

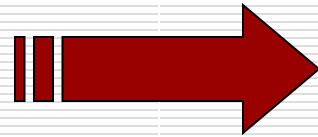
# Computation of Income of Company under IT Act, 1961

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## Treatment of Company under IT Act

Company



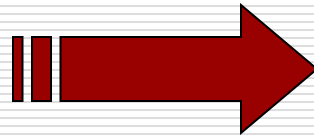
- ❖ Indian company
- ❖ Domestic Company
- ❖ Industrial company
- ❖ Foreign Company-
- ❖ Company in which the public are substantially interested
- ❖ A company without share capital
- ❖ Nidhi or Mutual Benefit Society
- Company owned by a co-operative society
- ❖ Listed companies
- Public limited company owned by Government and / or a widely-held company

# Sources of Income in case Company

- Income from House Property
- Profits and gains of Business or Profession
- ❖ Speculative
- ❖ Non Speculative
- Capital gains
- ❖ Short Term Capital Gain
- ❖ Long Term Capital Gain
- Income from Other Sources

## What is the coverage of Tax ? - Corporate

**Corporate Tax Levy**



- **Corporate Tax – Under Normal Computation of Income – IT Act**
- **MAT**
- **Dividend Distribution Tax**
- **Tonnage Tax**

## Applicability of Income Tax Rate under IT Act

Provisions	Tax Rate	Available To	Optional or Mandatory
Section 115BA	25% / MAT @15%	Old manufacturing domestic companies incorporated on or after 1 <sup>st</sup> March 2016	<b>Optional.</b> Total income of the company is computed without claiming the specified deductions, exemptions or incentives available.
Section 115BAA	22% / MAT not applicable	All domestic companies. From 1.10.2019	<b>Optional.</b> Total income is computed without providing for specified exemption, deduction or incentive available. Once opted for Section 115BA then it cannot opt out from this provision in subsequent years
Section 115BAB	15% / MAT not applicable	New manufacturing domestic companies. From 1.10.2019	<b>Optional.</b> Total income is computed without providing for specified exemption, deduction or incentive available
First Schedule to Finance Act	25% / MAT @15%	All domestic companies subject to turnover threshold limit of Rs.400 Crores	<b>Mandatory</b>
First Schedule to Finance Act	30% / MAT @15%	All other domestic companies	<b>Mandatory</b>

# Rate of Surcharge

<i>Company</i>	<i>Range of Income</i>		
	<i>Up to Rs. 1 crore</i>	<i>Above Rs. 1 crore but up to Rs. 10 crore</i>	<i>More than Rs. 10 crore</i>
<b>Domestic Company opting for section 115BA</b>	<b>Nil</b>	<b>7%</b>	<b>12%</b>
<b>Domestic Company opting for section 115BAA*</b>	<b>10%</b>	<b>10%</b>	<b>10%</b>
<b>Domestic Company opting for section 115BAB*</b>	<b>10%</b>	<b>10%</b>	<b>10%</b>
<b>Any other company</b>	<b>Nil</b>	<b>7%</b>	<b>12%</b>

**Surcharge shall be levied at the flat rate of 10% only on income offered to tax under Section 115BAA or Section 115BAB. Surcharge on all other incomes, which are taxable at the special rate, shall be levied as per the existing provisions.**

## **Tax on income of certain manufacturing domestic companies [Sec. 115BA]**

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- ☐ Domestic Company has been set-up and registered on or after the 01-03-2016.
- ☐ Company is not engaged in any business other than the business of manufacture or production of any
- ☐ article or thing and research in relation to, or distribution of, such article or thing manufactured or produced by it; and
- ☐ The total income of the company has been computed without claiming specified deduction, exemption or incentives (discussed later).

(Sec-10AA,32AC,32AD,33AB,33ABA,35(1)(ii)(ia)(iii),35(2AA/2AB)(35AC),35AD,35CCC, 35CCD,80H to 80TT(except 80JJAA))

## **Tax on income of certain manufacturing domestic companies [Sec. 115BA]**

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- ❑ Income to be computed without**
  - ❖ set off of any loss carried forward from any earlier assessment year if such loss is attributable to any of the deductions referred above; and
  - ❖ depreciation u/s 32 [other than 32(1)(ia)], is determined in the manner as may be prescribed.
  - ❖ Depreciation u/s 32(1)(ii) of any block of assets entitled to more than 40% shall be restricted to 40% on the written down value of such block of assets [Rule 5]
- ❑ Rate of Tax: 25% + SC + Cess**



# Tax on income of certain manufacturing domestic companies [Sec. 115BA]

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## Other Points

- ❑ ► Income taxable at special rate shall be taxable at special rate of tax applicable on that income. E.g., short term capital gain covered u/s 111A is taxable @ 15%.
- ❑ ► The loss referred to in the conditions shall be deemed to have been already given full effect to and no further deduction for such loss shall be allowed for any subsequent year.
- ❑ ► Option is exercised by the person on or before the due date specified u/s 139(1) for furnishing the first of the returns of income ( uploading Form 10-IB)
- ❑ Once the option has been exercised for any previous year, it cannot be subsequently withdrawn for the same or any other previous year.

