Government of India
Ministry of Finance
Department of Revenue
Central Board of Direct Taxes

New Delhi, 5th August, 2016.

PRESS RELEASE

Subject: Framework for computation of book profit for the purposes of levy of MAT under section 115JB of the Income-tax Act, 1961 for Indian Accounting Standards (Ind AS) compliant companies.

A Committee had been constituted, with the approval of the Finance Minister, to suggest the framework for computation of book profit for the purposes of levy of MAT under section 115JB of the Income-tax Act, 1961 for Indian Accounting Standards (Ind AS) compliant companies in the year of adoption and thereafter. The Committee submitted its report dated 18th March, 2016 regarding the said framework.

The above report of the Committee was placed on public domain for inviting comments from general public and stakeholders. Subsequently, the comments received from the stakeholders were forwarded to the Committee for examination. The Committee submitted its recommendations/suggestions vide report dated 23rd July, 2016 on the certain issues raised by stakeholders which are now placed on www.incometaxindia.gov.in

The stake holders and general public are requested to furnish their comments/suggestions in respect of the recommendations/suggestions made by the Committee in its interim report dated 23rd July, 2016. The comments/suggestions may be submitted by 20th August, 2016 at the email addresses (dirtpl3@nic.in) or by post at the following address with "**Computation of book profit for Ind-AS compliant companies**" written on the envelope:

Director (Tax Policy & Legislation)-III

Central Board of Direct Taxes,

Room No.147-G,

North Block,

New Delhi-110001

(Meenakshi J. Goswami)
Commissioner of Income Tax
(Media and Technical Policy)
Official Spokesperson, CBDT.

Shri Atulesh Jindal

Chairman,

Central Board of Direct Taxes,

North Block, New Delhi-110001

Mumbai, the, 23 July 2016

Sir,

Sub: Report regarding framework for computation of book profit for the purposes of levy of Minimum Alternate Tax (MAT) under section 115JB of the Income-tax Act, 1961 for Indian Accounting Standards (Ind AS) compliant companies in the year of adoption and thereafter - reg.

Kindly refer to the interim report dated 18th March, 2016 submitted by the Committee on the above subject. The comments/ suggestions received from stakeholders on the interim report, which was placed in the public domain vide Press Release dated 28th April, 2016, have been examined by the Committee.

2. The recommendation/ suggestions on the main issues relating to first time adoption raised by the stakeholders are as under.

I. Fixed Assets - Adjustment to retained earnings

Issue:

As per Indian Accounting Standard (Ind AS) 101, First-time Adoption of Indian Accounting Standards, an entity may elect to measure an item of property, plant and equipment ('PPE') at the date of transition to Ind AS at

i. the recomputed values measured in accordance with Ind AS 16 from the inception;

ii. the fair value and use that fair value as its deemed cost;

iii. the carrying value measured as per the previous GAAP for all items of PPE and use that as its deemed cost.

The adjustment in carrying value of existing fixed assets, if any, shall be debited/credited to retained earnings on date of transition,

Suggested treatment for MAT:

The Committee in its interim report had suggested that as aforesaid adjustments shall never be reclassified to the Profit and Loss Account, the amount of adjustment should be included in the book profit in the year of first time adoption of Ind AS. In response to this, the stakeholders have raised concerns regarding taxation of unrealised gains/losses, The Committee has deliberated and recommends the following -

- Existing provisions for computation of book profits under section 115JB provide that in case of revaluation of assets, any impact on account of such revaluation shall be ignored for the purposes of computation of book profits,

- Following the same principle, Committee recommends that the adjustments in retained earnings on first time adoption with respect to items of PPE should be ignored for the purposes of computation of book profits.
- Depreciation shall be computed ignoring the amount of aforesaid retained earnings adjustment.
- Similarly, gain/loss on realisation/ disposal/retirement of such assets shall be computed ignoring the aforesaid retained earnings adjustment.
- Other adjustments to fixed assets (like Decommissioning Liability, Foreign exchange capitalisation/decapitalization, Borrowing costs adjustments etc.) on the date of transition shall also be ignored in a similar manner,

The same principles shall also apply to Intangible assets (Ind AS 38).

