Minimum Alternate Tax (MAT) Amendments in Union Budget 2026 – A Critical Analysis

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Background of MAT Provisions

Minimum Alternate Tax (MAT)[1] has worked as a minimum tax protection in India's corporate tax system. It ensured that companies with substantial book profits pay a minimum level of tax, even if their taxable income under normal provisions is reduced due to deductions, exemptions, or incentives.

Under the existing framework:

- MAT is levied at 15% of book profits (excluding units in IFSC).
- MAT applies primarily to companies opting for the old tax regime.
- Where MAT exceeds tax computed under normal provisions, MAT becomes payable.
- The excess MAT paid over normal tax is allowed as MAT credit, which can be carried forward for 15 years and set off in years where normal tax exceeds MAT. So MAT was mainly a cash-flow issue, not a real cost.

MAT and the New Tax Regime[2] – Pre-Amendment Position

With the introduction of the new corporate tax regime (with lower tax rates and minimal exemptions):

- Companies opting for the new regime were outside the scope of MAT.
- Consequently, MAT credit accumulated under the old regime could not be utilised

once a company transitioned to the new regime.
- This led many companies to write off accumulated MAT credit, treating it as a sunk cost.
- Alternatively many companies chose not to transition to the new tax regime so that they could utilize the accumulated MAT credit under the old tax regime.

Thus, before Budget 2026, switching to the new regime resulted in a complete lapse of MAT credit.

Key Amendments Proposed in Union Budget 2026 under section 206 of the Income Tax Act, 2025

The Union Budget 2026 proposes a significant restructuring of the MAT framework with effect from 1 April 2026 (Tax Year 2026–27 onwards). MAT will no longer be just a timing difference for many companies - it will become a **real, final tax.**

MAT as a Final Tax under the Old Regime

- MAT paid under the old regime will now be treated as final tax.
- However, MAT rate has been reduced from 15% to 14% of book profit. This provides marginal relief to companies continuing under the old regime.
- No new MAT credit will be allowed to be generated.
- Also since MAT shall be considered as final tax, the accumulated MAT would lapse should the company continue under the old tax regime.
- This marks a fundamental shift from the earlier credit-based MAT system.

MAT Credit Set-off in the New Regime

The budget has now proposed that if the Company opts for the new tax regime, the MAT credit accumulated in the old tax regime may be set off against the tax liability in the new tax regime subject to certain conditions.

As per the proposed provisions, MAT credit set-off allowed up to 25% of the tax liability of the year. Any unutilised MAT credit can be carried forward to subsequent years upto 15 years. The 15 years period shall be considered from the date the MAT credit was generated.

Example1:

In tax year 2026-27:

Particulars	Amount (in INR)
MAT Credit available as on 31st March 2026	5 crore
Book profit	10 Crore
MAT @ 14%	1.4 Crore
Normal Tax	1 Crore

A company continuing under the old tax regime is required to pay INR 1.4 crore, and no new MAT credit is available.

However, any MAT credit accumulated up to 31 March 2026 can be utilised for set-off, subject to the 15-year carry-forward period, if the company opts to transition to the new tax regime.

The decision to transition from the old tax regime to the new tax regime post Budget 2026 is largely driven by the quantum of accumulated MAT credit especially for companies having tax holidays/ Schedule VI deductions (for example deduction under section 10AA/ section 80-IA). These companies would have substantial MAT credit balances and may prefer to shift to the new regime to enable gradual utilisation of such credit. However, the facts and computations may vary on a case to case basis. The optimal approach must be evaluated on a case-to-case basis, taking into account the specific facts, tax profile, and financial projections of each company.

Exclusion of Additional Presumptive Taxation Businesses of Non-Residents from MAT

Another important proposal in Budget 2026 is regarding applicability of MAT to certain businesses of Non-residents.

Under the existing provisions, certain foreign companies and non-residents are already excluded from the applicability of MAT. Further, income of non-residents engaged in specified businesses and opting for presumptive taxation under section 61 of the Income Tax Act, 2025[3] is also excluded from MAT. However, not all businesses covered under section 61 of the Income Tac Act, 2025 enjoyed similar exclusion, leading to unequal treatment among specified non-resident businesses.

To address this, the Union Budget 2026 proposes that the following additional specified businesses of non-residents opting for presumptive taxation under section 61 of the Income Tax Act, 2025 shall also be excluded from the applicability of MAT:

- Business of operation of cruise ships, and
- Business of providing services or technology for the setting up of an electronics manufacturing facility in India to a resident company

This Ensures uniform tax treatment for all specified non-resident businesses opting for presumptive taxation and enhances certainty and ease of doing business.

Impact on Companies that Switched Regimes Earlier

A key concern arises for companies that shifted to the new tax regime prior to Budget 2026:

- Since the amendment is prospective, there is no provision for revival or restoration of MAT credit already written off.
- Such companies have suffered a permanent loss of MAT credit, with no retrospective relief.

This creates an element of inequity between early movers and companies transitioning post-amendment, though the government appears focused on future simplification rather than retrospective correction.

Conclusion

The MAT amendments introduced in Union Budget 2026 signal a clear policy shift towards simplification and certainty in corporate taxation. By converting MAT under the old regime into a final levy, reducing the MAT rate, and restricting long-term MAT credit accumulation, the government aims to ease compliance and enable a smoother transition to the new tax regime. Simultaneously, extending MAT exclusion to additional non-resident businesses opting for presumptive taxation ensures parity, consistency, and alignment with India's strategic priorities such as electronics manufacturing and cruise tourism.

While the amendments facilitate forward-looking tax planning, companies must carefully reassess their tax strategies by reviewing existing MAT credit balances, evaluating the timing of regime transition.

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[1] Section 206 of the Income Tax Act, 2025 and sections 115JAA and 115JB of the Income Tax Act, 1961

[2] Sections 200 and 201 of the Income Tax Act, 2025 and sections 115BAA and 115BAB of the Income Tax Act, 1961

[3] Corresponding to sections 44B, 44BB, 44BBA and 44BBB of the Income Tax Act, 1961