## Tax on income of certain Domestic Companies [Sec. 15BAA]

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- ❑ The total income of the company has been computed
  - ❖ without claiming specified deduction, exemption or incentives (discussed later). (Sec-10AA, 32AC, 32AD, 33AB, 33ABA, 35(1)(ii)(ia)(iii), 35(2AA / 2AB)(35AC), 35AD, 35CCC, 35CCD, 80H to 80RRB (except 80JJAA & 80LA))
  - ❖ without set off of any loss carried forward from any earlier assessment year if such loss is attributable to any of the deductions referred above; and
  - ❖ depreciation u/s 32 [other than 32(1)(ia)], is determined in the manner as may be prescribed.
- ❑ Rate of Tax: 22% + SC @ 10% + Cess

## Tax on income of certain Domestic Companies [Sec. 15BAA]

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### ❑ Other Points

- ❖ Income taxable at special rate shall be taxable at special rate of tax applicable on that income. E.g., short term capital gain covered u/s 111A is taxable @ 15%.
- ❖ Loss referred to in the conditions shall be deemed to have been already given full effect to and no further deduction for such loss shall be allowed for any subsequent year.
- ❖ Option is to be exercised by the person on or before the due date specified u/s 139(1) for furnishing the first of the returns of income – uploading of 10-IB.
- ❖ Further, once the option has been exercised for any previous year, it cannot be subsequently withdrawn for the same or any other previous year.

## Tax on income of certain Domestic Companies [Sec. 15BAA]

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### ☐ Other Points

- ☐ ♦ Where the person fails to satisfy the conditions in any previous year, the option shall become invalid in respect of the assessment year relevant to that previous year and subsequent assessment years and other provisions of the Act shall apply, as if the option had not been exercised for the assessment year relevant to that previous year and subsequent assessment years.
- ☐ ♦ Where a person has exercised the option u/s 115BAA, the provision of sec. 115JB (i.e. MAT) is not applicable.
- ☐ ♦ In case of a person, where the option exercised by it, u/s 115BAB has been rendered invalid due to violation of conditions contained in that section, such person may exercise option under this section.

## Conditions for availing the benefit of section 115BAB

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- ☐ Domestic Company should be incorporated on or after 01-10-2019;
- ☐ Commencement of the manufacturing on or after 01-10-2019 but before 31-03-2023;
- ☐ Engaged in the business of manufacture or production of any article or thing and research in relation to, or distribution of, such article or thing manufactured or produced by it;
- ☐ Option to avail of the benefit of section 115BAB must be exercised on or before the due date specified under Section 139(1) for furnishing of first return of income
- ☐ Option once exercised cannot be withdrawn subsequently;
- ☐ It must not be formed by splitting up or reconstruction of an existing business. (condition is not applicable - an undertaking formed as a result of re-establishment, reconstruction or revival in accordance with the provisions of section 33B );

## Conditions for availing the benefit of section 115BAB

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- ☐ Not to use any building which was previously used as a hotel or a convention centre;
- ☐ Not to use any machinery or plant previously used for any purpose. ( but was used outside India shall not be treated as used for any other purpose)
  - Before the date of installation, they were not used in India;
  - These assets were imported into India; and
  - No deduction on account of depreciation has been allowed or allowable on such plant and machinery before they were installed by the assessee
- ☐ However, this condition shall be deemed to have been complied with if value of plant and machinery previously used does not exceed 20% of total value of plant and machinery;
- ☐ The total income of the company has been computed without claiming specified deduction, exemption or incentives (discussed later).

# Tax on income of certain manufacturing domestic companies

## [Sec. 115BA]

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- ❑ Company is not engaged in any business other than the business of manufacture or production of any article or thing and research in relation to, or distribution of, such article or thing manufactured or produced by it.
- ❑ Exception - business of manufacture or production of any article or thing shall not include business of:
  - ❖ i. development of computer software in any form or in any media;
  - ❖ ii. mining;
  - ❖ iii. conversion of marble blocks or similar items into slabs;
  - ❖ iv. bottling of gas into cylinder;
  - ❖ v. printing of books or production of cinematograph film; or
  - ❖ vi. any other business as may be notified by the Central Government in this behalf; and
- ❖ ~~(f) The total income of the company has been computed:~~

