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# An Analysis on Effectiveness of Minimum Alternate Tax as an Anti-Abuse Measure in India's Corporate Tax System

**Kalpana P[1] and Dr. Sreeja BG[2]**
LLM Final Year, Corporate & Commercial Law[1]
Associate Professor[2]
Hindustan School of Law, Hindustan Institute of Technology & Science, Chennai
kalpanapurusothaman4@gmail.com and sreejabg@hindustanuniv.ac.in

**Abstract:** *The Minimum Alternate Tax (MAT) as an anti-abuse mechanism within India's direct tax framework. Codified at section 115JB of the Income-tax Act, 1961, MAT arose out of concerns about the operation of "zero tax" companies which made substantial profits and distributed dividends to shareholders but paid negligible amounts of corporate income tax due to availability of statutory incentives, deductions and accelerated depreciation. Using a combination of doctrinal and policy based analysis this research paper explores the history of presumptive minimum taxation provisions from section 80VVA up until the current MAT provisions at section 115JB. It analyses judicial interpretations with respect to MAT such as in the Supreme Court judgement in Apollo Tyres Ltd v. CIT discusses the interplay between the statutory principles of commercial accountancy under the Companies Act, 2013 and those set forth by the Income Tax Act. Despite securing a floor rate for corporate tax revenues, the mechanics of MAT are demonstrated to be a blunt force against abuse. In light of recent changes to the tax code through the Taxation Laws (Amendment) Act, 2019 incorporating lower rates of concessional corporate taxes at sections 115BAA and 115BAB alongside GAAR implementation and international trends under the OECD Pillar Two GloBE rules, this paper argues that the current structure of MAT generates unnecessary systemic compliance frictions and penalties against proper utilization of available statutory incentives. A process for phasing out of MAT in favour of targeted anti-avoidance laws is proposed.*

**Keywords:** Minimum Alternate Tax, Section 115JB, Book Profits, Tax Avoidance, Corporate Taxation.

## I. INTRODUCTION

### Structure of the Corporate Tax System:

Every country's corporate tax structure involves a balance act. On one hand, the government seeks to induce domestic capital investments via various fiscal incentive mechanisms. On the other hand, the general exchequer needs protection from the scourge of base erosion. Historically, in India, such statutory tax incentives have been liberally granted in the guise of 'accelerated depreciation allowance', 'sector-specific deduction', etc., that has allowed profit-making corporations to bring down their taxable income to nil/negligible amounts.

However, during late 1980s and 1990s, several very large Public Limited Companies were seen to declare commercial profits in their audit balances but simultaneously distribute dividends to their equity shareholders without paying any taxes under the Income-tax Act, 1961 ('ITA' hereafter). This led the parliament to introduce the doctrine of presumptive minimum taxation through the mechanism known as "Minimum Alternate Tax" ('MAT') which currently falls under section 115JB of the ITA[1]. This prescribes that whenever the normal income tax payable by a company shall

[1] The Income-tax Act, 1961, § 115JB, No. 43, Acts of Parliament, 1961 (India).

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be less than certain percentages of its "book profit", then it will consider the book profit as total income and pay taxes accordingly.

**Corporate Tax Planning Vs. Tax Avoidance:**

Legitimate tax planning differs significantly from aggressive tax planning and tax evasion. While the former lies entirely within the scope of a statute's intended purpose, the latter tries to exploit loopholes or gaps within statutes with no effect upon the actual economic condition of affairs. For example, many Indian Supreme Court decisions have held that artificial structures erected purely for the sake of tax mitigation are harmful to the finances of our nation. Therefore, MAT was enacted as an overriding mechanism ensuring that each profitable corporate entity pays at least a certain amount back into the coffers of the State, despite whatever claims they might make to qualify for the myriad of existing tax concessions.

**Objectives:**

- To assess effectiveness of MAT as a mechanism to prevent profitable firms from decreasing their tax liabilities by claiming exemptions, deductions etc.
- To analyse the doctrinal constraints of MAT namely reliance on computation based on book profits and statutory adjustments, judicial interpretations and MAT credit carry forward.

