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**Faridabad Small Industries Association**

*The face of Modern Indian MSMEs*

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	 <b>Future-ready</b>	
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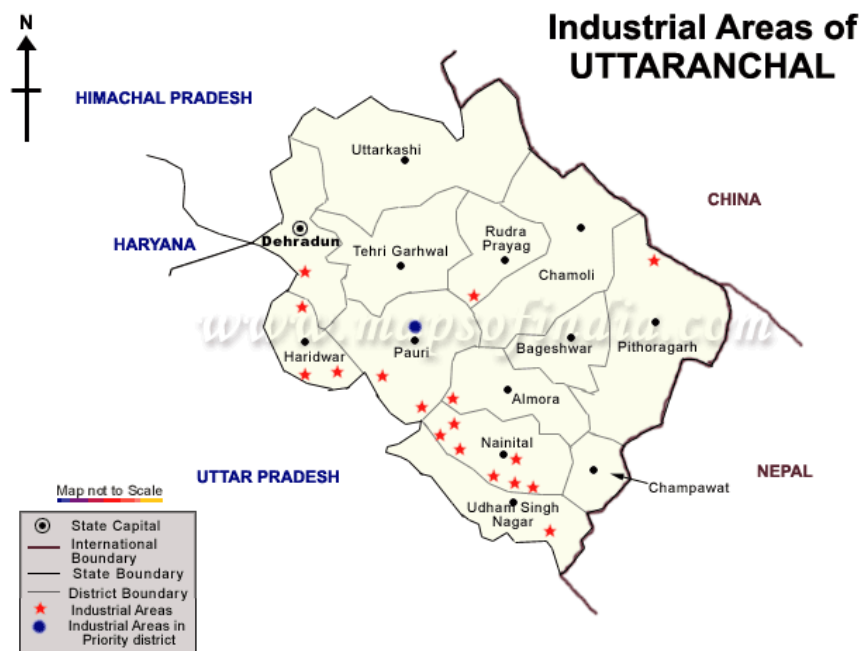
Dear Members,

Many of our members have set up units in Uttarkhand and Himachal Pradesh, basically to take benefit of income tax reliefs and because of the pressure of our customers.

Example

**Himachal Pradesh** = Baddi, Solan, Nalagarh, Poanta Sahib, Kale-amb, Gagret, Una, etc

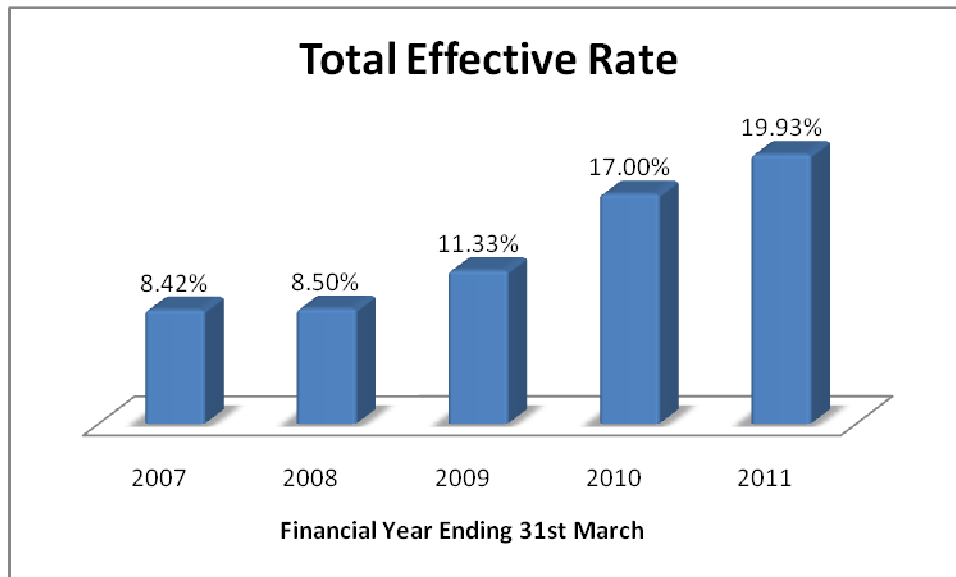
**Uttarakhand** = Haridwar, Sitarganj, Roorkee, Rudrapur, Pantnagar,



It could be due to major customers like Tata Motors, Hero Honda and Bajaj setting up their factories there, and also Thousands of Pharma units, have shifted to these locations in last decade.