***Certain exemptions or deductions shall not be available if a company opts for section 115BA, 115BAA or 115BAB***

<b><i>Section</i></b>	<b><i>Deduction</i></b>
<b>Section 10AA</b>	<b>Deduction for units established in Special Economic Zones (SEZ)</b>
<b>Section 32AD</b>	<b>Deduction for investment in new plant and machinery in notified backward areas</b>
<b>Section 33AB</b>	<b>Deduction in respect of tea, coffee or rubber business</b>
<b>Section 33ABA</b>	<b>Deduction in respect of business consisting of prospecting or extraction or production of petroleum or natural gas in India</b>
<b>Section 35(1)(ii)</b>	<b>Deduction for donation made to approved scientific research association, university college or other institutes for doing scientific research which may or may not be related to business</b>
<b>Section 35(1)(iia)</b>	<b>Deduction for payment made to an Indian company for doing scientific research which may or may not be related to business</b>
<b>Section 35(1)(iii)</b>	<b>Deduction for donation made to university, college, or other institution for doing research in social science or statistical research</b>



***Certain exemptions or deductions shall not be available if a company opts for section 115BA, 115BAA or 115BAB***

<b><i>Section</i></b>	<b><i>Deduction</i></b>
<b>Section 35(2AA)</b>	<b>Deduction for donation made to National Laboratory or IITs, etc. for doing scientific research which may or may not be related to business</b>
<b>Section 35(2AB)</b>	<b>Deduction for capital expenditure (excluding cost of land and building) on scientific research relating to business of bio-technology or manufacturing any article or thing</b>
<b>Section 35AD</b>	<b>Deduction in respect of capital expenditure incurred in respect of certain specified businesses, i.e., cold chain facility, warehousing facility, etc.</b>
<b>Section 35CCC</b>	<b>Deduction for expenditure on agriculture extension project</b>
<b>Section 35CCD</b>	<b>Deduction for expenditure on skill development project</b>
<b>Part C of Chapter VI-A</b>	<b>Deduction in respect of certain incomes other than specified under Section 80JJAA</b>

***Certain exemptions or deductions shall not be available if a company opts for section 115BA, 115BAA or 115BAB***

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- ❑ Section 10AA and Part C of Chapter VI-A provide profit linked deductions. In other words, deduction under section 10AA and Part C of chapter VI-A are allowed to the extent of profits of the company. Therefore, losses cannot arise after claiming deduction under these provisions.**
- ❑ a) Where course of business between company opting for section 115BAB and any other person are so arranged that it produces to the company more than the ordinary profits, the Assessing Officer can re-compute the profit which may be reasonably deemed to have been derived therefrom**
- ❑ b) The profit from such transaction shall be determined having regard to arm's length price if such transaction is covered under the ambit of 'Specified Domestic Transaction' as defined under section 92BA of the Act.**

## *Adjustment of unabsorbed depreciation attributable to additional depreciation from block of asset*

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- ❑ As companies opting for section 115BAA are not eligible to set-off the unabsorbed depreciation attributable to additional depreciation.
- ❑ The CBDT has now clarified that:
  - ❖ the total income shall be computed –
  - ❖ without claiming any deduction under section 32(1)(ia) (additional depreciation) as provided in section 115BAA(2)(i) of the Act and – without set-off of any loss carried forward from earlier Assessment Year, if the same is attributable, inter alia, to additional depreciation.
  - ❖ Allowability of brought forward loss on account of additional depreciation; and
  - ❖ Allowability of brought forward MAT credit.

## ***Tax rates under Section 115BAB***

<i><b>Income</b></i>	<i><b>Tax rate</b></i>
<b>Income from manufacturing activities</b>	<b>15%</b>
<b>Income from non-manufacturing activities</b>	<b>22%</b>
<b>Short-term capital gain from transfer of depreciable assets</b>	<b>15%</b>
<b>Short-term capital gain from transfer of non-depreciable assets</b>	<b>22%</b>
<b>Excess profit derived due to arranged affairs</b>	<b>30%</b>
<b>Special Incomes</b>	<b>Special tax rates prescribed under the Act</b>

## Tax Rate of Foreign Company

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- ❑ A foreign company is liable to pay tax at the rate of 40% of taxable income.
- ❑ *Surcharge*
  - ❖ The rate of surcharge in case of a foreign company shall be 2% and 5% if its total income exceeds Rs. 1 crores and 10 crores, respectively.
- ❑ *Health and Education Cess*
  - ❖ The health and education cess is levied at the rate of 4% on the amount of income tax *plus* surcharge