**Concept Of MAT:**

**MAT Or Presumptive Minimum Taxation Framework:**

In order to appreciate how the minimum alternate tax regime works, one must first understand what is meant by 'presumptive' in relation to tax. Normally, the process of calculating net income starts with determining commercial gross revenues before applying adjustments made available in accordance with relevant legislation – specifically under Chapter VI-A (specific deductions), provision for business losses, accelerated depreciation under section 32 etc[2]. In MAT, however, instead of going along these lines, an alternative calculation path is created based entirely around the figures presented within the financial statements produced for shareholder reporting purposes under the rules of company laws[3].

It should be emphasized that there is an important distinction with regard to the calculation of each profitability metric. Book profit is calculated according to the relevant provisions laid down under Schedule III of Companies Act, 2013. That is, based on financial reporting principles rather than tax laws.On the other hand, taxable profit is determined purely on the basis of the relevant provisions contained within the Income-tax Act ("ITA"). The latter has been designed such that particular types of expenditures are deductible at an increased depreciation rate (to incentivise activity in areas deemed crucial to national development).Thus, when these differences emerge, book profit ensures that all companies earning some form of commercial return pay a certain degree of taxation – regardless of whether they can make use of statutory loopholes.

Finally, it is worth stressing the rationale underlying this system design choice. Anti-abuse measures tend to assume that large discrepancies arise if two entities generate exactly the same volume of revenues yet possess markedly different financial structures (i.e. they employ contrasting combinations of assets/obligations). Such disparities may indicate rampant instances of aggressive tax avoidance behaviour coupled with more generalised patterns of systemic leakages within various industries. In response, MAT has several anti-abuse characteristics operating simultaneously. Firstly, horizontal equity guarantees that both corporations enjoying equal amounts of commercial success will suffer approximately equivalent degrees of taxation – irrespective of variations across entities' respective tax code

[2] The Income-tax Act, 1961, § 32, No. 43, Acts of Parliament, 1961 (India)

[3] The Companies Act, 2013, Sched. III, No. 18, Acts of Parliament, 2013 (India).

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entitlements. Secondly, protection of the tax-base seeks to ensure that companies cannot exploit available facilities in order to reduce their effective rate of taxation until it reaches precisely enough. Thirdly, revenue stability aims simply to provide governments with guaranteed sources of income from which they may fund vital services without having to rely upon unpredictable changes arising due to shifts elsewhere around the economy's macroeconomic landscape.

**Evolution Of MAT In India:**

The 'zero-tax company' phenomenon came into limelight during the 1980s. Corporate annual reports were revealingly showing an increasing trend of highly profitable blue chip companies making use of statutory deductions to arrive at nil tax liabilities.

In order to plug such loopholes, parliament inserted section 80VVA through the finance act 1987. The provision did not involve the computation of tax on financial book profits but instead imposed a statutory ceiling over aggregate deductions which could be claimed under chapter vi-a. These deductions are restricted to 70% of the total income thereby leaving a balance amount i.e., 30% of pre deduction income liable to corporation tax.

Despite such provisions, many corporations managed to remain in zero tax territory due to their ability to exploit huge amounts of accelerated depreciation allowances under section 32. Realising such shortcomings, parliament introduced section 115J through the finance act 1987, wherein the concept of 'book profit' was incorporated as a statistical basis of tax calculation. However, since the initial enactment of section 115J was removed in 1990 due to resistance from various industries, persistent issues regarding revenue leakages caused authorities to bring about section 115JA under the finance act 1996[4].

Section 115JA incorporates the earlier provisions made in section 115J and also introduces an innovative feature called 'set off mechanism' which allows deduction of un-absorbed depreciation & business losses. Through the finance act 2000, section 115JA was amended to introduce section 115JB.

At present, there exists a structure according to which we calculate the MAT based upon a certain fixed statutory rate applied on the entire adjusted book profit. Such rate starts from 7.5%, went up to peak value of 18.5% after which has been reduced to 15% (applicable surcharge & health / education cess included) through taxation laws (amendment) act ,2019.

