



CBDT issues FAQs for computing book-profits under MAT for Ind-AS compliant companies

Background

The Central Board of Direct Taxes (CBDT) has issued a circular providing clarifications on computation of Book Profits for an Ind-AS compliant company while computing the liability under Minimum Alternate Tax (MAT). The clarifications are in the form of 14 Frequently Asked Questions (FAQs). The said FAQs have been issued pursuant to the recent Report of the MAT-Ind AS Committee submitted in June 2017. The Press Release issued by CBDT states that public comments on the above FAQs are sought by 11 August 2017.

Separately, to bring parity between transition adjustments and ongoing adjustments to 'Other Equity', the Report has also recommended an amendment to section 115JB(2A) of the Income-tax Act, 1961 (Act) with effect from 1 April 2017.

The highlights of the FAQs and the proposed amendment are summarized below.

Highlights of the FAQs

- Starting point for computation of book profits for an Ind-AS compliant company will be Profit / Loss before Other Comprehensive Income (OCI).
- Where Plant, Property and Equipment (PPE) recorded at fair value / revalued amount are retired / transferred / disposed, the book profit will be increased by the net revaluation amount (i.e. after adjustment of depreciation on the revaluation amount related to the PPE).
- The convergence date has been clarified to be 31 March 2016 (i.e. the start of business on 1 April 2016 or equivalently, close of business on 31 March 2016). Accordingly, first time adoption adjustments as of 31 March 2016, will be considered for computation of MAT liability.



- No deduction to be allowed for dividend (treated as Interest expenses) on Preference shares (treated as liability) under Ind-AS. The profit / transition amount will be increased by dividend / interest on preference shares.
- Transition amount will include the equity component of financial instruments and adjustments relating to service concession agreements. Transition amount will not include the following:
 - Capital Reserves, Securities premium existing as on convergence date under erstwhile Indian GAAP reclassified to Retained Earnings / Other Reserves under Ind-AS and vice versa.
 - Share application money pending allotment reclassified to Other Equity on transition date.
 - Deferred tax adjustments relating to transition adjustments.
 - Amount of proposed dividend on shares for FY 15-16 reversed and credited to Retained Earnings on transition.
 - Adjustment for Provision of Doubtful Debts (Expected Credit Loss adjustment) at the time of transition.
- Mark to Market losses on fair value adjustments on financial instruments recognized through the Profit & Loss account will be allowed as a deduction.
- For FY 2016-17, the deduction of lower of depreciation or book losses will be allowed based on the position as on 31 March 2016. For subsequent years, the position as per Ind-AS financials will be considered.
- A company following the accounting year other than April – March say December ending, will need to prepare accounts under Indian GAAP for 9 months up to December and under Ind-AS for 3 months thereafter. The transition amount will be calculated with reference to 1 January 2017.

Proposed amendment to section 115JB(2A) of the Act

The existing provisions for computing book profits of an Ind-AS compliant company do not cover ongoing adjustments to 'Other Equity'. An amendment is proposed to section 115JB(2A) of the Act by inserting clause (e). Under this clause, the book profit will be increased / decreased, as the case may be, with the amounts credited/debited to 'Other Equity' excluding the following adjustments:

- Profit / (loss) for the period as per statement of profit and loss transferred to Other Equity;
- Items relating to Other Comprehensive Income;
- Share application money pending allotment;
- Money received against share warrants;
- Capital reserve in respect to Business Combinations of entities under common control as per Appendix C of Ind-AS 103;
- Securities premium reserve collected in cash and cash equivalent.



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