## *Consequence of not complying with conditions of Section 115BAB*

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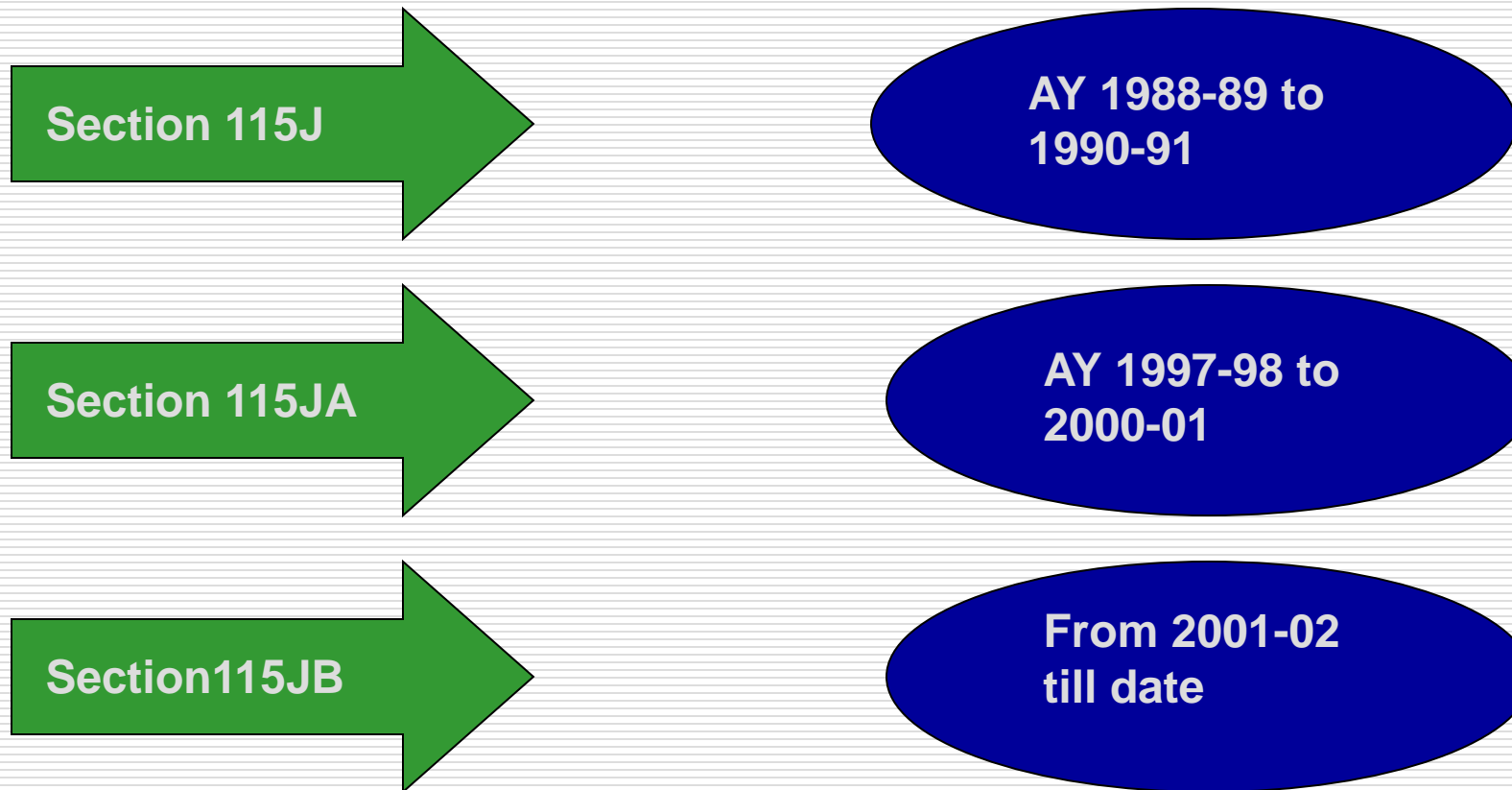
- ☐ If a company, after opting for Section 115BAB, fails to comply with any of the aforesaid conditions in any previous year, then the option to pay tax at concessional rate shall become invalid
- ☐ for that year and
- ☐ for all subsequent assessment years.
- ☐ However, in such a situation, the domestic company can switch to new tax regime of Section 115BAA.

## Tax on certain dividends received from foreign companies [Sec. 115BBD]

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- ❑ ♦ Dividend [excluding dividend referred to in sec. 2(22)(e)] received by an Indian company from a specified foreign company is taxable @ 15%
- ❑ ♦ No deduction in respect of any expenditure or allowance shall be allowed to the assessee while computing such dividend income.
- ❑ ♦ *Specified Foreign Company* means a foreign company in which the Indian company holds 26% or more in nominal value of the equity share capital of the company

## Position of MAT over various years





## Non-applicability of MAT

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- ❑ **Section 115JB(5A)-** MAT shall not apply to any income accruing or arising to a company from life insurance business referred to in section 115B.
- ❑ **Section 115V-O** - the provisions of MAT will not apply to a shipping income liable to tonnage taxation, i.e., tonnage taxation scheme as provided in section 115V to 115VZC.
- ❑ **Companies opting for sec. 115BAA and sec. 115BAB:** The provision of this section shall not apply to a person who has exercised the option referred to u/s 115BAA and u/s 115BAB.