**Statutory framework section 115JB[5]**

**Mechanics of computation – Section 115JB**

Under section 115jb, we can say there are five steps in computing minimum corporate tax liability as follows:-

STEP 1:- Compute normal tax liability

Compute total income on standard provisions of income tax act . apply standard rates i.e either 30% or 25% + surcharge/cess .

STEP 2:- Prepare Financial statements

prepare p/l account according schedule iii companies act 2013.

STEP 3:- compute adjusted "BOOK PROFIT"

Take the net profit as per p/l account , add back all those items specified in explanation 1 to s 115 jb (i.e income tax,provisions etc.) deduct all such item specified in explanation 1 (exempt income ,loss/depreciation )

STEP 4:- Compute Mat liability

Multiply your above computed adjusted book profit with 15 % rate (plus sur charge &cet)

STEP 5:- Find out which one is higher between normal tax liability(step 1) & mat liability step 4 pay whichever is higher.

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[4] Finance Act,1997 § 115JA, No. 2, Acts of Parliament, 1997 (India).

[5] Finance Act, 2000 § 115JB, No. 10, Acts of Parliament, 2000 (India).

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**STATUTORY ADDITIONS AND DEDUCTIONS (EXPLANATION 1 TO SECTION 115 JB[6])**

For arriving at ' BOOK PROFIT ' net profit as stated in its audited financial statements shall be subject to addition / deduction only from the following statutorily specified additions / deductions : -

Statutory Addition :-

Assessing officer shall add in net profits credits made to the p/l account towards the following :-

(a ) income tax paid/payable and provisions made for such tax

(b) amount carry to any reserves

(c) provisions made for unscheduled or uncertain liabilities

(d) provisions for loss of subsidiary company

(e ) dividends paid or proposed

(f) expenditure relating to exempt incomes under section 10 [ except clause (38) regarding capital gain]

**Net Profit Statutory Deduction Items**

(a) Amount withdrawn out of Reserve/Provisions which has been credited to P&L Account

(b) Incomes exempt from tax under section 10, 11 or 12 (except those covered specifically under any statute).

(c) Amount of unabsorbed depreciation OR brought forward Business Loss, whichever is less, as shown in Books of Account excluding Companies undergoing Corporate Insolvency Resolution process under the IBC, 2016 for whom both would be allowed to be set off simultaneously.

(d) Depreciation debited to the P&L Account excluding depreciation on account of revaluation of Assets.

## II. LITERATURE REVIEWS

This study analyzes MAT (Section 115JB) disparities creating zero-tax companies.It assesses shifting from book-profit to proposed DTC asset-based taxation.Using secondary data, it shows evasion persists despite periodic MAT revisions.It concludes with key challenges, preventive measures, and policy reforms by **Sachin, H., & Devaraja, T. S. (2016[7]).**

Using a stacked difference-in-differences framework, this study demonstrates that enacting or strengthening General Anti-Avoidance Rules (GAARs) generates a statistically and economically significant reduction in firm-level corporate tax avoidance. This deterrent effect holds uniformly across conventional frameworks, economic-substance doctrines, and both domestic and multinational enterprises, while proving most pronounced among aggressive pre-enactment avoiders and within jurisdictions that place the legal burden of proof on the taxpayer by **Cowx, M., & Kerr, J. N. (2024[8]).**

This paper examines whether India's corporate tax framework aligns with the OECD Pillar Two Global Minimum Tax rules. Using doctrinal and analytical methods, it explores the impact on India's concessional tax rates, fiscal incentives, and policy autonomy, while assessing the feasibility and hurdles of implementing a Qualified Domestic Minimum Top-up Tax (QDMTT). It concludes that while Pillar Two supports global tax fairness, India must balance international compliance with its domestic growth objectives by **S, J. M. (2026)[9].**

**Research Problem**

Despite its longstanding existence, MAT's efficacy as an anti-abuse mechanism is now increasingly being questioned by tax policy scholarship.At the heart of this question lies whether section 115JB constitutes a targeted anti-abuse

[6] Income-tax Act, 1961 § 115JB, No. 43, Acts of Parliament, 1961 (India).

[7] MINIMUM ALTERNATE TAX:BOOK PROFIT BASED TAX OR ASSET BASED TAX?. Global journal for research analysis, 5.

