

## Research Paper



## EVALUATION OF MINIMUM ALTERNATIVE TAX IN INDIA – SECTION 115JB: AN ANALYTICAL STUDY

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### ABSTRACT

The IT department considers MAT to be an important tool with which it can prevent tax avoidance. The study in this paper focuses on the concept of MAT, development, growth, evaluation. Its major focus on conceptual with empirical study with new model development.

The primary data has been collected for this study and advanced SPSS Package has been used for analysis with hypothesis testing.

CBDT (Central Board of Direct Taxes) is a statutory authority functioning across India. The study has made an attempt to evaluate the process MAT in Indian context. The government of India already implemented various provisions for betterment of tax collection. As per the records of CBDT for the Previous Year 2015-16, CBDT – Income Tax Department declares only 1.7% of people paid tax on their Income. Out of 4.07 Crores returns were filed and 2.06 Crores paid the tax, remaining were filed the nil return.

**KEYWORDS:** Zero Tax Companies, MAT, CBDT, IT Provision.

### 1. INTRODUCTION

Minimum Alternative Tax is one of the tackling tools introduced by the government on the companies. Here those companies are escaping from tax payment are identified and brought under tax base. The levy of a minimum tax on companies was first introduced through section 80VVA by the Finance Act, 1983. The method adopted to place a ceiling on the aggregate quantum of incentives available under various provisions of the Act. And the unabsorbed incentives were allowed to be carried forward and set off against taxable income in future years.

The concept of tax on book profits was introduced originally under section 115J by the Finance Act, 1987 and it was withdrawn with effect from A. Y. 1990-91 and the tax was levied at 30% of Book Profits. Again the concept was reintroduced with re-altered and imposing Minimum Alternate Tax (MAT) under section 115JA with effect from A. Y. 1997-98 and had effect up to A. Y. 2000-01.

If the taxable income of a company computed under this Act, in respect of any previous year relevant to the assessment year commencing on or after 1.4.97 but before 1.4.2001 is less than 30 % of its book profits, the total income of such company, chargeable to tax for the relevant previous year shall be deemed to an amount equal to 30 % of such book

profits. Some of the literatures have been studied, resulted with national and international papers, no empirical study have been done. Only the conceptual studies had been done. So it's important and creates research gap in this area.

### 2. OBJECTIVES OF THE STUDY

- 2.1 To identify the performance of Minimum Alternative Tax in India.
- 2.2 To analyze the changes between an existing MAT provision and with the normal provision.
- 2.3 To evaluate the consequences of MAT and its actual implementation.

### 3. HYPOTHESIS TESTING

$H_0$ : There is no significant difference in the average total income between KMPL and SLSPL.

$H_1$ : There is a significant difference in the average total income between KMPL and SLSPL.

### 4. STUDY METHODOLOGY

#### 4.1 Sampling Design and Sample Size:

Content Analysis with convenience sampling method is used for selecting two companies; it includes Kumnex M Pvt. Ltd. and Shodakal Life Science Pvt. Ltd.

Period Covered: The four years data had been collected for comparative analysis. To support and

validating the research, the descriptive statistics/analysis are used for analyzing the data relating to the companies.

**4.2 Statistical Tools:**

Various means of statistical packages and tools are used for secure accuracy and reliability of the study. The tools which are used in the study are stated below:

1. Micro Soft Excel (Tables and Figures)
2. SPSS 16 (Testing of Hypothesis)
3. Paired Comparison t-test (Testing of Hypothesis)