## Non-applicability of MAT

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- ❑ **Expl. 4 to Sec.115JB (Finance Act, 2016 effect from 1/4/2001), it is clarified that the MAT provisions shall not / deemed never be applicable to an assessee, being a foreign company, if the assessee is a resident of**
- ❖ **(i) a country or a specified territory with which India has an agreement referred to in u/s 90 (1) or the Central Government has adopted any agreement u/s 90A (1) and the assessee does not have a PE in India in accordance with the provisions of such agreement; or**
- ❖ **(ii) a country with which India does not have an agreement of the nature referred to in clause (i) and the assessee is not required to seek registration under any law for the time being in force relating to companies.**

## Non-applicability of MAT

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### Explanation 4A to section 115JB as inserted by Finance Act, 2018:

- ❑ MAT provisions shall not be applicable to a foreign company, whose total income comprises of profits and gains arising from business referred to in
  - ❖ Section 44B- Foreign shipping company
  - ❖ Section 44BB– Activity connected with exploration of minerals,
  - ❖ Section 44BBA –Foreign Airlines
  - ❖ Section 44BBB- Foreign companies business of civil construction

and Such income has been offered to tax at the rates specified in those sections.

Business income (before adjusting brought forward losses) & Book Profit of X Ltd. for various years are as follow:

	Year 1	Year 2	Year 3
Business Income as per other provisions of the Act	(-) ₹ 2,00,000	₹ 1,50,000	₹ 1,50,000
Book Profit	₹ 1,00,000	₹ 60,000	₹ 2,50,000

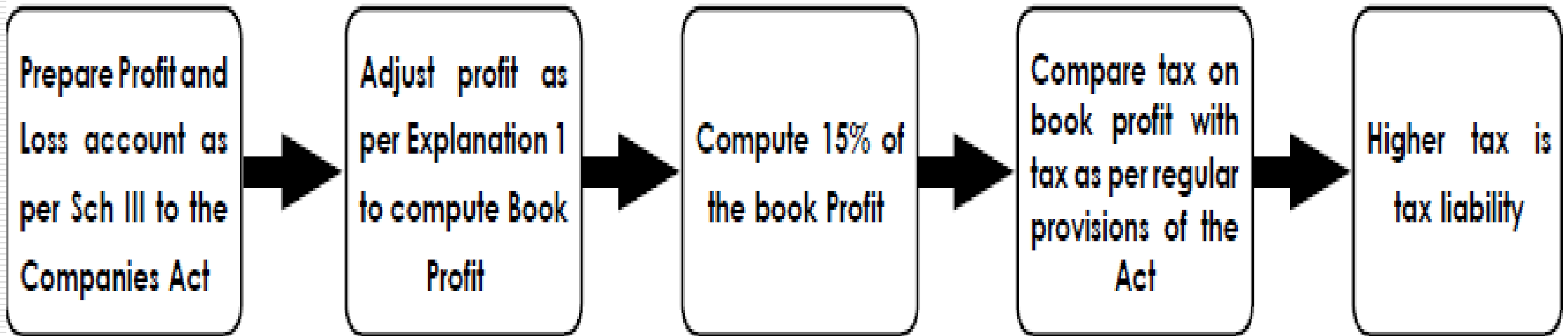
In the aforesaid case, tax shall be computed as under:

Particulars	Year 1	Year 2	Year 3
Business Income after set off	(-) ₹ 2,00,000	Nil	₹ 1,00,000
Tax on above @ 30% [A]	Nil	Nil	₹ 30,000
Book Profit	₹ 1,00,000	₹ 60,000	₹ 2,50,000
15% of Book Profit [B]	₹ 15,000	₹ 9,000	₹ 37,500
<b>Tax [Higher<sup>1</sup> of A &amp; B]</b>	<b>₹ 15,000</b>	<b>₹ 9,000</b>	<b>₹ 37,500</b>
Add: Surcharge*	Nil	Nil	Nil
Tax & Surcharge	₹ 15,000	₹ 9,000	₹ 37,500
Add: Health & Education Cess	₹ 600	₹ 360	₹ 1,500
<b>Tax Liability (R/off)</b>	<b>₹ 15,600</b>	<b>₹ 9,360</b>	<b>₹ 39,000</b>

\*As total income of the company does not exceed ₹ 1 crore, hence surcharge is not applicable.