Now the dampener.

The MAT = The Minimum Alternate Tax has risen now to almost 20%



Fin year ending	Basic MAT Tax rate %	Surcharge*	Cess %	Total Effective Rate
2007	7.5	10	2	8.42
2008	7.5	10	3	8.50
2009	10	10	3	11.33
2010	15	10	3	17.00
2011	18	7.5	3	19.93

\* Surcharge is applicable if profits are over Rs 1 crore p.a.

That is very very steep

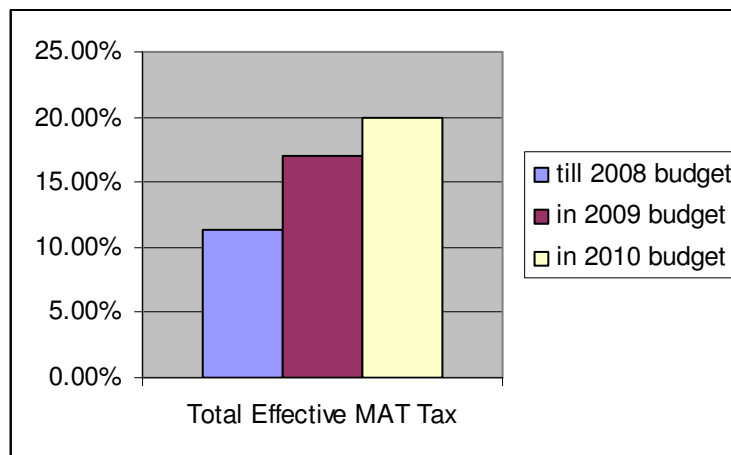
So, that means

Normal rate of tax	30% + sc+ cess
MAT rate ( even if you are in a tax free zone )	18% + sc + cess

So, what does it mean

- a. **What ?** – The companies, who have book profits but don't pay income tax due to some deductions / exemptions, They have been forced to pay heavier taxes.
- b. **Have a look again !!**

MAT	till 2008 budget	in 2009 budget	in 2010 budget
Basic MAT Rate	10.00%	15.00%	18.00%
Surcharge	1.00%	1.50%	1.35%
Cess	0.33%	0.50%	0.58%
Total Effective MAT =	11.33%	17.00%	19.93%



- c. The increase has been tremendous and pretty sharp.
- d. **Whom does this apply to ?**
- Many companies who set up plants in backward areas, like Himachal, Uttaranchal etc
  - Many companies who had EOU units
- e. **FSIA editorial team :**
- Look , for a EOU unit with a profit of Rs. 1 crores**, now income tax payable shall increase from 11.33 lakhs ( in 2008-09) to Rs. 19.93 lakhs(in 2010-11) (about Rs. 8.60 lakhs extra ).

2. **Big point ?** –

- a. **What was the net benefit of going to Rudrapur, Haridwar ????**
- Excise differential is also very low ( just 10% now , net of Modvat going waste) → effective only 5% approx. ( varies case to case )
  - And income tax diff is also quite low ( 20% vs 33% )

**What will happen with the Direct Tax code 2011 ?**

- Clause 104 of the Direct Tax code, already has kept it at 20%
- So, it might be increased to 20% in this budget 2011

**What is the Scene abroad ?**

**3. What is the condition abroad ?**

- a. Do you have any MAT in USA ?
- b. Answer is yes
- c. And it is even more tough
- d. It is called "Alternate Minimum Tax" in USA
- e. And Rate is