**5.RESULTS**

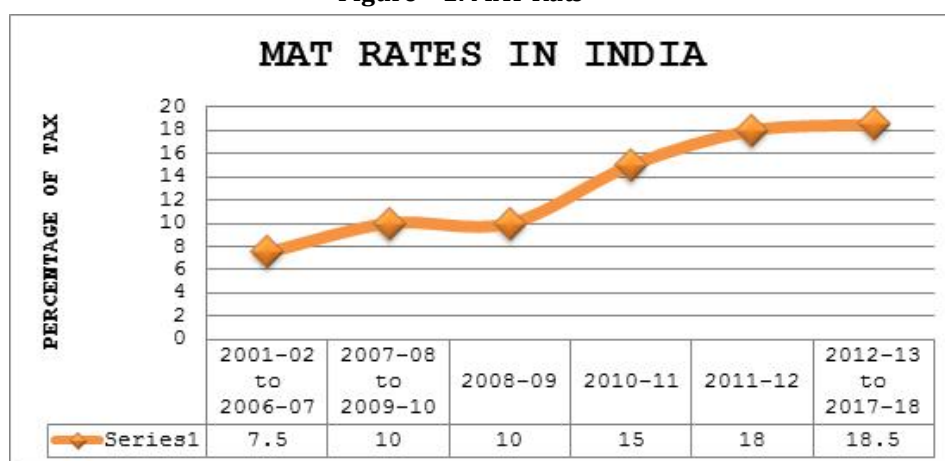
**5.1 Objective 1: MAT – Progress/Performance**

Tax is the major source of revenue to the government for their development activities. Corporate tax contributes lion’s share in the income tax from the decades ago. As income tax in India’s income tax is the least contribution with developing country’s label. Central government planning to tackle parallel market and starts a fresh with development slogans. *Unfortunately, for the Previous Year 2015-16, CBDT– Income Tax Department declares only 1.7% of people paid tax on their Income. Out of 4.07 Crores returns were filed and 2.06 Crores paid the tax, remaining were filed the nil return.*

**Table – 1: MAT Rate**

ASSESSMENT YEARS	MAT RATES (PERCENTAGE OF BOOK PROFIT)
2001-02 to 2006-07	7.5
2007-08 to 2009-10	10
2008-09	10
2010-11	15
2011-12	18
2012-13 to 2017-18	18.5

**Figure – 1: MAT Rate**



**5.2 Dilemma in Implication of Law or Act:**

Corporate entities with their excellent tax planning and capitalizing, analysing on the available deductions, exemptions and incentives under the Income Tax Act/Law tend to contribute insignificantly towards the governments tax pool. MAT was mandated globally by different

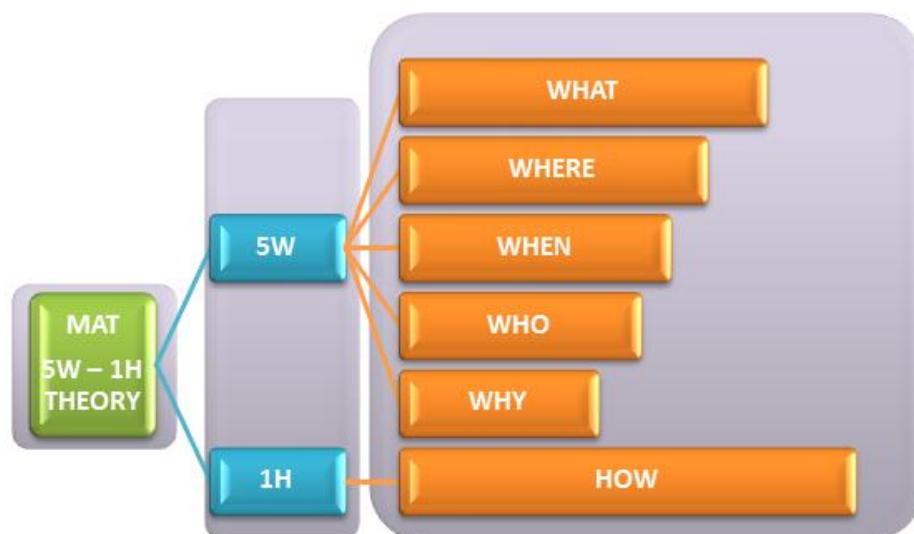
governments. The levy of MAT is an attempt by the different governments to cut back on deficits in tax collection and hence prevent any likely upward trend in inflation and also contributing to the GDP growth.

**5.3 MAT 5W, 1H THEORY:**

**TABLE – 2: Implication of theoretical setting with MAT – 5W, 1H theory.**

	CONCEPT	APPLICABILITY
5W	WHAT	MAT u/s 115JB of Income Tax Act-1961
	WHERE	On Companies
	WHEN	Calculation of Tax at every year ending
	WHO	Those whose Book Profit is more than Normal Computation
	WHY	To avoid Escape from tax, declaring as zero tax companies
1H	HOW	Comparison of Tax between Net Profit and Book Profit

Figure – 2: Implication of Theoretical setting with MAT.