[8] The general anti-avoidance rule. Contemporary Accounting Research. https://doi.org/10.1111/1911-3846.12963

[9] Global Minimum Tax (OECD Pillar Two) and India's Corporate Tax Regime: A Critical Legal and Policy Analysis. Journal of Law and Legal Research Development. https://doi.org/10.69662/jllrd.v3i3.73

mechanism or an overbroad tax grab that punishes legitimate business incentives, creates administrative complexities, and engenders continual litigation.

**Research Gap**

Despite existing literature that explains the meaning, computation and legislative history of MAT, there has been little research on this specific aspect of MAT – as anti-abuse provision, rather than just as a minimum tax mechanism. Further, there is inadequate comparative study comparing MAT with other countries' more recent minimum tax models. The interplay between MAT, tax incentives, accounting standards and OECD Pillar Two developments have yet to be examined. This Article fills those voids through a combination of statutory and judicial analysis, policy evaluation, and comparative discussion.

## III. METHODOLOGY

This article follows a doctrinal legal research method, relying on secondary sources like statutory interpretation, case law analysis, CBDT materials, and scholarly commentary.

**MAT Credit Mechanism – Section 115JAA**

With an intent to avoid Double taxation arising due to payment of MAT at a higher rate than that computed normally under Income Tax Act, a provision of "Tax credit" has also been provided under Section 115JAA[10].
Formula :
MAT Credit generated = MAT paid under 115JB - Normal Tax payable
Note:
Period of Carry Forward :Maximum 15 Assessment years
Conditions for Set off :Such tax credits can only be utilized during any subsequent assessment year, where the computation of Normal Tax exceeds that of MAT i.e., in such years when Normal Tax > MAT, one may take benefit of this tax credit but up to the extent of Difference between Normal Tax & MAT.

**Exclusions & Exempted entities Recognising International Tax Policy Considerations & Domestic Industrial Priorities**, Following Categories of Entities were Excluded from Section 115JB :
Excluded from scope under Explanation 4 to Section 115JB(2) - Foreign Companies resident in countries having a Double Taxation Avoidance Agreement (DTAA) between India & such countries but no Permanent Establishments (PE) in India / Subject to Presumptive Tax regimes u/s 44B, 44BB, 44BBA or 44BBB.
Life Insurance Businesses are regulated under Section 115B as a separate tax regime.
Corporate Assessees who elect to be taxed under lower rates introduced in 2019 i.e. either at the reduced rates under Section 115BAA (22%) or under Section 115BAB (15% for new manufacturing units) will now also be exempted from being charged under Section 115JB vide Section 115JB(5A).

**Compliance Friction and Ind AS Adjustments**

As discussed above, the adoption of Indian Accounting Standards ('Ind AS' – converged to International Financial Reporting Standards 'IFRS') brought significant complexities into operation as far as Section 115JB was concerned. For instance, under Ind AS, entities are required to use mark-to-market accounting, make necessary fair value adjustments, and recognize their unrealized gains/losses in Other Comprehensive Income ('OCI').
Parliament plugged this hole by inserting Section 115JB(2C) in the Finance Act 2017[11] that created an intricate process for computing adjusted book profits throughout the Ind AS transition period which in turn necessitates corporate

[10] Income-tax Act, 1961 § 115JAA, No. 43, Acts of Parliament, 1961 (India).

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taxpayers keeping a series of multi layer reconciliation mechanisms amongst financial accounts, Ind AS transition adjustments, statutory tax computations and MAT.

