



Global Business Tax Alert Sharp Insights

**CBDT issues clarifications¹
on computation of book
profit for the purpose of
MAT for Ind AS compliant
companies**

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In this issue:

[Background](#)
[Clarifications issued by the
CBDT](#)
[Conclusion](#)
[Do you know about Dbriefs?](#)
[Contacts](#)

¹Circular No. 24/2017

Background

- The government notified the Indian Accounting Standards (Ind AS) vide the Companies (Indian Accounting Standards) Rules, 2015 and made it mandatorily applicable from 1 April, 2016 for certain companies.
- Pursuant to the above, the Finance Act 2017 amended the provisions for computation of book profit for the purpose of section 115JB of the Income-tax Act, 1961 (the Act) in respect of companies preparing their financial statements in accordance with Ind AS. The amendments are applicable from Assessment Year (AY) 2017-18 onwards.
- Due to complexities of the new accounting mechanism and difficulty in application of amended MAT provisions for Ind AS compliant companies, the Central Board of Direct Taxes (CBDT) received representations from various stakeholders seeking clarifications on certain issues.
- Upon reference of the matter to an expert committee and its recommendation on issuance of clarifications through FAQs, the CBDT has now issued the following clarifications.

Clarifications issued by the CBDT

Items relating to Transition Amount

Questions	Answers
Which date is to be considered for the purpose of computation of transition amount?	Amounts as on start of the opening date of the first year of adoption. For example, companies which adopt Ind AS with effect from 1 April, 2016, the first time adoption adjustments as of 31 March 2016 (i.e., start of business on 1 April 2016) should be considered for computation of MAT liability for previous year 2016-17 (AY 2017-18) and thereafter.
Whether adjustment in respect of proposed dividend (including dividend distribution tax) for FY 2015-16, which is required to be reversed and credited to retained earnings on transition to IND AS, is to be considered for the purpose of computing transition amount?	No
Whether deferred taxes corresponding to adjustments made on the transition date is to be considered for the purpose of computing transition amount?	No
Whether adjustment in respect of provision for bad and doubtful debts (expected credit loss adjustment) at the	No

time of transition on the convergence date is to be considered for the purpose of computing transition amount?	
Whether share application money reclassified to 'other equity' is to be considered for the purpose of computing transition amount?	No
Whether equity component, if any, of financial instruments like non-convertible debentures (NCD), interest-free loan etc. included in other equity as per Ind AS, would be included in the transition amount?	Yes
How should the adjustments on account of service concession arrangements be treated?	Adjustments would be included in the transition amount and also on an ongoing basis.
How capital reserve or securities premium existing as per old Indian GAAP reclassified to retained earnings / other reserves on convergence date be treated?	The same shall not form part of transition amount. It is further clarified that even after such reclassifications, the amount of revaluation reserve shall continue to be considered as revaluation reserve for the purposes of computation of book profit under section 115JB of the Act and shall also include transfer to any other reserves by whatever name called or capitalized.

Items relating to 'Profit and Loss account'

Questions	Answers
Starting point for computing book profit under MAT	Profit before other comprehensive income [i.e., Item number XIII in Part 2 (Statement of Profit and Loss) of Division II of Schedule III to the Companies Act 2013].
Whether marked-to-market (MTM) loss on account of fair value adjustments of various financial instruments recognized through profit and loss account (FVTPL) is required to be added back in computation of book profit under MAT?	No. However, in case of provision for diminution/ impairment in value of assets other than FVTPL financial instruments, the existing adjustment of clause (i) of explanation 1 to section 115JB (2) of the Act shall apply. It is further clarified that for financial instruments where gains and losses are recognized through Other Comprehensive income (OCI), the amended provisions of MAT shall continue to apply.
Whether dividend on preference shares recognized as interest in the profit and loss account under IND AS is to be added back in the computation of book profit under MAT?	Profit shall be increased by dividend/ interest on preference shares (including dividend distribution taxes), whether shown as dividend or interest.

Treatment of revaluation/ fair value adjustments to items of Property, Plant and Equipment (PPE) in the year in which such items are retired, disposed, realised or otherwise transferred – whether gross amount of revaluation or the amount after adjustment of depreciation on the revaluation amount to be considered?

Book profit for the purpose of section 115JB of the Act of the previous year in which the items of PPE are retired, disposed, realized or otherwise transferred, shall be increased or decreased, as the case may be, by the revaluation amount after adjustment of the depreciation on the revaluation amount relating to such asset.

Others

Questions	Answers
In case where, on adjustment of transition amount, the losses as per books of account gets wiped off, whether deduction for the said losses would be available for AY 2017-2018 onwards in accordance with the existing provisions of section 115JB of the Act in relation to set-off of brought-forward loss or unabsorbed depreciation, whichever is lower, as per books?	For AY 2017-2018, the deduction of lower of brought-forward loss or unabsorbed depreciation shall be allowed based on the position as on 31 March 2016. For subsequent periods, the position as per books of account drawn as per Ind AS shall have to be considered.
Computation of MAT for companies following accounting year other than March 2017	In view of second proviso to section 115JB (2) of the Act, such companies will be required to follow Indian GAAP for the pre-convergence period and Ind AS for the balance period. For example, a company following December ending will be required to prepare accounts for MAT purposes under Indian GAAP for 9 months up to December 2016 and under Ind AS for 3 months thereafter. The transition amount will be calculated with reference to 1st January, 2017.

Conclusion

With issue of above clarifications, the CBDT has cleared the air on the treatment of various Ind AS adjustments for the purposes of computing book profit under MAT and taxpayers would certainly welcome them.

However, certain issues still remain unclear such as change in accounting policy for recognition of ESOP expenditure from intrinsic value to fair value, leading to recognition of additional liability through retained earnings upon transition, adjustment for prior period items etc.

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