IFRS Notes

The Finance Bill, 2017 – a financial reporting perspective

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Introduction

With the adoption of Indian Accounting Standards (Ind AS) that are converged with International Financial Reporting Standards (IFRS), as per the road map laid down by the Ministry of Corporate Affairs, India now has two financial reporting frameworks that will co-exist and be applicable to a mutually exclusive set of companies, with Ind AS being applicable to larger companies and the older Accounting Standards (Indian GAAP) being generally applicable to smaller companies. A separate road map is prescribed for banks, insurance companies and non-banking financial companies.

Background

The companies covered in the first phase of this transition to Ind AS are mandatorily required to prepare financial statements as per Ind AS from 1 April 2016 with the transition date as 1 April 2015.

The existence of two financial reporting frameworks has also necessitated a response from the tax authorities to ensure that there is horizontal equity from a taxation point of view, for companies, irrespective of the financial reporting framework that they follow. To meet this objective, the Central Board of Direct Taxes (CBDT) has issued ICDS to provide a uniform basis for the computation of taxable income. However, ICDS did not cover the issues relating to computation of MAT, which is based on book profits, for companies transitioning to Ind AS.

In response to this need, the MAT - Ind AS Committee (the Committee) was formed by the CBDT in 2015, and the Committee proposed a framework for computation of book profits for Ind AS compliant companies (the Framework) for the computation of book profit for the purpose of levy of MAT under Section 115JB of the IT Act vide its report dated 18 March 2016. This was followed up by a second report, which was released by the CBDT on 5 August 2016, announcing certain modified recommendations/suggestions on select matters submitted by the committee. The comments/ suggestions received in respect of the first and second interim reports were examined by the Committee. After taking into account all the suggestions/comments received, the Committee submitted its final report on 22 December 2016.

New development

On 1 February 2017, the Finance Minister presented the Finance Bill, 2017 (the Bill) which contains a number of proposals. This issue of IFRS Notes provides an overview on the following topics:

- Computation of book profit for Ind AS compliant companies for the purpose of levy of Minimum Alternate Tax (MAT) under Section 115JB of the Income Tax Act, 1961 (the IT Act)
- Income Computation and Disclosure Standards (ICDS)
- Change in base of cost inflation index from 1 April 1981 to 1 April 2001
- MAT credit allowed to be carried forward to 15 Assessment Years (AYs).

"The proposals of the Finance Bill, 2017 with regard to computation of MAT are quite timely as they now provide the required clarity on the tax implications of transition to Ind AS at a time when these companies are gearing up for their first year-end reporting under Ind AS. While certain unrealised gains and losses may result in cash outflows on account of MAT without any actual realisation of the related gains, it is encouraging to see that these proposals take a pragmatic view in considering various Ind AS related adjustments to be made to determine book profit for MAT purposes. It is commendable to see that the government has made a serious effort in understanding the tax implications of the adjustments arising due to transition to Ind AS, including the finer nuances and their consequential impact on MAT computation."

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Overview of the proposals in the Bill in relation to MAT (Proposed to apply from AY2017-18)

The Bill proposes a separate formulae for computation of book profit for companies that prepare financial statements under Ind AS. These proposals should be read together with the existing provisions for computation of MAT under Section 115JB of the IT Act, in particular the adjustments discussed in Explanation 1 to sub-section 2. When computing book profits from the Ind AS profit, it proposes the following:

- No further adjustments should be made to the net profits of Ind AS compliant companies, other than those specified in Section 115JB of the IT Act
- Certain items included in Other Comprehensive Income (OCI), that are permanently recorded in reserves and never reclassified into the statement of profit and loss, be included in book profits for MAT at an appropriate point in time
- Certain adjustments relating to values of assets and liabilities transferred in a demerger to be made by both the demerged company as well as the resulting company
- Certain adjustments recorded in retained earnings (other equity) on first-time adoption of Ind AS, that would never subsequently be reclassified into the statement of profit and loss should be included in book profits (for the purpose of levy of MAT) in a deferred manner.

Adjustments to book profits for MAT computation can be grouped into following two categories:

- Adjustments relating to annual Ind AS financial statements
- Adjustments relating to first-time adoption of Ind AS.

I - Adjustments relating to annual Ind AS financial statements

Based on the proposals in the Bill, MAT would be calculated using the profits as per the statement of profit and loss before OCI as per Ind AS as the starting point and only those adjustments as are specified in Section 115JB of the IT Act or for gains and losses recognised on accounting for demergers would be made.

