

MAT (Minimum Alternative  
Tax )

# Minimum Alternative Tax on certain companies

A company is liable to pay tax on the total income computed in accordance with the provisions of the Income Tax Act, but the Profit and Loss Account is prepared as per provisions of the Companies Act. There were large number of companies who had book profits as per Profit and Loss Account but the total income as per provision of the Income-tax Act was either nil or negative or insignificant and as a result such companies were not paying any Income-tax though sometimes, such companies were paying dividends to shareholder. These companies are popularly known as “Zero Tax Companies”.

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In order to bring these companies under the Income-tax Act, the following sections were included time to time from Assessment Year 1997-98.

According to Sec. 115JB, in case of Companies, if the tax payable on the total income as computed

under Income Tax Act in respect of any Previous Year is less than 18.5% of its book profit, such book

profit shall be deemed to be total income of the assessed and tax payable for the relevant Previous

Year shall be 18.5% of such book profit.

# Amalgamation [Sec. 2(1B)]

Amalgamation in relation to companies means the merger of one or more companies with another company, or merger of two or more companies to form a new company. The company so merged goes out of existence is “amalgamating company.” The company into which the amalgamating company merges, or the new company that is formed to effect amalgamation, is “amalgamated company” in such a manner that :-

(a) All property of amalgamating company, immediately before amalgamation, should become the property of amalgamated company,

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(b) All liabilities of amalgamating company, immediately before amalgamation, should become the liabilities of amalgamated company,

(c) Shareholders holding 75% in value of the shares in amalgamating company should become shareholders of the amalgamated company.

However, if the amalgamated company or its subsidiary/nominee already holds some shares in the amalgamating company, value of such shares is excluded for calculating 75% of the value of shares of the amalgamating company

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A merger of companies will not be treated as amalgamation in case of sale or liquidation of company.

The effective date in a scheme of amalgamation is the date of transfer specified in the scheme and not the date of high court's order approving the scheme. So long as the court does not modify the date specified in the scheme, amalgamation takes effect on date of transfer specified in the scheme.

- The income of the amalgamating company from such date of transfer shall be assessed as income of the amalgamated company and shall be assessed accordingly. [Marshall Sons and Co. (India) Ltd. vs. ITO (SC), 223 ITR 809]

Thank You