A Study on Tax With Sectoral Analysis of Minimum Alternative Tax in India: An Experience From Karnataka

[1]Sachin H P, [2]Dr. T S Devaraja,

[1]Research Scholar, [2]Associate Professor, Department of Studies in Commerce, Post Graduate Centre, University of Mysore, Hemagangotri Campus, Hassan – 573226, Karnataka & India.

[1]sachinhp10@gmail.com, [2]devaraj@commerce.uni-mysore.ac.in

Abstract - MAT is a compulsory calculation by every company in India before the normal tax provision of 30% on net profits. This paper highlights on the sector wise corporate tax calculation and tax payment under section 115JB. The result of hypothesis testing depicts the differences between the tax payment pattern and tax evasion predictions. As a corporate entity it's the basic responsibility of companies to collect/pay taxes from its concerned parties and should remit taxes to tax authority without evading for the economic growth of the country.

The paper recommends some important steps and guidelines to tackle and reduce the effect of tax avoidance and evasion. It's major focus on empirical study with suggestive measures for tax collection. The primary data has been collected for this study and advanced SPSS Package and Vassar stats has been used for analysis with hypothesis testing.

Keywords - ***A Y, CBDT, DTC, MAT Provision, Normal Provision, Zero-tax Companies.***

I. INTRODUCTION

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.

It is stated that tax should be levied on real income. How to determine the real income is an issue which is debated in various quarters since the levy of tax on income was invented. Several attempts have been made to harmonise the provisions of tax laws with accounting principles. Over the last two decades, the concept of book profits as the base for measurement of income for tax purposes in the cases of limited companies is being experimented. The beginning was made in 1983 when S. 80VVA was introduced effective from assessment year 1984-85. Under this Section deduction for certain tax incentives was restricted to 70% of pre incentive income. The balance of un-availed incentive was allowed to be carried forward to subsequent years. This provision was replaced by S. 115J from assessment year 1988-89 and it was provided that 30% of book profits of limited companies will be deemed to be total income if the total income computed under other provisions of Income-tax Act was less.

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 sect ion 115JA with effect from A. Y. 1997-98 and had effect up to A. Y. 2000-01.

It is well recognised that, in most of the cases, the income shown in the published accounts of companies is more than the income computed under the provisions of the Income-tax Act. This is mainly due to different methods of depreciation adopted in the accounts and the method prescribed under the Income-tax Act, different method of accounting for revenue/deferred revenue expenditure, and tax incentives provided under the Income-tax Act.

A large number of companies which were distributing dividends to their share holders based on book profits were not paying income tax by availing the deductions available under the Income Tax Act while computing the taxable income under normal provisions. These companies are termed as Zero Tax companies. In order to collect tax from such companies under the income tax act section 115JA was introduced with effect from Assessment Year 1997-98. According to section 115JB of the Income Tax Act that in case of a company, if the tax payable on the total income as computed under the Income tax act is less than 10% of its book profit, such book profit shall be deemed to be the total income of the company and the tax payable shall be eighteen point five percent (plus surcharge and education cess) of such book profit.

The extent of awareness of the employees on tax planning measures and tax laws were also evaluated to assess their degree of awareness on taxation matters as per the Income Tax Act. The study also makes an effort to review the tax reforms being introduced by the Government in respect of Income Tax Laws and tries to ascertain its impact on the companies' income tax assessees.

 DOI : 10.18231/2454-9150.2018.0134

Zero-tax companies

Kelkar report proposal centered the element that MAT would be eliminated. A company has to pay tax as per Income Tax Act, but profit and loss account of the company is prepared as per provisions of the Company Act. The company had book profits, but they were not paying any tax. That is because of income computed as per provisions of the Income Tax Act was either nil or negative significant. The companies showing book profit as per Companies Act, paying dividends to shareholders, but not paying any tax to the government. These companies are popularly known as zero-tax companies. 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.

II. REVIEW OF LITERATURE

Anil H & Harish D M[1] says that the insertion of Explanation 1 (j) provides that where the amount standing in the revaluation reserve on the sale of the revalued asset, has not been credited to the Profit and loss account, such amount shall be added to the net profit for the purposes of computation of book profit. The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.