It is to be noted that when a company is liable to pay tax u/s 115JB, book profit of the company shall be considered as total income of the company.

## Computation of MAT



## COMPUTATION OF BOOK PROFIT

- (i) the accounting policies,
- (ii) the accounting standards followed for preparing such accounts, including statement of profit and loss account
- (iii) the method and rates for calculating depreciation

shall be the same as have been adopted for the purpose of preparing such accounts including statement of profit and loss account and laid before the company at its annual general meeting.

- (d) Where the financial year adopted by the company under the Companies Act, 2013<sup>4</sup> is different from the previous year under the Income-tax Act, 1961, the accounting policies, accounting standards and methods and rates adopted for calculating depreciation shall correspond to the accounting policies followed for preparing such accounts including statement of profit and loss account for the financial year



## Computation of Book Profit – Table A

<i>Particulars</i>	<i>Amount</i>
Net profit as per statement of profit and loss prepared in accordance with Schedule III to the Companies Act, 2013	XXXXXX
<i><u>Add : Following items (if they are debited to the statement of profit and loss)</u></i>	
Income-tax paid/payable and the provision thereof (*)	XXXXXX
Amounts carried to any reserves by whatever name called (Other than reserve specified under Section 33AC)	XXXXXX
Provisions for unascertained liabilities	XXXXXX
Provisions for losses of subsidiary companies	XXXXXX
Dividends paid/proposed	XXXXXX
Expenditure related to incomes which are exempt under section 10 [other than section 10(38)] section 11 and section 12	XXXXXX
The amount or amounts of expenditure relatable to, income, being share of the taxpayer 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.	XXXXXX

## Computation of Book Profit – Table A

<p>The amount or amounts of expenditure relatable to income accruing or arising to a taxpayer being a foreign company, from :</p> <p>(a) the capital gains arising on transactions in securities; or</p> <p>(b) the interest, royalty or fees for technical services chargeable to tax at the rate or rates specified in Chapter XII</p> <p>if the income-tax payable on above income is less than the rate of MAT</p>	XXXXXX
<p>The amount representing notional loss on transfer of a capital asset, being share or a special purpose vehicle to a business trust in exchange of units allotted by that trust referred to in clause (xvii) of <u>section 47</u> or the amount representing notional loss resulting from any change in carrying amount of said units or the amount of loss on transfer of units referred to in clause (xvii) of <u>section 47</u></p>	XXXXXX



## Computation of Book Profit – Table -A

Expenditure relatable to income by way of royalty in respect of patent chargeable to tax under section 115BBF	XXXXXX
Amount of depreciation debited to P & L A/c	XXXXXX
Deferred tax and the provision thereof	XXXXXX
Provision for diminution in the value of any asset	XXXXXX
The amount standing in revaluation reserve relating to revalued asset on the retirement or disposal of such an asset if not credited to statement of profit and loss	XXXXXX
The amount of gain on transfer of units referred to in clause (xvii) of <u>section 47</u> computed by taking into account the cost of the shares exchanged with 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 statement of profit and loss as the case may be;	XXXXXX

## Computation of Book Profit – Table -A

<b><u>Less : Following items (if they are credited to the statement of profit and loss)</u></b>	
Amount withdrawn from any reserve or provision if credited to P&L account (**)	(XXXXXX)
Incomes which are exempt under section 10 [other than section 10(38)] section 11 and section 12	(XXXXXX)
Amount of depreciation debited to statement of profit and loss (excluding the depreciation on revaluation of assets)	(XXXXXX)
Amount withdrawn from revaluation reserve and credited to statement of profit and loss to the extent it does not exceed the amount of depreciation on revaluation of assets	(XXXXXX)

## Computation of Book Profit – Table A

The amount of income, being the share of the taxpayer 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 <u>section 86</u> , if any such amount is credited to the statement of profit and loss	XXXXXX
<p>The amount of income accruing or arising to a taxpayer being a foreign company, from :</p> <p>(a) the capital gains arising on transactions in securities; or</p> <p>(b) the interest, royalty or fees for technical services chargeable to tax at the rate or rates specified in Chapter XII</p> <p>if such income is credited to the statement of profit and loss and the income-tax payable on above income is less than the rate of MAT.</p>	XXXXXX

## Computation of Book Profit – Table A

<p>The amount (if any, credited to the statement of profit and loss) representing</p> <p>(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 that trust referred to in clause (xvii) of <u>section 47</u>; or</p> <p>(b) notional gain resulting from any change in carrying amount of said units; or</p> <p>(c) gain on transfer of units referred to in clause (xvii) of <u>section 47</u>,</p> <p>The amount representing notional gain on transfer of units referred to in clause (xvii) of <u>section 47</u> computed by taking into account the cost of the shares exchanged with 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 statement of profit and loss, as the case may be;</p>	XXXXXX
Income by way of royalty in respect of patent chargeable to tax under section 115BBF	XXXXXX

