TIRUPUR BRANCH OF SICASA

AUGUST 2024

MONTHLY NEWS LETTER

ISSUE NUMBER 28

The Institute of Chartered Accountants of India
(Setup by an Act of Parliament)

TIRUPUR BRANCH OF SICASA

SICASA OFFICE BEARERS 2024 - 25	
CA. SARAVANA RAJA K	SICASA CHAIRMAN
MR. KAMALAKANNAN K	VICE-CHAIRMAN
MR. VIGNESWAR B VAIDYA	SECRETARY
MS. AISWARYAA M R	TREASURER

Your views / suggestions / comments are Welcome. Kindly send your Contributions in the form of articles to tiruicai@gmail.com

Published By
Tirupur Branch of SICASA,
ICAI Bhawan,
46, Pethichettipuram First Street,
Rayapuram, Tirupur - 641 601.
Phone: 0421 434 2732
E.Mail: tirupur@icai.org
Website: www.tirupur-icai.org

Dear Future CAs,

Congratulations to all who have successfully cleared this level of the CA exam! Your hard work and dedication have paid off, and I am thrilled to share that the passing percentage has been notably high this time. This is a testament to your perseverance and commitment to excellence.

As you celebrate this significant achievement, remember that this is just one step in your ongoing journey. Stay committed to your work and maintain the same level of dedication that got you here. Consistency in your efforts will lead to even greater accomplishments. Keep yourself updated by attending seminars, workshops, and staying informed about the latest industry trends. This continuous learning will keep you ahead of the curve. Additionally, build and maintain connections with peers and professionals. Networking can open doors to new opportunities and provide valuable insights. While it's important to work hard, don't forget to take breaks and recharge. Upholding the highest standards of ethics and integrity in all your endeavors is vital, as your reputation and credibility are invaluable.

In closing, I have full confidence in your abilities to achieve your dreams. With determination, perseverance, and a commitment to excellence, there's no limit to what you can accomplish. Stay focused on your goals, believe in yourself, and never lose sight of the incredible potential within you. Your future is bright, and I'm excited to see where your journey takes you.

Thanks and Regards

CA Saravana Raja K,

Chairman,

Tirupur Branch of SICASA

INCOME TAX REBATE U/S 87A ON SPECIAL INCOME UNDER NEW TAX REGIME

Under the new tax regime introduced by the Indian government, Section 87A provides a rebate on income tax for individuals and Hindu Undivided Families (HUFs). This rebate is designed to offer some relief to taxpayers by reducing their tax liability. Here's a detailed explanation of how this rebate works, particularly in the context of special income under the new tax regime:

Overview of Section 87A

1. Eligibility:
   - The rebate under Section 87A is available to individual taxpayers and HUFs.
   - It is applicable to taxpayers whose total taxable income does not exceed a specified limit.

2. Rebate Amount:
   - For the financial year 2023-24, the maximum rebate under Section 87A is ₹25,000.
   - This rebate is provided as a reduction in the amount of tax payable, not as a deduction from total income.

3. Income Thresholds:
   - The rebate is available to individuals with a total taxable income up to ₹5 lakh.
   - If the total taxable income exceeds ₹5 lakh, the rebate under Section 87A is not available.

Impact of Special Income under the New Tax Regime

Under the new tax regime, which was introduced to simplify taxation by reducing tax rates and eliminating most exemptions and deductions, special income such as capital gains, interest income, or any other specific types of income are taxed at the prescribed slab rates. Here's how the rebate works in this context:

1. Tax Calculation:
   - Special income (like capital gains) is taxed as per the slab rates specified under the new tax regime.
   - After calculating the tax on all types of income, including special income, the total tax liability is determined.

2. Application of Rebate:

- Once the total tax liability is calculated, the rebate under Section 87A is applied, provided the taxable income is up to ₹5 lakh.
- If the total tax liability (before applying rebates) is less than ₹25,000, the rebate will be limited to the amount of tax payable.

Example

Let's consider an individual who has a total taxable income of ₹4,00,000 for the financial year 2023-24. Assume the following:

- This income includes a portion from special income sources.

1. Tax Calculation:

- Under the new tax regime, the income tax slab rates would be applied to calculate the tax.
- For an income of ₹4,00,000, the tax liability under the new regime would be calculated at the applicable slab rates.

2. Rebate Application:

- If the tax calculated (before applying the rebate) is ₹20,000, the rebate of ₹20,000 will be applied, reducing the tax liability to zero.
- If the tax calculated (before applying the rebate) is ₹30,000, the rebate of ₹25,000 will be applied, reducing the tax liability to ₹5,000.

Key Points

- Not a Deduction: The rebate under Section 87A is a direct reduction in tax payable and not a deduction from the total income.
- Taxable Income Cap: The rebate can only be claimed if the total taxable income is ₹5 lakh or less. If the taxable income exceeds this amount, the rebate is not available.