Status	Single	Married Joint	Married Separate	Trust	Corporation tax
Tax Rate: Low	26%	26%	26%	26%	20%
Tax Rate: High	28%	28%	28%	28%	20%
High Rate Starts	\$175,000	\$175,000	\$87,500	\$87,500	n/a
MAT Exemption 2009	\$46,700	\$70,950	\$35,475	\$22,500	\$40,000
MAT Exemption 2010	\$47,450	\$72,450	\$36,225	\$22,500	\$40,000
Exemption phase-out starts at	\$112,500	\$150,000	\$75,000	\$75,000	\$150,000
Zero 2009 exemption at	\$299,300	\$433,800	\$216,900 *	\$165,000	\$310,000
Zero 2010 exemption at	\$302,300	\$439,800	\$219,900 *	\$165,000	\$310,000
Capital gain rate	25%	25%	25%	25%	20%

**Point to note**

In USA, the Tax rates are for Individuals – in three forms  
 In India, if you are married or not, it does not matter in income tax  
 But in USA, it does  
 And  
 It also matters, whether you are living with your spouse or not .....  
 Interesting



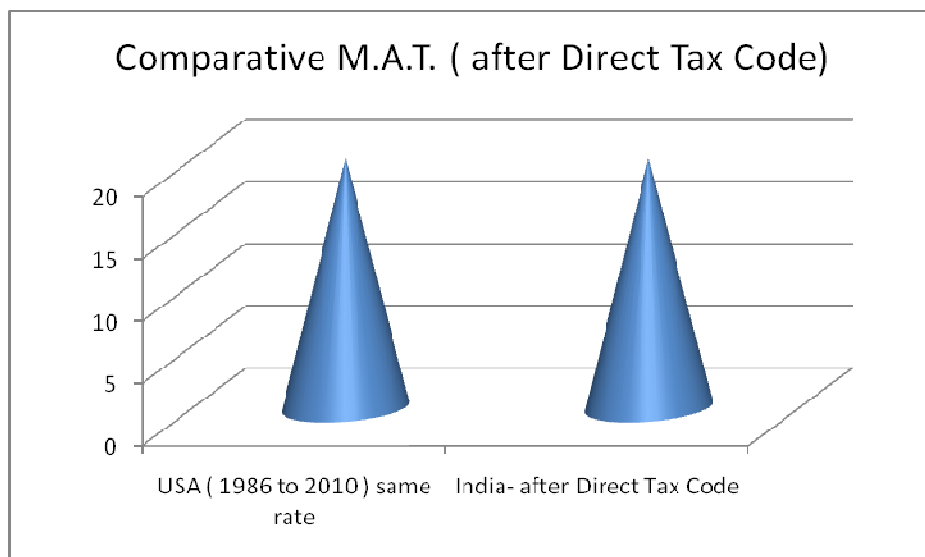
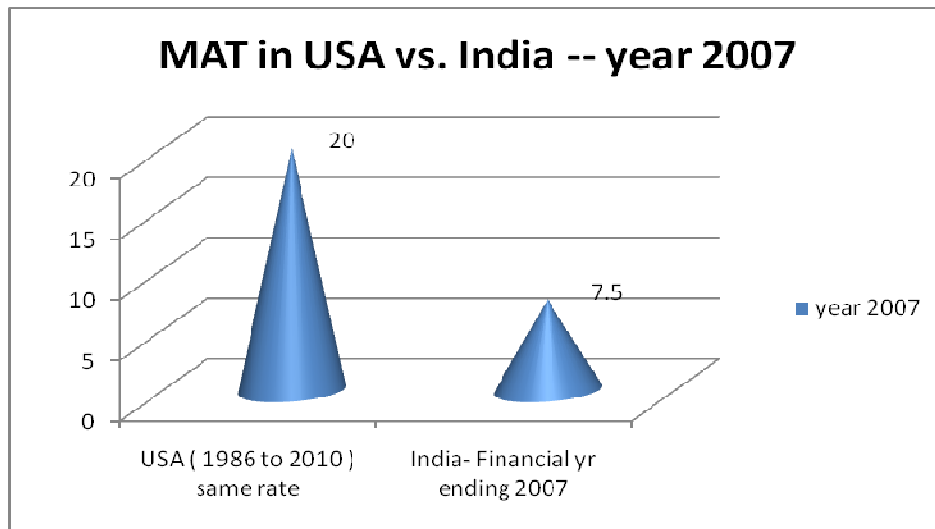
Sources