## Computation of Book Profit – Table A

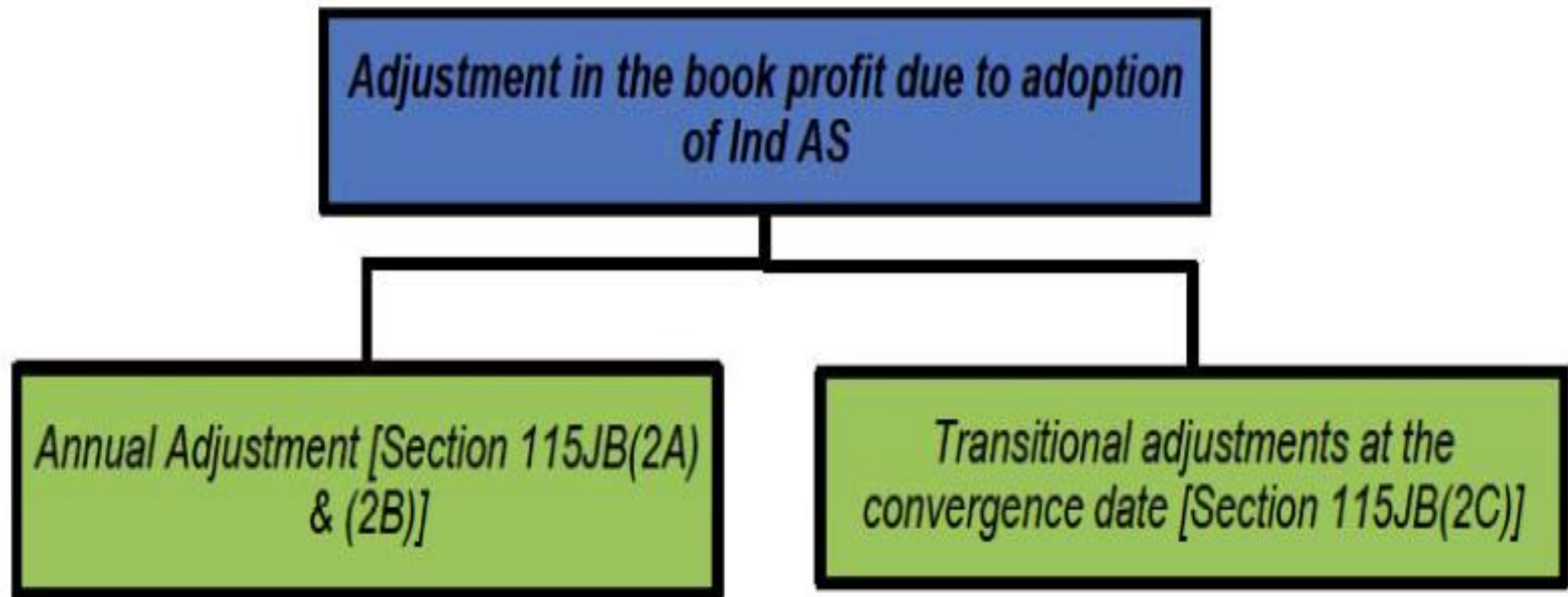
Amount of unabsorbed depreciation and loss brought forward in case of company against whom an application for corporate insolvency resolution process has been admitted.	
Amount of brought forward loss or unabsorbed depreciation, whichever is less as per books of account (in case of a company other than the company undergoing insolvency proceedings)	(XXXXXX)
Profits of a sick industrial company till its net worth becomes zero/positive	(XXXXXX)
Deferred tax, if credited to statement of profit and loss	(XXXXXX)
<b>Book profit to be used to compute MAT</b>	<b>XXXXXX</b>

(\*) The amount of Income-tax shall include:

- i. Any tax on distributed profits under section 115-O (dividend distribution tax - i.e., DDT) or tax on distributed income under section 115R;
- ii. Any interest charged under this Act;
- iii. Surcharge, if any, as levied by the Central Acts from time-to-time;
- iv. Education Cess on Income-tax, if any, as levied by the Central Acts from time-to-time; and
- v. Secondary and Higher Education Cess on Income-tax, if any, as levied by the Central Acts from time-to-time.