By understanding these points, you can effectively apply the Section 87A rebate in your tax calculations under the new tax regime.

Report on Difference between Accounting Profit and MAT Book Profit and what all adjustments are made to the Accounting profit. Also Effect of Deferred Tax on both Accounting and Book Profit

Difference Between Accounting Profit and MAT Book Profit

Accounting Profit and MAT (Minimum Alternate Tax) Book Profit are two distinct measures of profitability used in financial accounting and taxation in India. Understanding the differences between these two profits and the adjustments made to reconcile them is crucial for accurate financial reporting and tax compliance.

1. Accounting Profit

Accounting Profit is the profit calculated based on the financial statements prepared according to the accounting principles and standards (such as Indian GAAP or IFRS). It is the net profit shown in the profit and loss statement of a company before considering any tax liabilities.

Key Points:
- Basis: Prepared according to accounting standards and principles.
- Includes: Revenue earned, expenses incurred, depreciation, and other accounting adjustments.
- Excludes: Tax considerations.

2. MAT Book Profit

MAT Book Profit refers to the profit computed under the provisions of Section 115JB of the Income Tax Act, which mandates that companies must pay a minimum alternate tax if their tax liability under regular provisions is less than a specified percentage of their book profit.

Key Points:
- Basis: Computed as per the Income Tax Act, specifically Section 115JB.
- Purpose: Ensures that companies pay a minimum level of tax irrespective of their taxable income.

Differences and Adjustments

To reconcile Accounting Profit with MAT Book Profit, various adjustments are made. The main adjustments include:

1. Depreciation

- Accounting Profit: Depreciation is calculated based on accounting standards (e.g., straight-line method or written-down value method).
- MAT Book Profit: Depreciation is adjusted according to the Income Tax Act's prescribed rates and methods. Adjustments are made if there is a difference in depreciation calculation methods between accounting standards and tax laws.

2. Provision for Tax

- Accounting Profit: Includes provision for income tax, which is an expense.
- MAT Book Profit: Provision for tax is not considered; instead, adjustments are made for tax provisions or payments.

3. Income and Expenses

- Accounting Profit: Includes income and expenses as per accounting standards, such as income from investments or extraordinary items.
- MAT Book Profit: Certain incomes like dividends received may be added back, and expenses like loss on sale of assets might be adjusted.

4. Tax-Free Income

- Accounting Profit: Includes all forms of income including tax-free income.
- MAT Book Profit: Adjustments are made to add back tax-free incomes such as dividends from Indian companies or interest from tax-free bonds.

5. Differences in Accounting Policies

- Accounting Profit: Reflects accounting policies adopted by the company.
- MAT Book Profit: Adjustments are made if there are differences in accounting policies, such as recognition of revenue or expenses.

6. Unrealized Gains and Losses

- Accounting Profit: Includes unrealized gains or losses based on accounting principles.
- MAT Book Profit: Unrealized gains are typically adjusted as they do not constitute realized income for tax purposes.

Effect of Deferred Tax on Accounting and MAT Book Profit

Deferred Tax refers to the tax effects of temporary differences between the accounting profit and taxable profit. These differences arise due to varying treatment of income and expenses for accounting and tax purposes.

1. Deferred Tax in Accounting Profit

- Deferred Tax Assets and Liabilities: Represent future tax consequences of temporary differences. For example, if an expense is recognized in accounting profit but not yet deducted for tax purposes, a deferred tax asset is created.
- Impact: Deferred tax adjustments are made to account for future tax benefits or liabilities, affecting the overall accounting profit but not the immediate cash tax payments.

2. Deferred Tax in MAT Book Profit

- No Direct Impact: Deferred tax does not directly impact the MAT Book Profit calculation. MAT is a tax based on book profit, and deferred tax adjustments are not considered in calculating MAT Book Profit.
- Impact on MAT: Since MAT is based on book profit, deferred tax assets and liabilities are not adjusted in the MAT Book Profit. MAT focuses on ensuring a minimum tax payment based on book profit rather than future tax effects.

Summary of Adjustments

1. Depreciation Adjustments: Reconcile differences between accounting and tax depreciation methods.
2. Tax Provision Adjustments: Remove tax provisions from accounting profit.
3. Income Adjustments: Add back tax-free incomes and adjust for certain tax-related income items.
4. Expense Adjustments: Adjust for losses or expenses not recognized for MAT purposes.
5. Policy Differences: Adjust for any policy differences in accounting and tax treatments.

In conclusion, while Accounting Profit reflects the overall profitability of a company based on accounting standards, MAT Book Profit is specifically used to ensure a minimum level of tax payment. Deferred tax affects accounting profit through temporary differences but does not directly impact MAT Book Profit calculations. Understanding these differences and adjustments helps ensure accurate tax compliance and financial reporting.

- AYUSH A PALEJA
SRO0647945

PHOTO GALLERY

ORIENTATION PROGRAMME BATCH NO. 57 HELD FROM 22ND JULY