



Global Business Tax Alert Sharp Insights

Rationalization of MAT provisions for Ind AS compliant companies

Issue no: GBTA/14/2017

In this issue:

[Background](#)
[MAT provisions proposed to be modified considering the impact of Ind AS](#)
[Conclusion](#)
[Do you know about Dbriefs?](#)
[Contacts](#)

Background

The Central Government had notified the new Indian Accounting Standards ('Ind AS') vide the Companies (Indian Accounting Standards) Rules, 2015 which laid down a roadmap for implementation of Ind AS. For an Ind AS compliant company, the financial statements shall include balance sheet, profit & loss and statement of changes in equity. Further, profit & loss account is bifurcated into two parts:

- Net profit or loss for the year;
- Net Other Comprehensive Income ('OCI') (including items to be reclassified into profit & loss account in subsequent periods and items not to be reclassified into profit & loss account in subsequent periods)

In the first phase of implementation, Ind AS is applicable to all the listed/ unlisted companies having turnover of more than INR 500 crores from the FY 2016-17.

The Central Board of Direct Taxes ('CBDT') constituted a committee (Lohia Committee) in June 2015 to suggest the framework for computation of Minimum Alternate Tax ('MAT') liability under section 115JB of the Income-tax Act, 1961 ('the Act') for Ind AS compliant companies in the year of adoption and thereafter. The Committee submitted two interim reports in year 2016 which were placed before stakeholders for recommendations/ suggestions. The committee submitted its final report late last year. In light of the recommendations made in the report, Union Budget 2017 proposes to amend section 115JB with retrospective effect from 1 April 2017 i.e. from assessment year 2017-18.

MAT provisions proposed to be modified considering the impact of Ind AS [Section 115JB]

Section 115JB the Act is proposed to be amended by introducing sub-sections 2A to 2C in the section 115JB in order to rationalize the computation of book profits considering the impact of Ind AS on financial statements.

The companies which would prepare its financial statements in accordance with Ind AS, would have two fold impact – (i) transitional adjustments at the convergence date when the company moves from existing Indian Generally Accepted Accounting Practices (I-GAAP) to Ind AS, and (ii) the annual variances which would be reflected in financial statements due to adoption of Ind AS.

In the year of transition, broad adjustments would be required to be made in the books of the company. Certain adjustments on account of transitional provisions that are recorded in OCI which would subsequently be reclassified to the statement of profit and loss, would not require any specific adjustment and would be included in book profits in the year of reclassification to the statement of profit and loss.

Further, transitional adjustments recorded in Reserves and Surplus, excluding Capital Reserve and Securities Premium Reserve, that will never be reclassified to statement of profit and loss are to be adjusted in the computation of book profits as follows:

Items	Point of time of adjustment
Assets at fair value as deemed cost	Aggregate adjustments to be made in year of retirement/ disposal/ realisation/ transfer of asset.
Investments in subsidiaries. JVs and associates at fair value as deemed cost	Aggregate adjustments to be made in year of retirement/ disposal/ realisation/ transfer of investment
Cumulative translation differences	Aggregate adjustments to be made in the year of disposal/transfer of foreign operations
Re-measurements of defined benefit plans	Equally over a period of five years starting from the year of first time adoption of Ind AS
Any other item	Equally over a period of five years starting from the year of first time adoption of Ind AS

The broad framework for computing annual book profits under section 115JB of the Act in alignment with Ind AS compliant financial statements have also been proposed which are as under:

- Net profits before OCI to be considered as the broad starting point for computation of book profit
- Already prescribed adjustments under section 115JB to be made
- Proposed specific adjustments to be made in relation to demergers
- OCI items that will permanently be recorded in reserves (i.e. which will never be reclassified to the statement of profit and loss) to be adjusted in book profits as under:

Items	Point of time of inclusion (annual)
Changes in revaluation surplus of assets	Realisation/ disposal/ retirement/ transfer
Gains and losses from investments in equity instruments designed at fair value through OCI	Realisation/ disposal/ retirement/ transfer
Re-measurements of defined benefit plans	Every year, as the gain or loss arises
Any other item	Every year, as the gain or loss arises

It has been further clarified in the Memorandum to the Finance Bill, 2017 that deferred tax adjustments recorded in Reserves and Surplus on account of transition is required to be ignored for computation of book profits under section 115JB of the Act.

Conclusion

Rationalization of provisions of section 115JB is a welcome step taken by Government in bringing long awaited clarity in calculation of book profits under section 115JB considering the accounting adjustments resulting from adoption of Ind AS. The proposed amendments also consider to mitigate tax burden on the companies during the transition phase. However, there are several other issues from income-tax perspective which still require clarification. For instance, accounting of financial instruments under Ind AS requires recognition of interest on certain bonds/debentures as dividend in the financial statements. Clarity in respect of tax impact of such reclassification and many other such adjustments are required under both normal provisions as well as under the provisions of section 115JB of the Act.

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