 2	TOTAL	Merged	Difference
Book Profit	10,00,000	15,00,000	25,00,000	25,00,000	-
Profit as per income tax Act	5,00,000	20,00,000	25,00,000	25,00,000	-
MAT @19.055%	1,90,550	2,85,825	4,76,375	4,76,375	-
Tax as per Income tax Act	1,54,500	6,18,000	7,72,500	7,72,500	-
Tax Payable	1,90,550	6,18,000	8,08,550	7,72,500	36,050