Volume 2 Issues 6 | March 2017

Impact of Ind AS adoption on MAT

Introduction

Considering the applicability of the Indian Accounting Standards (Ind AS) to various classes of companies covered under the roadmap issued by the Ministry of Corporate Affairs (MCA), a much needed amendment has now been introduced in Section 115JB of the Income Tax Act, 1961 (hereinafter referred to as 'Section 115JB'). This amendment brings a horizontal equity across companies, irrespective of the fact whether they follow Ind AS or the existing GAAP for computing book profits under Section 115JB for the purpose of Minimum Alternate Tax (MAT). The companies that have adopted Ind AS will be finalising their first financial statements as per Ind AS for year ended 31 March 2017. The amendments in the income tax provisions will enable these companies to compute the book profits for the determination of tax liability under MAT.

A company that is liable to pay tax under MAT needs to calculate book profit as per the provision of Section 115JB (2) which stipulates various adjustments that need to be made to profits in the statement of profit and loss.

Section 115JB has now been amended to include subsection 2A, 2B and 2C to incorporate adjustments as mandated by Ind AS such as:

- Adjustments made to retained earning on the first time adoption of Ind AS;
- Valuation of various assets and liabilities at fair value either through the statement of profit and loss or through Other Comprehensive Income (OCI);
- Gains/loss on demerger recognised in the statement of profit and loss.

Impact of MAT on first time adoption of Ind AS

The date of transition as per Ind AS 101, for companies adopting Ind AS from FY 2016-17, is 1 April 2015.

As per the explanation to subsection 2C of Section 115JB, 'convergence date' is the first day of the Ind AS reporting period i.e. 1 April 2016.

For example, companies that have adopted Ind AS with effect from 1 April 2016 are required to prepare their financial statements for 2016-17 as per the requirements of Ind AS. These companies are also required to prepare an opening balance sheet as of 1 April 2015 and restate the financial statements for the comparative period 2015-16. In such cases, the first time adoption adjustments, as of 31 March 2016, shall be considered for the computation of MAT liability for previous year 2016-17 (assessment year 2017-18) and thereafter. In simple terms, this means that all the adjustments as on the date of transition i.e. 1 April 2015, plus all adjustments during the comparative year i.e. FY 2015-16, shall be considered for the purpose of MAT in the year 2016-17.

A company on their first time adoption of Ind AS is required to make various adjustments in opening reserves/retained earnings as on the date of convergence. Subsequently, some of these items will never be reclassified to the statement of profit and loss or included in the computation of book profits. The treatment of such items is summarised in the table below. Furthermore, the adjustments recorded in OCI will subsequently be reclassified to the statement of profit and loss and shall be included in the book profits in the year in which these are reclassified.

Sr. No.	Particulars	Treatment under Ind AS	MAT implication on First time adoption
1.	Revaluation of Property, Plant & Equipment's (PPE) and intangible assets.	Changes in carrying value to be adjusted in opening retained earnings.	To be included in the book profits at the time of disposal/realisation/retirement or at the time of transfer. Depreciation and gain/loss on transfer shall be computed without considering retained earnings adjustments on account of revaluation.
2.	Gains and losses from investment in equity instruments designed at fair value through OCI.	Changes in the carrying value to be adjusted in opening retained earnings.	To be included in the book profits at the time of disposal/realisation/retirement or at the time of transfer.
3.	Re-measurements of defined benefit plans.	Changes in the carrying value to be adjusted in opening retained earnings.	To be included in the book profits equally over a period of five years***,** starting from the year of first time adoption of Ind AS.
4.	Investments in subsidiaries, joint ventures and associates.	If an entity adopts the fair value as the deemed cost for investments in subsidiaries, joint ventures and associates in the opening financial statements, then the difference in the carrying value and fair value should be adjusted in retained earnings.	The adjustment in retained earnings shall be included in the book profit at the time of realisation of such investment.
5.	Cumulative translation differences of foreign operations.	Companies can opt for exemption where cumulative difference will be deemed to be zero and the same will be adjusted in retained earnings.	The cumulative translation differences on the date of transition which has been transferred to equity/retained earnings shall be included in the book profits at the time of disposal of foreign operation.
6.	Any other item. For eg: • Decommissioning liability; • Borrowing cost adjustments; • Equity component of compound financial instruments,# etc.	Adjustments to be made in opening retained earnings/other equity.	To be included in the book profits equally over a period of five years* starting from the year of first time adoption of Ind AS.

***Furthermore, the period of five years proposed shall be previous years 2016-17, 2017-18, 2018-19, 2019-20 and 2020-21.**

As per the amendment to Finance Bill 2017 the definition of transition amount now includes “equity component of compound financial instruments”.

MAT on Ind AS compliant financial statements

For MAT calculation, the starting point is the net profit as per the statement of profit and loss before considering any items forming a part of OCI. No further adjustments to such profits shall be made other than those already specified under Section 115JB.