Considering that Ind AS requires significant use of fair values, this would mean that several potentially large items of gains and losses that are recognised in the statement of profit and loss would now be considered for MAT calculations, thereby impacting cash outflows relating to MAT (even though the related gain or loss may still be unrealised or notional and that could potentially reverse in subsequent periods).

In addition, the following adjustments would be made to compute the book profits.

A. Components of OCI

The OCI comprises items of income and expense, including reclassification adjustments that are not recognised in profit or loss as required or permitted by Ind AS. In the OCI section of the statement of profit and loss, items are classified by nature and grouped into those in accordance with other Ind AS:

- will be reclassified to profit or loss in the future when certain conditions are met; and
- will never be reclassified to profit or loss.

The key proposals of the Bill in relation those items of OCI which will never be subsequently reclassified to profit or loss are as follows:

Sr. no.	Items	Proposals of the Bill
1.	Changes in revaluation surplus (Ind AS, 16, *Property, Plant and Equipment* and Ind AS 38, *Intangible Assets*)	To be included in book profits at the time of realisation/disposal/retirement/ otherwise transferred.
2.	Remeasurements of defined benefit plans (Ind AS 19, *Employee Benefits*)	To be included in book profits every year as the remeasurements gains and losses arise.
3.	Gains and losses from investments in equity instruments designated at fair value through OCI (Ind AS 109, *Financial Instruments*)	To be included in book profits at the time of realisation/disposal/retirement/ otherwise transferred.
4.	Any other item	To be included in book profits every year as the gains and losses arise.

(Source: KPMG in India's analysis, 2017)

Accordingly, it follows that those components of OCI which are to be subsequently reclassified to profit and loss would be considered for book profit as per the Ind AS financial statements i.e. in the period in which such amounts are actually reclassified.

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Adjustments relating to annual Ind AS financial statements (cont.)

B. Demerger

Under Ind AS, when there is a demerger, resulting in a non-cash distribution to shareholders, the difference between the fair value and the costs of the assets transferred is required to be recognised as a gain or loss in the statement of profit and loss and correspondingly, the distribution to shareholders is reflected at the fair value of the assets transferred.

Considering that demergers are generally tax neutral transactions, these proposals essentially provide that such gains/losses are to be excluded in the computation of book profit, so that the demerger still remains tax neutral even from a MAT perspective.

Sr. no.	Items	Proposals of the Bill
1.	In the case of a *demerged company*, any increase or decrease in profits due to gain or loss recognised on distribution of non-cash assets to shareholders in a demerger in accordance with Appendix A of the Ind AS 10, *Events After The Reporting Period*	To be excluded in book profits in the year of demerger.
2.	In the case of a *resulting company*, any change in the recorded values of assets and liabilities taken over on a demerger, as compared to the values as per books of the demerged company	To be ignored in the books of the resulting company, i.e. the book profits of the resulting company are to be computed using the values of assets and liabilities as they appeared in the books of the demerged company.

(Source: KPMG in India's analysis, 2017)

II - Adjustments relating to first-time adoption of Ind AS

When preparing its opening Ind AS balance sheet on 1 April 2015 or other transition date, a first-time adopter of Ind AS would typically record a series of adjustments relating to the transition from Accounting Standards to Ind AS. Generally, these adjustments would be recorded either in OCI or in retained earnings (other equity) in the opening balance sheet. Considering that some of these items may never be reclassified to the statement of profit or loss, the Bill proposes the following, based on the amounts reflected on the convergence date, i.e., the beginning of the first Ind AS reporting period:

a) Those adjustments recorded in OCI and which would subsequently be reclassified to the profit or loss, should be included in book profits in the year in which these are reclassified to the profit or loss

b) Those adjustments recorded in OCI and which would never be subsequently reclassified to the profit or loss should be included in book profits as specified below *(see section - C below)*

c) All other adjustments recorded in 'the other equity' i.e. transition amount which would otherwise never subsequently be reclassified to the statement of profit and loss, should be included in the book profits, equally over a period of five years starting from the year of first-time adoption of Ind AS subject to certain exclusions as specified in the Bill *(see section - D below).*

