Phasing out of MAT provisions

BUDGET PROPOSAL

The Finance Bill, 2026 proposes significant amendments to the Minimum Alternate Tax (MAT) framework under section 206 of the Income-tax Act, 2025 (IT Act) signalling a clear push towards increased adoption of the New Tax Regime.

The key proposals include:

- Reduction of the MAT rate from 15% to 14%;
- Treatment of MAT as a final tax in old regime;
- No fresh MAT credit to be allowed going forward;
- Accumulated MAT credit to be allowed to companies opting for new tax regime for Tax Year (TY) 2026-27. MAT credit to be restricted to 25% of the tax liability under new regime;
- For foreign companies, existing MAT mechanism shall continue; and
- All non-resident foreign companies offering income on a presumptive basis are excluded from applicability of MAT.

IMPACT

- The amendments fundamentally alter the operation of MAT for domestic companies under the old tax regime by converting it from a credit-based mechanism into a final tax. Companies continuing under the old regime would no longer be able to generate or utilize MAT credit.
- Importantly, utilization of accumulated MAT credit for domestic companies is now expressly allowed to companies opting for new tax regime from TY 2026-27.
- Companies that remain in the old regime would effectively be unable to monetize such credit, whereas opting for the new regime enables calibrated utilization.

ELP's INSIGHTS

- The cut in MAT from 15% to 14% lowers the minimum effective tax rate for MAT-paying companies, with the largest impact on capital- and incentive-heavy sectors.
- The MAT framework is now positioned as a transition mechanism, encouraging companies to move to the new tax regime.
- Non-availability of MAT credit from TY 2026-27 will impact domestic companies availing tax holidays under the old regime, requiring them to assess the resulting financial impact, as continued non-transition may result in such credits remaining unutilized.
- Aligning self-assessment, updated-return and interest provisions (Sections 266, 267, 423–425 of the IT Act, 2025) with the revised MAT framework ensures interest runs on tax net of eligible MAT credit, smoothing tax cash flows in MAT-heavy years and giving more predictable profiles for rated and leveraged groups.
- The Finance Bill, 2026 does not alter the AMT framework for LLPs and other non-corporates. Even as companies benefit from a lower 14% MAT and clarified credit migration, AMT effectively continues unchanged. This may influence medium-term entity-choice and restructuring decisions unless and until AMT is separately addressed.