II. Leases - Straight lining of lease rentals

Issue:

As per Indian Accounting Standard (Ind AS) 17, Leases, lease payments under an operating lease shall not be recognised as an expense/income on a straight-line basis over the lease term if the payments to the lessor are structured to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases. Under the Indian GAAP, Accounting Standard (AS) 19, Leases, requires straight lining of such lease rentals and recognition of corresponding lease equalization liability/asset including cases where straight lining is not permitted under Ind AS 17, In such cases any existing lease equalization liability/asset shall be adjusted to retained earnings on date of transition.

Suggested treatment for MAT:

The Committee in its interim report had suggested that as aforesaid adjustments shall never be reclassified to the Profit and Loss Account, the amount of adjustment should be included in the book profit in the year of first time adoption of Ind AS. In response to this, the stakeholders have raised concerns that the impact of this adjustment could be significant in the year of first time adoption, The Committee has deliberated and identified the following options -

A. Continuing with the current recommendation i.e. the retained earnings adjustment should be included in the book profit in the year of first time adoption of Ind AS,

B. The retained earnings adjustment should be included in the book profit over the lease period in the same manner as it would have been so included under AS 19.

C. The retained earnings adjustment should be included in the book profit over a period of three years starting from the year of first time adoption of Ind AS.

Considering the dual aspects of significant one time charge and simplicity of implementation, the Committee recommends option C.

III. Investments - Fair value adjustments through profit & loss account

Issue:

As per Indian Accounting Standard (Ind AS) 109, Financial Instruments, an entity shall measure its financial asset or financial liability at fair value or at amortised cost.

Examples of financial asset or financial liability that are required to be recognised at fair value on each reporting date with changes in fair value being recognised in the profit or loss includes -

- Investment in equity shares/ mutual funds carried at fair value through profit or loss;
- Investment in subsidiaries/ associates/ joint ventures carried at fair value through profit or loss;

- Investment in preference shares not meeting amortised cost criteria and measured at fair value through profit or loss;
- Derivative assets and liabilities;
- Any other financial asset or financial liability carried at fair value through profit or loss.

In such cases any adjustments arising from recognition of these items at fair value on first time adoption shall be adjusted to retained earnings on the date of transition.

Suggested treatment for MAT:

The Committee in its interim report had suggested that as aforesaid adjustments shall never be reclassified to the Profit and Loss Account, the amount of adjustment should be included in the book profit in the year of first time adoption of Ind AS. In response to this, the stakeholders have raised concerns regarding taxation of unrealised gains/losses in respect of these financial assets/liabilities carried at fair value through profit or loss in the year of first time adoption. The Committee has deliberated and identified the following options -

A. Continuing with the current recommendation i.e., the retained earnings adjustment should be included in the book profit in the year of first time adoption of Ind AS.

B. The retained earnings adjustment should be included in the book profit at the time of realisation.

C. The retained earnings adjustment should be included in the book profit over a period of three years starting from the year of first time adoption of Ind AS.

Considering the dual aspects of taxation of unrealised gains/losses and maintenance of records, the Committee recommends Option C.

3. The other issues raised by the stakeholders relating to first time adoption also pertains to unrealized gains/losses adjusted in the retained earnings which were proposed to be included in the book profit as per the para 10 (III) of the interim report dated 18th March, 2016. The Committee has deliberated these issues and to address the concern of one time significant impact in the year of adoption, suggests that adjustment to the retained earnings should be included in the book profit over a period of three years starting from the year of first time adoption of Ind AS.

4. While the Committee is examining other issues raised by the stakeholders, the CBDT may like to place the abovementioned recommendations/suggestions in public domain for wider public consultation.

(M.P. Lohia)

Convener of MAT-Ind AS Committee

End: as above

Copy to:

1) Member (L & C), CBDT

2) JS (TPL - I), CBDT