(Millar, 2008)[2] This article examines the origins, aims, and design of tax credits in the United Kingdom, and discusses the extent to which tax credits represent a new approach in social security policy. It then focuses on the role that these transfers play in supporting lone mothers in employment, drawing on the experiences of lone-parent families to explore how tax credits worked for them. The discussion highlights the tensions between family and employment change and tax credits rules about reporting changes in circumstances and income.

(Clausing & Lahav, 2011)[3] Under a formulary apportionment system of taxing multinational corporate income, U.S. tax liabilities would be based on the product of a multinational firms worldwide income and the fraction of their real activities that occur in the United States – typically, an average of asset, payroll, and sales shares. This analysis utilizes financial reporting data for 50 large U.S. multinational firms to analyze how tax payments would change under a possible formulary system, updating Shackelford and Slemrod (1998). Our time period is 2005–2007 instead of 1989–1993.

(Velmurgan G. 2012)[4] In this paper a detailed history of MAT and its way of growth was highly concentrated. The paper discussed about the method of computation of book profit for calculation, MAT credit and Applicability off Minimum Alternative Tax to foreign companies. In the proposed Direct Tax Code Bill, 2010 the carry forward of credit of MAT paid has been increased to 15 years from the present 10 years.

From the above literature reviews, based on International and Indian context the significance and requirement of evaluating MAT structure is more relevant and reliable. Also necessary to make some major changes, recommendations and to retune the corporate structure makes generating high revenue to the government.

(Ernst & Young)[5] this paper highlights the recovery proceedings, non-grant of credit, contract R&D Economy, business and finance taxation and taxes. The Delhi High Court recently, in the case of Whirlpool India Ltd, held that retrospective amendment providing addition of 'provision for diminution in the value of any asset' in computing book profits under section 115JB of the Income-tax Act, 1961 is constitutionally valid. The Court observed that nothing prevents the legislature from giving effect to its intention at the earliest to bring about certainty and clarity in law.

The Court distinguished the present case against rulings relied upon by the assessee which dealt with retrospective amendment of incentive or relief provisions. The Court noted that MAT (minimum alternate tax) provisions seek to achieve larger public interest by removing inequalities in the tax regime, by making companies earning substantial profits pay tax and contribute to the fiscal health of the economy.

("Minimum Alternate Tax - Insights Corporate Catalyst India," n.d.)[6] The concept of MAT was introduced under the Income Tax Act, 1961 to tax "Zero Tax" companies, i.e., companies that make high book profits and declare substantial dividends to their shareholders but have no or in significant taxable income under the Income Tax Act because of the exemptions, deductions and incentives provided thereon in the form of a liberal rate of depreciation, sector and region specific exemptions, deductions etc. MAT is in consonance with a fundamental canon of taxation-all entities must be taxed in proportion to their ability to pay.

From the above papers the following research gap can be identified. The above analysis of paper shows us direction for further research. i.e., the most of the research already done in the area of MAT are very conceptual in nature and could not show any empirical study in Indian scenario.

III. OBJECTIVES OF THE STUDY

1. To identify the comparison between normal provision and MAT provision.
2. To analyse the sectoral allocation of tax payment.
3. To evaluate the tax payment with sector wise allocation under MAT.

 DOI : 10.18231/2454-9150.2018.0134

IV. HYPOTHESIS OF THE STUDY

{i} H_0: There is no significance difference between the tax payment under normal provision and under MAT provision of banking sector.
{ii} H_0: There is no significance difference between the tax payment under normal provision and under MAT provision of telecommunication sector.

V.STUDY METHODOLOGY

MAT is applicable to all companies in India as per the provisions.

A.SAMPLING DESIGN AND SAMPLE SIZE

Content Analysis with sectoral sampling method is used for selecting the companies. The study covers Banking Sector and Tele-Communication Sectors tax payment under different provisions. The study period covers from A Y 2010-11 to 2015-16 and there are 6companies were selected from each sector.

B.PERIOD COVERED

The study covers six years data of companies selected sector wise. Banking[7] Sector and Telecommunication[8] Sector from A Y 2010-11 to 2015-16 has been selected for the study. To support and validating the research, the descriptive statistics/analysis are used for analyzing the data relating to the companies.

C.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.
2. SPSS 16 (Testing of Hypothesis).
3. Vassar Stats has been used for Cramer's Rule testing.

