Global Tax Update

India

Deloitte Tohmatsu Tax Co.

June 2015

1. Extension of due date for filing tax returns by individuals[1]

The Government has extended the due date of filing of tax return for the financial year 2014-15 for individuals from 31st July, 2015 to 31st August, 2015.

2. Income Computation and Disclosure Standards introduced[2]

The Central Government vide a notification dated 31 March 2015 has notified Income Computation and Disclosure Standards (ICDS). These ICSD have become effective from 1st April 2015 and will accordingly apply to the financial year 2015-16 and subsequent years. Presently, a set of ten ICDS have been issued.

ICDS have been issued for bringing in greater clarity in application of the income-tax law by giving specific instructions for computation of taxable income. These standards are relevant only for the computation of taxable income, and will not be relevant for maintenance of the books of accounts.

ICDS applies to all taxpayers following accrual system of accounting for the purpose of computation of income from business and from other sources.

Besides computation of taxable income for the financial year 2015-16, implications under ICDS is required to be considered for the payment of first instalment of advance tax which is due on 15th June 2015.

We have summarized some key highlights of each ICDS below.

(1) ICDS I: Accounting policies

ICDS recognizes three accounting concepts – going concern, consistency and accrual.

Accounting policies must be chosen to represent true and fair view of state of affairs and income. The treatment of transactions will be governed by their substance and not legal form.

Accounting policy can be changed if there is reasonable cause to do so.

(2) ICDS II: Valuation of inventories

Inventories shall be valued at cost or net realizable value, whichever is lower.

Three valuation methods have been identified – First-in First-out, weighted average cost formula and retail method.

Recording of inventory is now required for service providers as well.

---

1 Source: CBDT Order F No.225/154/2015/ITA.II dated 10 June 2015

2 Source: CBDT Notification No. 32/2015 dated 31 March, 2015

(3) ICDS III: Construction contracts

Revenue (including retentions) and costs (i.e. direct cost, allocated cost, borrowing cost and other cost specifically chargeable to customer) from construction contracts shall be recognized by reference to the stage of completion of the contract.

During the early stages of a contract, where the outcome of the contract cannot be estimated reliably, contract revenue must be recognized only to the extent of costs incurred. The early stage of a contract shall not extend beyond 25% of the stage of completion.

Incidental incomes like interest, dividend and capital gains to be recognized as separate incomes and cannot be reduced from contract costs.

(4) ICDS IV: Revenue recognition

Sale of goods shall be recognized when all significant risks and rewards of ownership are transferred.

Revenue from service transactions will be recognized as per percentage completion method and ICDS on ‘Construction contracts’ will apply for recognizing revenue.

Interest will be recognized on time basis, dividend as per provisions of the tax laws and royalty as per terms of the relevant agreement.

Discount or premium on debt securities held should be accrued over the period to maturity.

(5) ICDS V: Tangible fixed assets

Tangible fixed asset shall be recorded at actual cost including purchase price, taxes (excluding those that are recoverable) and other expenditure for bringing the asset to workable condition.

Administration and general overheads shall be excluded from actual cost if not relating to specific asset.

Expenditure on start-up and commissioning of a project shall be capitalized while expenditure post commencement of commercial production shall be expensed.

Tangible asset shall be recorded at its fair value if acquired for non-monetary consideration. Consolidated price for acquiring group of assets shall be apportioned on fair basis.

Depreciation and income on transfer of asset will be as per the tax laws.

(6) ICDS VI: Effects of changes in foreign exchange rates

Foreign currency transaction shall be recorded initially at exchange rate as on the date of transaction or at a weekly / monthly average rate (if rates do not fluctuate significantly from actual).

Exchange difference on monetary items (and not non-monetary items) at each year-end shall be recognized as income / expense.

Exchange gain/loss on any capital asset imported from abroad should be adjusted with the cost of the asset at the time of the payment of the liability.

Premium / discount on certain forward exchange contracts shall be amortized over life of the contract and exchange differences / differences on renewal or cancellation will be recognized as income / expense.

(7) ICDS VII: Recognition of government grants

Government grants will be recognized when there is reasonable certainty that related conditions will be complied with and it is reasonably certain that ultimate collection will be made - recognition cannot be postponed beyond the date of actual receipt.

Grants relating to depreciable asset must be reduced from actual cost or written down value. Grants received for a group of assets will be apportioned.

Grants for compensation of expense / loss or for giving immediate financial support with no further related costs will be recognized as income in year in which it is receivable.

Grants relating to non-depreciable assets and other grants will be recognized as income over the period over which related cost is charged to income.

(8) ICDS VIII: Securities

ICDS deals with securities held as stock-in-trade – shall be carried at actual cost (including purchase price, brokerage, cess, tax, etc.) or net realizable value, whichever is lower at year-end. Securities not listed or not quoted regularly will be recognized at actual cost.

Securities shall be recorded at their fair value if acquired for non-monetary consideration.

Pre-acquisition interest shall be reduced from the actual cost.

(9) ICDS IX: Borrowing costs

Borrowing costs (including interest, commitment charges, premium, etc.) shall be capitalized in case of tangible and intangible assets to the extent provided in the standard. With respect to inventory, they shall be added to cost only if inventory takes twelve months or more for bringing to saleable condition.

The period of capitalization starts from the date when specific borrowings have been taken and ends on the date when asset is first put to use (in case of inventory, capitalization ends when substantially all the activities necessary to prepare such inventory for its intended sale are complete).

ICDS provides a specific formula for capitalizing borrowing costs relating to general borrowings based on the ratio of qualifying assets to total assets. Also, the capitalization will begin from date of utilization of funds.

(10) ICDS X: Provisions, contingent liabilities and contingent assets

A provision should be recognized when

- a person has a present obligation as a result of a past event;
- it is ‘reasonably certain’ that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation amount.

Contingent asset must be assessed continually and if it becomes ‘reasonably certain’ that inflow of economic benefit will arise, the asset and the income are recognized in previous year in which the change occurs.

Provisions and contingent assets will be reviewed at each year-end and reversed if they do not meet recognition criteria.

Newsletter Archives

To see past newsletters, please visit our website.
www.deloitte.com/jp/tax/nl/ao

Contacts

Deloitte Tohmatsu Tax Co.
India Practice
Hiroyuki Hayashi, Partner hiroyuki.hayashi@tohmatsu.co.jp

Issued by

Deloitte Tohmatsu Tax Co.
Tokyo Office
Shin-Tokyo Building 5F, 3-3-1, Marunouchi, Chiyoda-ku, Tokyo 100-8305, Japan
Tel : +81 3 6213 3800
email : tax.cs@tohmatsu.co.jp
Corporate Info. : www.deloitte.com/jp/en/tax
Tax Services : www.deloitte.com/jp/tax/s/en