Transition amount means the amount or the aggregate of the amount adjusted in the other equity (excluding equity component of compound financial instruments, capital reserve, and securities premium reserve) on the date of adoption of Ind AS but not including the following:

a) amount or aggregate of the amounts adjusted in the OCI on the convergence date which would be subsequently re-classified to profit or loss

b) revaluation surplus for assets in accordance with Ind AS 16 and Ind AS 38 adjusted on the convergence date *(covered in C(i) below)*

c) gains or losses from investments in equity instruments designated at fair value through OCI in accordance with the Ind AS 109 adjusted on the convergence date *(covered in C(ii) below)*

d) adjustments relating to items of property, plant and equipment and intangible assets recorded at fair value as deemed cost in accordance with paragraphs D5 and D7 of Ind AS 101 on the convergence date *(covered in C(i) below)*

e) adjustments relating to investments in subsidiaries, joint ventures and associates recorded at fair value as deemed cost in accordance with paragraph D15 of Ind AS 101 on the convergence date *(covered in C(iv) below)*

f) adjustments relating to cumulative translation differences of a foreign operation in accordance with paragraph D13 of Ind AS 101 on the convergence date *(covered in C(iii) below).*

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Adjustments relating to first-time adoption of Ind AS (cont.)

C. Adjustments to OCI as reflected on the convergence date[1]

The adjustments to OCI have been grouped under four categories:

i. Deemed cost adjustment for Property, Plant and Equipment (PPE) and intangible assets (Ind AS 16 and 38) on transition to Ind AS

Requirements of Ind AS 16 and Ind AS 38 and interaction with Ind AS 101, First-Time Adoption of Indian Accounting Standards

Under Ind AS 16 and Ind AS 38, an entity has a choice of measurement model i.e. it can either choose cost model or revaluation model (fair value).

Ind AS 101 permits an entity to measure items of PPE and intangible assets at the date of transition at their recomputed values, measured in accordance with Ind AS 16 and Ind AS 38 respectively from inception.

Alternatively, a first-time adopter of Ind AS can opt to apply the 'deemed cost' exemption and measure items of PPE and intangible assets either at their fair value or at carrying value as per the previous GAAP, on the date of transition. At the date of transition the resulting adjustments in the carrying value of existing PPE and intangible assets are recorded in retained earnings (other equity).

a) When fair value as deemed cost (para D5 and D7 of Ind AS 101)

The recommendation of the Committee (in the report issued on 5 August 2016) was to ignore all adjustments to PPE and intangible assets as of the date of transition and also its consequential impact on book profits of future years.

Proposal

The Bill has now introduced specific rules (as outlined below) in cases where a company has chosen fair value as deemed cost on the date of transition:

- The adjustment due to one-time fair value of the PPE and intangible assets on the date of transition would be included in book profits in the year in which the asset is retired/disposed/realised/otherwise transferred. This adjustment would not be included in the transition amount (i.e. not included in the book profits over a period of five years).
- Other adjustments such as asset restoration obligations, foreign exchange capitalisation/decapitalisation, borrowing costs adjustments, etc. will be considered in the transition amount (i.e. recognised in book profits over a period of five years) (refer point D below).

b) When revaluation model has been adopted as an accounting policy for PPE and intangible asset on transition to Ind AS

Requirements of Ind AS 16 and Ind AS 38 and interaction with Ind AS 101

An entity may elect to measure a class of PPE and intangible assets at fair value, if fair value can be measured reliably. If this accounting policy is chosen, then revaluations should be kept up to date, such that the carrying amount of an asset at the reporting date does not differ materially from its fair value. Any surplus arising on the revaluation is recognised in OCI except to the extent that the surplus reverses a previous revaluation deficit on the same asset recognised in profit or loss, in which case the credit to that extent is recognised in profit or loss. Any deficit on revaluation is recognised in profit or loss except to the extent that it reverses a previous revaluation surplus on the same asset, in which case the debit to that extent is recognised in OCI. Revaluation increases and decreases cannot be offset, even within a class of assets.

On first-time adoption of Ind AS, an adjustment would be made to retained earnings when such class of PPE and intangible asset are recognised at fair value (when an entity chooses revaluation model as its accounting policy).

Proposal

One-time adjustment to retained earnings (other equity) when an entity transitions to revaluation model will not be included in the transition amount (i.e. not included in book profits over a period of five years). The one-time adjustment due to application of revaluation model pertaining to PPE and intangible assets would be included in book profits at the time when the asset is realised/disposed/retired/ otherwise transferred.

c) When fair value is not used as deemed cost

For adjustments to PPE and intangible asset using the retrospective recomputation approach or previous GAAP deemed cost approach, such as asset restoration obligations, foreign exchange capitalisation/decapitalisation, borrowing costs adjustments, etc. will be considered in the transition amount (i.e. recognised in book profits over a period of five years) (refer point D below).