VI. RESULTS

It is provided that in case of company (domestic or foreign) , if the income-tax payable on the total income computed under the Income-tax Act, is less than 18.5% of its book profit, such book profit shall be deemed to be the total income of the assessee and the tax payable by the assessee on such total income shall be the amount of income-tax at the rate of 18% (add surcharge, if applicable, i.e. 7.5% for domestic companies and 2.5% for foreign companies, where the total income exceeds Rs.1 Crore) and Education cess @2% and secondary and higher education cess@1% shall be added on the aggregate of income-tax and surcharge.

Hypothesis One

A.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 banking companies and to get the statistical result for conclude with empirical results.

H_0: There is no significance difference between the tax payment under normal provision and under MAT provision of banking Sector.
H_1: There is a significance difference between the tax payment under normal provision and under MAT provision of banking Sector.

Table-1: RESULTS OF PAIRED SAMPLES STATISTICS OF BANKING SECTOR

Paired Samples Statistics				
Sector	Provisions	Mean	N	Std. Deviation
BSNT TAX UNDER NORMAL PROVISION		10700294689	36	15734174919
BSMT TAX UNDER SECTION 115JB MAT		8625107159	36	13647008106

Source: Primary Data

B. RESULTS OF HYPOTHESIS TESTING:

From the above paired samples statistics of banking sector under normal provision mean value is 10700294689 and SD is 15734174919, and under Section 115JB MAT provision mean value is 8625107159 and SD is 13647008106.

Table-2: RESULTS OF PAIRED SAMPLES TEST OF BANKING SECTOR

Paired Samples Test								
	Paired Differences							
				95% Confidence Interval of the Difference				
Particulars	Mean	Std. Deviation	Std. Error Mean	Lower	Upper	t	df	Sig. (2-tailed)

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Paired Samples Test								
	Paired Differences					t	df	Sig. (2-tailed)
				95% Confidence Interval of the Difference				
Particulars	Mean	Std. Deviation	Std. Error Mean	Lower	Upper			
BSNT Tax under Normal Provision BSMT Tax under Section 115 JB MAT	2.075	2.269	3.782	1.307	2.843	5.487	35	0.000 (<0.0001)*

*p-value is significant at 0.05 level.

Source: Primary Data

From the above paired samples test, both the mean value is 2.075, SD is 2.269, t-value is 5.487 with degree of freedom is (36-1) 35 and the significance value is 0.000.

C.INFERENCES:

When P value (Sig. 2-tailed) is less than 0.05, H_o should be accepted.

When P value (Sig. 2-tailed) is more than 0.05, H_1 should be accepted.

From the above paired sample t-test between normal and MAT provision the sig. value indicates 0.000 (<0.0001)*.

It is significant, so null hypothesis rejected, alternative hypothesis accepted.

From the paired sample t-test, **so null hypothesis rejected and alternative hypothesis has been accepted i.e.,** There is a significance difference between the tax payment under normal provision and under MAT provision of banking Sector.

Hypothesis Two

A. 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 tele-communication companies and to get the statistical result for conclude with empirical results.

H_0: There is no significance difference between the tax payment under normal provision and under MAT provision of tele-communication sector.

H_1: There is a significance difference between the tax payment under normal provision and under MAT provision of tele-communication sector.

Table-3: RESULTS OF PAIRED SAMPLES STATISTICS OF TELECOMMUNICATION SECTOR

Paired Samples Statistics				
Sector	Provisions	Mean	N	Std. Deviation
TSNT TAX UNDER NORMAL PROVISION		31166749902	36	38452209763
TSMT TAX UNDER SECTION 115JB MAT		22614281722	36	25497007336

Source: Primary Data

B. RESULTS OF HYPOTHESIS TESTING:

From the above paired samples statistics of banking sector under normal provision mean value is 31166749902 and SD is 38452209763, and under Section 115JB MAT provision mean value is 22614281722 and SD is 25497007336.

Table-4: RESULTS OF PAIRED SAMPLES TEST OF TELECOMMUNICATION SECTOR

Paired Samples Test								
	Paired Differences					t	df	Sig. (2-tailed)
				95% Confidence Interval of the Difference				
Particulars	Mean	Std. Deviation	Std. Error Mean	Lower	Upper			
TSNT Tax under Normal Provision TSMT Tax under Section 115 JB MAT	8.552	2.068	3.447	1.553	1.555	2.480	35	0.018*

*p-value is significant at 0.05 level.