**Judicial Jurisprudence and Interpretive Conflicts:**

The Definitive Case Law: Apollo Tyres – The Apex court verdict of Supreme Court of India on section 115 JB i.e., the case 'Apollo Tyres Ltd. v. Commissioner of Income Tax' decided in year 2002[12], is landmark in terms of providing finality of financial accounts for the purpose of computing book profit. In this case the apex court had considered the issue before them which involved assessing officer having statutory powers to go into re examine or rewrite the company's audited Profit & Loss account for computing book profit as per clause 115 J / 115 JB, as mentioned in the explanation given below:

"Jurisprudentially, it appears that in cases pertaining to the computation of book profit under section 115 JB, generally, the Assessing Officers have been vested with power only if there exists certain statutory exceptions. According to the said Apex Court, the AO is supposed to accede to the profit & loss statement as prepared in accordance with schedule III of Companies Act 2013 and as also certified by its statutory auditor and sanctioned by the shareholders during the annual general meeting[13].Henceforth, in all other circumstances, the AO shall not possess any juridical competence to interfere in rewriting the audit reports"

**Other Key Cases Regarding Book Profit Computations :**

**'Surana Steels Pvt. Ltd. v. CIT' [AIR 1999 SC 68][14]**

The Supreme Court had gone through the implications arising out of utilization of "unabsorbed depreciation" in conjunction with "brought forward business losses". It came down on strict interpretation regarding usage of the phraseology used in the statute related to computation of book profits viz. "brought forward loss or unabsorbed depreciation, whichever is less", implying that the amount should always be computed in consonance with the books of account maintained by the assessees and that revenue departments cannot arbitrarily put their own calculated numbers based on the tax regime into effect.

**'CIT vs HCL Technologies Ltd.' [(2010) 2 SCC 352)][15]**

In this case the apex court discussed the scope of statutory deduction. They were of the view that things not included in the addition or deduction clauses mentioned in the Explanation 1 to section 115JB (2), cannot be plugged back even by the administrative department. Thus the judiciary had reiterated the idea that the Explanation 1 includes the whole gamut of items allowable for adjustment for purposes of computing MAT.

**'Rain Commodities Ltd. v. DCIT'[ITAT Special Bench (2010)][16]**

The Special Bench decided that capital gains being exempted u/s 54EC would not get excluded while computing the book profit as per section 115JB unless specifically enacted by way of statutory amendment, highlighting that it can indeed tax such incomes which might not fall within the purview of tax laws normally.

**Alignment with OECD Pillar Two GloBE Rules**

Since the establishment of the OECD / G20 Inclusive Framework on Base Erosion & Profit Shifting ("BEPS") through its two-pillar architecture, one component which has gained wide international traction among countries such as India

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[11] Finance Act, 2017 § 115JB(2C), No. 7, Acts of Parliament, 2017 (India).
[12] Apollo Tyres Ltd. v. Commissioner of Income Tax, A.I.R. 2002 S.C. 2131 (India)
[13] The Companies Act, 2013, Sched. III, No. 18, Acts of Parliament, 2013 (India).
[14] Surana Steels Pvt. Ltd. v. Commissioner of Income Tax, (1999) 4 S.C.C. 306 (India).
[15] Commissioner of Income Tax v. HCL Technologies Ltd., (2018) 16 S.C.C. 709 (India).
[16] Rain Commodities Ltd. v. Deputy Commissioner of Income Tax, (2010) 131 T.T.J. 514 (Hyd.) (SB) (India)

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has been Pillar Two's proposal of introducing a "Global Anti-Base Erosion" ('GloBE') Rule[17] requiring an imposition of a uniform 15 percent effective global minimum tax rate for multinational enterprises ('MNE') with revenues exceeding €750 million annually.

Although sharing MAT's common goal of addressing low-tax outcomes by multinationals, Pillar Two seeks to do this via application of globally consistent accounting standards rather than the Indian local adjustments made by Explanation 1. Given that India is now considering adoption of Pillar Two through the use of Qualified Domestic Minimum Top-Up Taxes ('QDMTT'), some fundamental restructuring of Section 115JB will therefore be necessary to avoid overlapping mechanisms being created for different parts of the same group of corporations.

## IV. FINDINGS

**MAT** is effective for ensuring that there will be no total tax avoidance by those firms which report large book profits but little taxable income.MAT primarily serves to act as a backstop regarding revenues rather than being an all encompassing anti-avoidance mechanism. Reliance upon accounting profit causes concern over uncertainty of such profits which gives rise to litigation concerning book-profit adjustments.In general, the use of MAT credits defers a portion of current tax liability without increasing overall future taxes (which could be achieved by allowing permanent credits).The application of MAT will decrease the potential benefits from legitimate corporate tax incentive provisions.