OCI includes certain items that will permanently be recorded in reserves and will never be reclassified to the statement of profit and loss. These items shall be included in book profits for MAT purposes at the point of time as specified in the table below:

Sr. No.	Particulars	Treatment under Ind AS	MAT implication on subsequent Ind AS financials
1.	Revaluation of Property, Plant & Equipment's (PPE) and Intangible assets.	Revaluation adjustments are recognised through OCI. In the year of sale, profit/loss on sale is recognised in the statement of profit and loss.	To be included in book profits at the time of disposal/realisation/retirement or at the time of transfer. Depreciation and gain/loss on transfer shall be computed without considering such retained earnings adjustments on account of fair valuation.
2.	Gains and losses from investments in equity instruments designed at fair value through OCI.	Fair valuation adjustments may be recognised through OCI. In the year of sale, profit/loss on sale is recognised in OCI.	To be included in book profits at the time of disposal/realisation/retirement or at the time of transfer.
3.	Re-measurements of defined benefit plans.	Fair valuation adjustments are recognised through OCI.	To be included in book profits every year as the re-measurements gains and losses arises.
4.	Translation differences of foreign operations.	Foreign exchange translation adjustments are recognised through OCI.	The translation differences will be considered for the purpose of MAT when the same are reclassified to profit and loss at the time of sale.
5.	Any other item eg:- decommissioning liability, borrowing cost adjustments, etc.	Adjustments are recognised through OCI.	To be included in book profits every year as the gains and losses arise.

MAT on distribution of non-cash assets to shareholders (eg. demerger):-

Sr. No.	Particulars	Treatment under Ind AS	MAT implication
1.	Distribution of non-cash assets to shareholder.	1. Non-cash assets shall be accounted at fair value and the difference arising between carrying value and fair value shall be recognised in profit and loss. 2. The reserves are debited at fair value for the distribution of assets.	1. The amount adjusted in profit and loss shall be ignored for the purpose of book profit as the corresponding effect is in retained earnings which shall be debited at the time of distribution of non-cash assets as deemed dividend. 2. In the books of the resulting company, if any change in the values of property and liabilities are recorded at values different from the values before the demerger, it shall be ignored for the purpose of book profit.

In Retrospect:

The amendment proposed under Section 115 JB by the union government is a welcome move and clarifies the adjustments to be made to the book profit by companies on first time adoption of Ind AS and thereafter. However, the amendment lacks clarification on few critical aspects like:

- Treatment for companies with early (voluntary) adoption of Ind AS.
- In case companies opt for fair valuation through the statement of profit and loss, no adjustment to book profit is to be made, thus resulting in taxation of unrealised income.

These teething issues need to be clarified soon for bringing in effective horizontal equity amongst corporate community irrespective of the GAAP that they follow.

About SKP

SKP is a long established and rapidly growing professional services group located in six major cities across India. We specialise in providing sound business and tax guidance and accounting services to international companies that are currently conducting or initiating business in India as well as those expanding overseas. We serve over 1,200 clients including multinational companies, companies listed on exchanges, privately held firms and family-owned businesses from more than 45 countries.

From consulting on entry strategies to implementing business set-up and M&A transactional support, the SKP team assists clients with assurance, domestic and international tax, transfer pricing, corporate services, and finance and accounting outsourcing matters, all under one roof. Our team is dedicated to ensuring clients receive continuity of support, right across the business lifecycle.

Contact Us

Mumbai
19, Adi Marzban Path
Ballard Estate, Fort
Mumbai 400 001
T: +91 22 6730 9000

Pune
VEN Business Centre
Baner–Pashan Link Road
Pune 411 021
T: +91 20 6720 3800

Hyderabad
6-3-249/3/1, SSK Building
Ranga Raju Lane
Road No. 1, Banjara Hills
Hyderabad 500 034
T: +91 40 2325 1800

New Delhi
B-376
Nirman Vihar
New Delhi 110 092
T: +91 11 4252 8800

Chennai
Office No. 3, Crown Court
128 Cathedral Road
Chennai 600 086
T: +91 44 4208 0337

Bengaluru
Office No. 312/313, Barton Centre
Mahatma Gandhi Road
Bengaluru 560 001
T: +91 80 4277 7800

Toronto
269 The East Mall
Toronto, ON M9B 3Z1
Canada
T: +1 647 707 5066

Chicago
2917 Oak Brook Hills Road
Oak Brook
Chicago 60623
T: +1 630 818 1830

Dubai
2303 Orra Marina
Nasaq Street, Dubai Marina
Dubai, UAE
T: +971 4 325 2245

www.skpgroup.com

Connect with us

skpgrp.info@skpgroup.com

www.linkedin.com/company/skp-group

www.twitter.com/SKPGroup

www.facebook.com/SKPGroupIndia

https://www.youtube.com/c/SKPGroup

plus.google.com/+SKPGroup

Subscribe to our alerts

A member of Nexia International

DISCLAIMER
This newsletter contains general information which is provided on an "as is" basis without warranties of any kind, express or implied and is not intended to address any particular situation. The information contained herein may not be comprehensive and should not be construed as specific advice or opinion. This newsletter should not be substituted for any professional advice or service, and it should not be acted or relied upon or used as a basis for any decision or action that may affect you or your business. It is also expressly clarified that this newsletter is not intended to be a form of solicitation or invitation or advertisement to create any adviser-client relationship.

Whilst every effort has been made to ensure the accuracy of the information contained in this newsletter, the same cannot be guaranteed. We accept no liability or responsibility to any person for any loss or damage incurred by relying on the information contained in this newsletter.

SKP Business Consulting LLP is a member firm of the "Nexia International" network. Nexia International Limited does not deliver services in its own name or otherwise. Nexia International Limited and the member firms of the Nexia International network (including those members that trade under a name which includes the word NEXIA) are not part of a worldwide partnership. For the full disclaimer, please visit www.skpgroup.com.