Based on our reading of the Bill, the tax treatment to an asset where fair value is used as the deemed cost on transition to Ind AS appears to be different from that on an asset measured using revaluation model. As per the Bill, it appears that an asset recognised on transition date using fair value as deemed cost (new carrying value) would be depreciated on the basis of

[1] *Convergence date means the first day of the first Ind AS reporting period as defined in Ind AS 101.*

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Adjustments relating to first-time adoption of Ind AS (cont.)

new carrying value and no adjustment would be made to the fair value adjustment recognised in the retained earnings (other equity) until retirement/disposal/sale/ transfer of that asset. On such retirement/disposal/ sale/transfer, the gross amount of the adjustment due to fair value on transition date would be included in the book profits. On the other hand, when it comes to revalued assets and depreciation thereon, the existing provisions of Section 115JB of the IT Act already prescribe the treatment to be accorded to depreciation on account of revaluation of assets.

ii. Gains and losses from investments in equity instruments designated at fair value through OCI (Ind AS 109)

Requirements of Ind AS 109

An entity may make an irrevocable election to present fair value changes in OCI for its investments in equity instruments on initial recognition. Therefore, the changes in the fair value of such an investment in an equity instrument would be recognised in OCI. The election can be made on an instrument-by-instrument basis.

On first-time adoption of Ind AS, an adjustment would be made to retained earnings (other equity component) when such investment is recognised at fair value in the balance sheet on the date of transition to Ind AS.

Proposal

One-time adjustment to retained earnings (other equity) when an entity adopts the accounting policy to measure equity instruments at fair value through OCI would not be included in the transition amount (i.e. not included in book profits over a period of five years). The one-time adjustment due to application of such an accounting policy would be included in book profits at the time when the equity instrument is realised/disposed/otherwise transferred.

iii. Cumulative translation differences of a foreign operation in accordance with para D13 of Ind AS 101 on the convergence date

Requirements of Ind AS 101

A first-time adopter may consider cumulative translation differences for all its foreign operations as zero at the date of transition. The gain/loss on a subsequent disposal of any foreign operation should exclude translation differences that arose before the date of transition to Ind AS and include only translation differences that arose after the date of transition to Ind AS.

Proposal

Following the principles in Sections 115JB of the IT Act, the adjustments in retained earnings (other equity) relating to cumulative translation differences, on first-time adoption of Ind AS, should be ignored for computation of book profits.

Such adjustment would be included in book profits at the time of disposal/otherwise transfer of such a foreign operation.

iv. Investments in subsidiaries, joint ventures and associates

Requirements of Ind AS 101

In separate financial statements, an entity can measure its investment in subsidiaries, associates and joint venture either at cost or at fair value. If a first-time adopter opts to measure such investments at cost then a first-time adopter of Ind AS may apply a 'deemed cost' exemption. The deemed cost of such an investment would be either:

(i) fair value at the entity's date of transition to Ind AS in its separate financial statements; or

(ii) previous GAAP carrying amount at that date.

Proposal

Following the principles in Sections 115JB of the IT Act, the adjustments in retained earnings (other equity) relating to investments in subsidiaries, associates and joint ventures, on first-time adoption of Ind AS, should be ignored for computation of book profits.

Such adjustment would be included in book profits at the time of realisation/disposal/ retirement/ otherwise transfer of such an investment.

D. Other adjustments included in book profits over a period of five years

The book profit in the year of adoption of Ind AS i.e. 1 April 2016 for phase I companies in the Ind AS road map and each of the following four years should be adjusted with one-fifth of the transition amount.

Examples of adjustments where the Ind AS adjustments would be spread over five years are as following:

a) PPE and intangible assets measured retrospectively as per Ind AS 16 or Ind AS 38 or measured as per previous GAAP deemed cost approach

b) PPE and intangible asset adjustment relating to asset restoration obligations, foreign exchange capitalisation/decapitalisation, borrowing costs adjustments, etc.

c) Leases - straight-lining of lease rentals

d) Adjustments to financial assets or liabilities recognised at amortised cost using effective interest rate method

e) Gains or losses on initial recognition of any asset

f) Adjustments to revenue recognition such as deferred revenues

g) Embedded lease accounting

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Adjustments relating to first-time adoption of Ind AS (cont.)

h) Investments - fair value adjustments through profit or loss such as:

- Investments in equity instruments or mutual fund units
- Investments in subsidiaries/associates/ joint ventures where the entity has opted to measure these at fair value through profit or loss in their separate financial statements
- Investment in debt instruments that do not meet the criteria for amortised cost measurement
- Derivative assets or liabilities
- Any other financial asset or liability designated at fair value through profit or loss under Ind AS 109.

i) Business combinations adjustments

j) Share-based payments adjustments (in case of cash settled schemes)

k) Accounting for exploration costs

l) Discounting of provisions

m) Borrowing costs adjustments

n) Government grant accounting.