While generally more broadly applicable at home, compared to OECD Pillar Two, MAT does not as deliberately attempt to address multinationals' ability to shift profits.Simplify MAT processes and coordinate them with developing global minimum tax rules to reduce duplicity.

**COMPARISONS:**

| Feature | India: MAT | United States: CAMT | OECD Pillar Two |
|---|---|---|---|
| Basic objective | Prevent profitable companies from paying little or no tax under ordinary provisions. | Ensure very large corporations pay a minimum tax based on adjusted financial-statement income. | Ensure large multinational groups pay at least a 15% effective tax rate in each jurisdiction. |
| Primary basis | Book profit under section 115JB. | Adjusted financial statement income. | GloBE income and jurisdictional effective tax rate. |
| Main taxpayers | Companies within the scope of section 115JB. | Very large corporations meeting statutory financial and ownership thresholds. | MNE groups with consolidated annual revenue of at least €750 million. |
| Rate | MAT rate and related rules depend on the applicable Indian statutory regime. | 15% CAMT rate. | 15% minimum effective tax rate. |

[17] Org. for Econ. Coop. & Dev. [OECD], Tax Challenges Arising from the Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two) (2021).


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| Feature | India: MAT | United States: CAMT | OECD Pillar Two |
|---|---|---|---|
| Geographic focus | Primarily domestic tax liability. | U.S. corporations and specified corporate groups. | Jurisdiction-by-jurisdiction taxation of multinational groups. |
| Credit mechanism | MAT credit may be carried forward and set off against future normal tax liability. | The financial statement tax credit mechanism operates under U.S. rules. | Top-up tax and covered-tax mechanisms under GloBE rules. |
| Anti-abuse emphasis | Prevents zero-tax outcomes arising from deductions and exemptions. | Targets very large corporations with significant financial-statement income but low regular tax. | Targets profit shifting, low-tax jurisdiction outcomes, and international tax competition. |
| Main weakness | Accounting dependence, complexity, narrow statutory adjustments, and deferred credit. | Narrow taxpayer coverage and complexity in adjusted financial statement income. | High compliance complexity and possible effects on developing-country incentives. |

India's MAT is therefore similar to other minimum-tax systems in its objective of preventing low-tax outcomes. However, it differs because it is traditionally linked to adjusted book profit and applies within the domestic corporate tax system. OECD Pillar Two and QDMTT are more focused on multinational profit shifting, jurisdictional effective tax rates, and international tax competition.

**Suggestions:**

- Phased sunset of S115 JB: An expiry period for transitioning firms from S115JB to S115BAA by replacing presumed min tax with normal rates + targeted GAAR. Cl115jb(2c): Harmonizing adjustments under IndAS – Excluding unrealized MTM gains under OCI from calculating Book Profits unless realised commercially.

- Excluding Long Term Capital Gains from Bp Calculation: Clause 115JB(2)(a) would amend explanation 1 on excluding "Statutory exempt /reinvested long term capital gain" from computing BP.

- Simultaneous Loss and Depreciation Set-off: Remove "whichever is lesser" clause mentioned under Explanation 1 to enable deduction of all the loss (brought forward) as well as unabsorbed depreciation by all firms. This provision is consistent with the IBC/CIRP provisions.

## V. CONCLUSION

In India's Income-tax Act, 1961, Minimum Alternate Tax (MAT) has served an important function.Introduced under section 115JB, To impose a floor of minima on Book Profits and ensure contribution by Profit making entities even after taking into account statutory deductions from profits.Blunt Legal Tool (Penalizing Legitimate Business Activities) with Complexities of Ind AS Reconciliations and Proliferation Of Litigation.Apollo Tyres Ltd. V/s CIT,Imposing Outer Limit On Powers Of Assessing Officer For Altering Audited Corporate Accounts.There are grounds for claiming that

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the introduction of section 115BAA, statutory GAAR and OECD Pillar Two makes the provisions dealing with MAT obsolete. It is therefore justified to replace such sections with targeted anti-avoidance rules.

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