**5.4 TESTING OF HYPOTHESIS:**

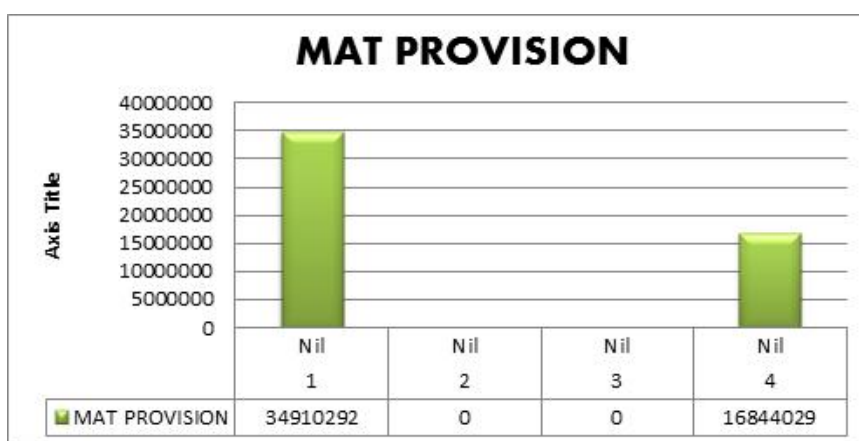
The present study has been focused on test the total income with the hypothesis framed. The hypothesis has been tested by SPSS software and the results had been tested through the SPSS software. To compare the average total incomes of both the companies and to get the statistical result for conclude with empirical results.

- H<sub>0</sub>: There is no significant difference in the average total income between KMPL & SLSPL.
- H<sub>1</sub>: There is a significant difference in the average total income between KMPL & SLSPL.

**Table – 3: Total Income of KMPL under Normal Provision and MAT Provision**

YEAR	NORMAL PROVISION (TOTAL INCOME)	MAT PROVISION (BOOK PROFIT)
2010-2011	Nil	3,49,10,292
2011-2012	Nil	Not Applicable
2012-2013	Nil	Not Applicable
2013-2014	Nil	1,68,44,029

**FIGURE – 3: KMPL MAT and IT PROVISION.**



Source: Primary Data.

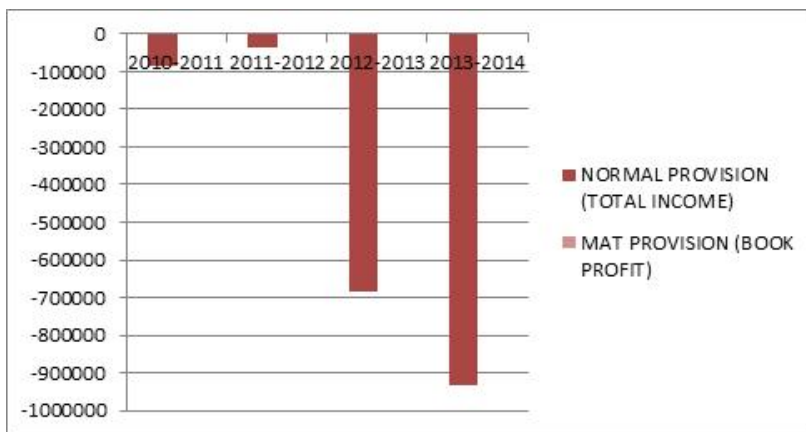
**Interpretation:** From the above table shows the Total Income of KMPL under normal provision and MAT provision for the A Y 2010-11 NP- Nil, MATP - Rs. 3,49,10,292,

2011-2012 NP- Nil, MATP- Not applicable, 2012-2013 NP- Nil, MATP- Not applicable and 2013-14 NP- Nil, MATP- Rs. 1,68,44,029.

