

MEANING OF BOOK PROFIT

Book Profit refers to the net profit shown in the financial statements of a company as per its Profit and Loss Account, prepared in accordance with the provisions of the Companies Act, 2013.

In taxation, the concept of book profit is mainly used for the purpose of calculating **Minimum Alternate Tax (MAT)** under Section 115JB of the Income Tax Act, 1961.

Normally, companies compute taxable income as per the provisions of the Income Tax Act. However, sometimes companies show large profits in their financial statements but pay little or no tax due to various exemptions and deductions. To prevent this, MAT was introduced so that companies pay a minimum level of tax based on their book profit.

Thus, **Book Profit is the adjusted net profit as shown in the Profit and Loss Account after making certain additions and deductions as prescribed under Section 115JB.**

PURPOSE OF BOOK PROFIT

1. To ensure companies pay a minimum tax.
 2. To prevent tax avoidance through excessive deductions.
 3. To create fairness in corporate taxation.
 4. To increase government revenue.
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CALCULATION OF BOOK PROFIT

Book profit is calculated in the following steps:

STEP 1: Start with Net Profit

Take the **Net Profit** as shown in the Profit and Loss Account prepared in accordance with the Companies Act.

STEP 2: Add Certain Items (Additions)

The following items, if debited to the Profit and Loss Account, must be added back:

1. Income tax paid or payable and provision for income tax.
2. Amount transferred to reserves.
3. Provision for unascertained liabilities.
4. Provision for losses of subsidiary companies.
5. Dividends proposed or paid.
6. Depreciation (including revaluation depreciation).
7. Deferred tax and provisions thereof.
8. Amount of expenditure related to exempt income.
9. Provision for diminution in value of assets.

These items are added because they reduce accounting profit but are not allowed for MAT calculation.

STEP 3: Deduct Certain Items (Deductions)

The following items, if credited to the Profit and Loss Account, must be deducted:

1. Amount withdrawn from reserves (if previously added).
 2. Income exempt under Section 10 (other than certain exceptions).
 3. Depreciation excluding revaluation portion.
 4. Loss brought forward or unabsorbed depreciation (whichever is less).
 5. Profit of sick industrial company (under specified conditions).
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FORMULA FOR BOOK PROFIT

Book Profit =
Net Profit (as per P&L Account)

- Additions (as specified)
– Deductions (as specified)
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EXAMPLE OF CALCULATION

Suppose:

Net Profit as per P&L A/c = ₹10,00,000
Provision for Tax = ₹1,00,000
Transfer to Reserve = ₹50,000
Depreciation = ₹2,00,000
Brought forward loss = ₹1,20,000

Calculation:

Net Profit = ₹10,00,000
Add: Provision for tax = ₹1,00,000
Add: Transfer to reserve = ₹50,000
Add: Depreciation = ₹2,00,000

Total = ₹13,50,000

Less: Brought forward loss = ₹1,20,000

Book Profit = ₹12,30,000

MAT will be calculated on ₹12,30,000 at prescribed rate.

FEATURES OF BOOK PROFIT

1. Based on accounting profit, not taxable income.
2. Adjusted as per Section 115JB.
3. Applicable only to companies.
4. Used for MAT computation.
5. Ensures minimum tax payment.

IMPORTANCE OF BOOK PROFIT

1. Prevents tax evasion.
 2. Ensures equitable taxation.
 3. Strengthens government revenue.
 4. Encourages transparency in financial reporting.
 5. Reduces misuse of exemptions and deductions.
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DIFFERENCE BETWEEN TAXABLE INCOME AND BOOK PROFIT

Basis	Taxable Income	Book Profit
Basis of calculation	Income Tax Act provisions	Profit as per Companies Act
Deductions allowed	Many deductions and exemptions	Limited adjustments only
Purpose	Regular tax calculation	MAT calculation

Book Profit is the adjusted accounting profit calculated under Section 115JB of the Income Tax Act, 1961 for the purpose of Minimum Alternate Tax. It ensures that companies that show profits in their financial statements pay at least a minimum level of tax. The calculation involves adding certain items and deducting specified amounts from net profit as per law.

Therefore, book profit plays an important role in corporate taxation and promotes fairness and transparency in the tax system.