Source: Primary Data

 DOI : 10.18231/2454-9150.2018.0134

From the above paired samples test, both the mean value is 2.075, SD is 2.269, t-value is 5.487 with degree of freedom is (36-1) 35 and the significance value is 0.000.

C.INFERENCES

When P value (Sig. 2-tailed) is less than 0.05, H_o should be accepted.
When P value (Sig. 2-tailed) is more than 0.05, H_1 should be accepted.

From the above paired sample t-test between normal and MAT provision the sig. value indicates 0.018 (<0.0001)*.
It is significant, so null hypothesis rejected, alternative hypothesis accepted.
From the paired sample t-test, **so null hypothesis rejected and alternative hypothesis has been accepted i.e.,** There is a significance difference between the tax payment under normal provision and under MAT provision of tele-communication Sector.

Table-5: RESULTS OF PAIRED SAMPLES TEST OF BANKING SECTOR AND TELECOMMUNICATION SECTOR

Paired Samples Correlations				
SECTOR		N	Correlation	Sig.
BANKING	BSNT TAX UNDER NORMAL PROVISION & BSMT TAX UNDER SECTION 115 JB MAT	36	.998	.000 (<0.0001)*
TELE COMMUNICATION	TSNT TAX UNDER NORMAL PROVISION & TSMT TAX UNDER SECTION 115 JB MAT	36	.867	.000 (<0.0001)*

*p-value is significant at 0.05 level.
Source: Primary Data

From the above Table-5, the comparison of two sectors values are recorded and the result shows the comparative analysis between the sample companies and between two sectors. the paired samples correlation result shows the values of 0.998 and 0.867 under banking and telecommunication sector respectively. And the significance value of 0.000 (<0.0001)* and 0.000 (<0.0001)*. So there is a significant difference between the tax collections in both the sectors.

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 tax in India's income tax is the least contribution with the economic development of the country. Central government planning to tackle parallel market and started to increase the tax base of the companies.

VII. 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 government should take preventive measures on MAT provisions and to boost up the methodologies.
3. The MAT concept is not properly utilized by the government and requires educative workshops so the authority should create lot of awareness programmes.
4. Higher the tax rate, leads to higher the evasion rate. So it's suggested that tax collection from corporate entities is possible with lower tax rate and increased tax base.

VIII. CONCLUSION

MAT is a compulsory payment of tax based on their income, profits and other provisions. The steps to tackle, measures and strategy for controlling and reducing black money, corporate tax collections, reduction in tax rates, simplifications of tax laws, remove loopholes in the tax system for improving Indian tax compliance. It is recognised that, in majority of the cases, the income shown in the published accounts of companies is more than the income computed under the provisions of the Income-tax Act. This is mainly due to different methods of depreciation adopted in the accounts and the method prescribed under the Income-tax Act, different method of accounting for revenue/deferred revenue expenditure, and tax incentives provided under the Income-tax Act. Attempts have been made from time to time to introduce new Sections in the Income-tax Act to bridge the gap between the book profits and the taxable income. However, the Government has noticed that all these attempts have not achieved the desired results and, therefore, the Finance Act, 2000, has introduced yet another Scheme by enactment of new S. 115JB for levy of minimum alternate tax (MAT) on companies.
It concludes that, on the sector wise corporate tax calculation and tax payment under section 115JB seems there is significant difference between the tax collections. The result of hypothesis testing depicts the differences between the tax payment pattern and tax evasion predictions.
The Income Tax department considers MAT to be an important tool when the subsidies, tax credit and others are properly channelised. Corporate tax is the major sources of

 DOI : 10.18231/2454-9150.2018.0134

revenue to the government even though lack of authority hierarchy.

IX. LIMITATIONS OF THE STUDY

The major limitation of the study was restricted to comparison of two sectors only with a sample of 36 companies in both the sectors (Banking and Telecommunication). The concept of MAT is wide and applicable to all companies, but study was limited and restricted to 6 companies with 6 years of data from each company and under each sector for a period from A Y 2010-11 to 2015-16. So there is a scope for further study, to be focused tax credit, depreciation provisions and subsidies issues related matters.

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