**TABLE – 4: Total Income of SLSPL under Normal Provision and MAT Provision**

YEAR	NORMAL PROVISION (TOTAL INCOME)	MAT PROVISION (BOOK PROFIT)
2010-2011	-86398	Not Applicable
2011-2012	-37498	Not Applicable
2012-2013	-686121	Not Applicable
2013-2014	-933141	Not Applicable

**FIGURE – 4: SLSPL MAT and IT PROVISION**



Source: Primary Data

**Interpretation:** From the above table shows the Total Income of SLSPL under normal provision and MAT provision for the A Y 2010-11 NP-Rs.86,398, MATP-Rs.86,398, 2011-2012 NP-Rs.-37,498, MATP- Not applicable, 2012-2013 NP-Rs.-6,86,121, MATP- Not applicable and 2013-14 NP-Rs.-9,33,141, MATP- Not applicable.

**In comparison of KMPL and SLSPL it shows different results-**

In KMPL the tax paid by the company under normal provision is nil for all the four years, subsequently tax

under 115JB is applicable for A Y 2010-11 & A Y 2013-14 and tax not applicable for A Y 2011-12 & A Y 2012-13 because of nil value. In this case MAT applicable to companies.

But in case of SLSPL the tax paid by the company under normal provision for all the four years, but tax under 115JB is not applicable for all the Assessment Years. When tax under normal case applied, then there is no issue of MAT provision.

**5.5 RESULTS OF HYPOTHESIS TESTING:**

Paired Samples Statistics					
		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	KMPL	-8.97E6	4	4.096E7	2.0487
	SLSPL	-4.36E5	4	4.437E47	221873.634

From the above t-test, KMPL company mean value is -8.97 and S. D. is 4.096, S. E. 2.048 and SLSPL company mean value is -4.36, and S. D. is 4.437, S. E. 221873.634.

**CORRELATION RESULT:**

Paired Samples Correlations				
		N	Correlation	Sig.
Pair 1	KMPL & SLSPL	4	-.078	.922

Paired Samples Test								
Paired Differences						t	d f	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
KMPL - SLSPL	-8.535E6	4.099E7	2.050E7	-7.376E7	5.669E7	-.416	3	.705

E – Exception.

From the above t-test, both companies mean value is -8.535; S. D. is 4.099, S. E. 2.050. T-value is -0.416, degree of freedom is (4-1) 3 and the significance value is 0.705.

**5.6 INFERENCES:**

When P value (Sig. 2-tailed) is less than 0.05, H<sub>0</sub> should be accepted.

When P value (Sig. 2-tailed) is more than 0.05, H<sub>1</sub> should be accepted.



From the above paired sample t-test between KMPL AND SLSPL the sig. value is 0.705, it is insignificant, so null hypothesis rejected, alternative hypothesis accepted.

From the paired sample t-test between KMPL AND SLSPL sig. values is 0.705, it is insignificant, *so null hypothesis rejected and alternative hypothesis has been accepted shows difference in method of calculating tax from different companies.* There is a significant difference in the average total income between KMPL & SLSPL.

## 6.SUGGESTIONS:

1. If the company deposits the tax under MAT stream, it reduces the sources of the company. Instead of deposited, the authority give more option to company to utilize that sources.
2. The MAT is not properly channelized, for the purpose of better implementation it requires a lot of administration support.
3. The concept of MAT is not properly educated till now, so the authority should create lot of awareness programmes.
4. Major drawback in respect of tax collection from corporate entities is **High Rate of Tax and Tax Base.**

## 7.CONCLUSION

The Income Tax department considers MAT to be an important tool with which it can prevent tax evasion and increase tax revenue. Literally, corporate tax contribution is the major sources of revenue. It is common for companies to set up companies as subsidiaries and show losses in such companies to reduce taxable profits. For the MAT computation, losses in subsidiaries need to be added back. Revaluation of assets is another common method for reducing taxable profits. This too is adjusted while calculating MAT.

## 8.LIMITATIONS OF THE STUDY and FURTHER RESEARCH:

The major limitation of the study was compared between only 2 sample companies; two of them had different rate and tax provision. The concept of MAT is wide and applicable to all companies, but study was limited and restricted to minimum number of companies because of time constraints. So there is a scope for further study, to be focused on large number of companies as samples with MAT payable companies.

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