See the Wikipedia site for this at  
[http://en.wikipedia.org/wiki/Alternative\\_Minimum\\_Tax](http://en.wikipedia.org/wiki/Alternative_Minimum_Tax)  
 see the Govt of USA – IRS dept website for this at  
<http://www.irs.gov/taxtopics/tc556.html>

### Next Point to note

In USA, rate was 20% for corporate, in India, it was only 7.5 % ( till 2007 )

So, Government of India, brought it to same level = 20%



So, international tax regimes are **coming closer**, becoming **almost the same.**

## Next Point to note

In USA, even individuals have MAT

In India, individuals don't

So, if you have opened a unit in name of your company at Baddi, you are paying MAT]

But, if you have a proprietorship concern there, then MAT is nil

But, in USA, MAT is still there

So, a question .... As things are moving ..... will Individuals in India, also learn to live with MAT ???

See information at

[http://en.wikipedia.org/wiki/Alternative\\_Minimum\\_Tax](http://en.wikipedia.org/wiki/Alternative_Minimum_Tax)

## Message to FSIA members

Plan your Advance tax accordingly

## Credit of MAT – Section 115 JAA

<i>Credit of MAT in any Assessment Year</i>	
Amount of MAT Credit	Tax Payable u/s 115JB- Tax Payable at Normal rates
Year in which allowed	Tax Payable at Normal Rates > Tax Payable u/s 115JB
Carry Forward of MAT Credit	10 Successive Assessment Years
Amount of Set-Off Allowed	Tax payable at normal Rates – Tax Payable u/s 115JB

## When MAT is not applicable ?

- On any income exempt u/s 10 [other than LTCG exempt u/s 10(38)]
- On Income Exempt u/s 11 and 12 [income of Charitable/Religious Trusts]
- On Income accrued or arising after 31.3.2005 from any business carried on, or services rendered by an entrepreneur or a developer, in a unit or Special Economic Zone (**Section 115JB(6)**).
- On Income from the activities of shipping company opting for tonnage tax scheme under Section 115V-I(1). [**Section 115VO**]

Just for academics, this year the 115JB profit calculations are as follows :

### **Computation of Book Profit- Explanation 1 to Section 115JB (2)**

Net Profit as shown in P&L Account prepared as per schedule VI of Companies Act, 1956


**Add:**

- a) Income Tax Paid or provided
- b) Amount transferred to Reserves
- c) Amount provided for Unascertained Liabilities
- d) Provision for losses of Subsidiaries Companies
- e) Provision for dividends paid or proposed
- f) Expenditure relating to exempt income [except Section 10(38)]
- g) Depreciation Provided
- h) Provision for deferred tax debited to P&L Account.
- i) Provision for any diminution in value of Assets

**Less:**

- a) Amount withdrawn for Reserves
- b) Income Exempt u/s 10, 11, 12 [except Section 10(38)]
- c) Depreciation in P&L excluding depreciation on any revaluation of assets
- d) Amount credited to P&L as withdrawal from revaluation reserves (not exceeding the depreciation on revaluation of assets)
- e) Brought forward loss or unabsorbed depreciation, whichever is less, as per books of accounts
- f) Profits of a Sick Industrial company
- g) Amount of deferred tax credited to P&L Accounts

**For queries, suggestions and feedback , you can e-mail us at :**

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**For queries, suggestions and feedback , you can e-mail us at : FSIA office / Sangeet Gupta**

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One screen from the Finsys ERP

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.... **HOW ?**