## Computation of Book Profit for Ind AS Complaint Companies



## Computation of Book Profit – Table B – Ind AS applicable Company

Particulars	Amount
Book profit as computed in Table A	XXXXXX
Adjustments as mentioned in point (3) above	XXXXXX
Adjustments for revaluation gain/loss for fixed assets & intangible assets in the year of their disposal or transfer	XXXXXX
Adjustments for gains or losses from investments in equity instruments measured at FVTOCI in the year if their disposal or transfer	XXXXXX
Adjustments for any other OCI items that will not be re-classified to profit or loss	XXXXXX
<b>Book profit to be used to compute MAT</b>	<b>XXXXXX</b>

**PVTOCI Fair Value Trough Other Comprehensive Income**



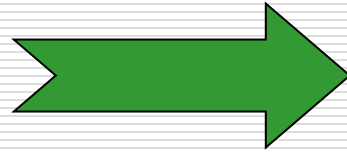
## D. Report



Every company is required to, furnish a report in the prescribed form 29B along with the return of income from an Accountant certifying that the book profit has been computed in accordance with the provisions of this section

## Quantum of MAT Credit

Tax payable  
under normal  
provisions > Tax  
Payable u/s 115JB



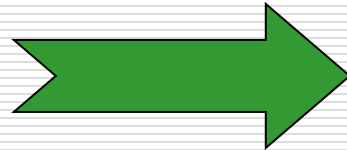
➤ MAT Credit for current AY  
Tax payable under normal provisions  
(-) Tax payable u/s 115JB of current  
year

MAT Credit  
available to be set  
of :-



➤ Tax paid u/s 115 JB > Tax payable  
under normal provisions

Carry forward  
of MAT credit:



➤ MAT credit can be carried forward up  
to 15 assessment years succeeding  
the assessment year in which tax credit  
becomes allowable

## Set off of tax paid u/s 115JB (sec 115AA)

- (1) This section provides that where tax is paid in any assessment year in relation to the deemed income under section 115JB(1), the excess of tax so paid over and above the tax payable under the other provisions of the Income-tax Act, 1961, will be allowed as tax credit in the subsequent years.
- (2) The tax credit is, therefore, the difference between the tax paid under section 115JB(1) and the tax payable on the total income computed in accordance with the other provisions of the Act.
- (3) The tax credit shall be allowed to be set off in a year in which tax becomes payable on the total income computed in accordance with provisions of the Act other than section 115JB.
- (4) This tax credit is allowed to be carried forward for **15 assessment years** succeeding the assessment year in which the credit became allowable.



## Set off of tax paid u/s 115JB (sec 115AA)

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- (5) Such credit is allowed to be set off against the tax payable on the total income in an assessment year in which the tax is computed in accordance with the provisions of the Act, other than 115JB, to the extent of excess of such tax payable over the tax payable on book profits in that year.
- (6) Where as a result of order passed, the amount of tax payable is reduced or increased, the amount of tax credit allowed shall also be reduced or increased accordingly.
- (7) In case of conversion of a private company or unlisted public company into an LLP, the tax credit under section 115JAA for MAT paid by the company under section 115JB would not be allowed to the successor LLP.
- (8) ***Where the amount of tax credit in respect of any income-tax paid in any country or specified territory outside India, under section 90 or section 90A or section 91, allowed against the tax payable under the provisions of sub-section (1) of section 115JB exceeds the amount of such tax credit admissible against the tax payable by the assessee on its income in accordance with the other provisions of this Act, then, while computing the amount of credit under this sub-section, such excess amount shall be ignored.***

## Example.....

<u>Year 1:-</u>	
115JB liability	10,00,000
Normal tax liability	8,40,000
Credit which can be carried forward= I	1,60,000
<u>Year 2:-</u>	
115JB liability (A)	18,00,000
Normal tax liability (B)	18,40,000
Tax liability= (B) [ Since B is higher than A]	18,40,400
MAT credit available for set off in the present year [(A)- (B)]= II	40,000
Net tax liability for the present year [B-II]	18,00,000
Mat Credit to be carried forward [I-II]	1,20,000

## MAT- Foreign Tax Credit -

### Example

- a. Tax paid in foreign country: ₹ 70/-
- b. Tax payable u/s 115JB: ₹ 75/-
- c. Tax payable under other provisions of the Act: ₹ 10/-

Then,

Foreign tax credit to the extent of ₹ 70/- is available for discharging tax liability u/s 115JB.

While calculating credit u/s 115JAA for subsequent year, ₹ 60/- shall be ignored and credit of ₹ 5 is available as shown below:

Tax payable under other provisions of the Act	A	₹ 10
Less: Foreign Tax Credit	B	₹ 10
Tax Payable after adjustment	C	Nil
Tax payable u/s 115JB	D	₹ 75
Less: Foreign Tax Credit	E	₹ 70
Tax Payable after adjustment	F	₹ 5
MAT Credit available without considering aforesaid provision	D – A	₹ 65
Credit not available due to aforesaid provision	E – B	₹ 60
Credit available in the subsequent year(s)	F – C	₹ 5



Thank  
you