E. Reference year of first-time adoption adjustments

In the first year of adoption of Ind AS, the companies would prepare Ind AS financial statements for reporting year with a comparative financial statement for immediately preceding year. As per Ind AS 101, a company would make all Ind AS adjustments on the opening date of the comparative financial year. The entity is also required to present an equity reconciliation between older Accounting Standards and Ind AS amounts, both on the opening date of preceding year as well as on the closing date of the preceding year.

It is proposed that for the purposes of computation of book profits of the year of adoption and the proposed adjustments, the amounts adjusted as of the opening date of the first year of adoption should be considered.

For example, companies which adopt Ind AS with effect from 1 April 2016 are required prepare their financial statements for the year 2016-17 as per requirements of Ind AS. Such 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 a case, the first-time adoption adjustments as of 31 March 2016 should be considered for computation of MAT liability for previous year 2016-17 (AY2017-18) and thereafter.

Further, in this case, the period of five years proposed above should be previous years 2016-17, 2017-18, 2018-19, 2019-20 and 2020-21.

F. Other proposals

Income Computation and Disclosure Standards (ICDS)

On 6 July 2016, the Ministry of Finance deferred ICDS by one year and made them applicable from 1 April 2016 i.e. PY2016-17 (AY2017-18) instead of 1 April 2015. Further, revisions to the ICDS were notified on 29 September 2016.

While the Bill has no reference to ICDS, the Memorandum to the Bill acknowledges that 'for ensuring horizontal equity across companies irrespective of the fact that whether they follow Ind AS or the existing Indian GAAP, the Central Government has issued ICDS for computation of taxable income for specified heads of income'.

Therefore, it clearly recognises the need to have a mechanism to ensure horizontal equity and in the absence of any indication to the contrary, the revised ICDS would applicable to companies from 1 April 2016 (as notified earlier).

Change in base of cost inflation index from 1 April 1981 to 1 April 2001

Requirements of the IT Act for a long-term capital asset

Section 48 of the IT Act, *inter alia*, provides that income chargeable under the head 'capital gains' should be computed by deducting from the full value of the consideration received or accruing as a result of the transfer of the capital asset the following amounts, namely:

i. expenditure incurred wholly and exclusively in connection with such transfer

ii. the indexed cost of acquisition of the asset and the indexed cost of any improvement thereto.

Further, the Section also defines 'indexed cost of acquisition' as an amount which bears to the cost of acquisition the same proportion as cost inflation index for the year in which the asset is transferred bears to the cost inflation index for the first year in which the asset was held by the assessee or for the year beginning on 1 April 1981, whichever is later.

Proposal (To apply from AY2018-19)

The Bill proposes to replace the reference of 1 April 1981 to 1 April 2001 in the above definition.

Accounting impact of the proposal

In cases where companies have recognised deferred tax assets based on such indexation benefits with reference to the balance sheet approach under Ind AS, this may have an impact on the Ind AS financial statements for the year ending 31 March 2017.

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Adjustments relating to first-time adoption of Ind AS (cont.)

MAT credit allowed to be carried forward for 15 AYs

Requirements of the IT Act

Section 115JD(2) of the IT Act provides that tax credit of an AY should be the excess of the MAT paid over the regular income-tax payable for that year. Further, such tax credit is allowed to be carried forward for a period of 10 years as per Section 115JD(4).

Proposal (To apply from AY18-19)

The Bill proposes to amend the sub-sections (2) and (4) as follows:

a) Provided that where the amount of tax credit in respect of any income-tax paid in any country or specified territory outside India, under Section 90A or Section 91, allowed against the MAT payable exceeds the amount of tax credit admissible against the regular income-tax payable by the assese, then while computing the amount of credit under Section 115(2), such excess amount shall be ignored, while computing the amount of credit, and

b) period for carry forward of tax credit shall be extended from 10 AYs to 15 AYs.

Accounting impact

The companies covered under both Ind AS and Accounting Standards should assess the recoverability of MAT credit over the extended period. Therefore, entities may be able to recognise additional amounts as an asset in relation to MAT credit.

Our comments

The Ind AS 101 adjustments are envisaged to provide companies with ease in transitioning to Ind AS, especially when restating information relating to historical books. While selecting accounting policies under Ind AS, the companies have been conscious of the impact of MAT due to adjustments arising from such selection.

It appears that the concerns of the stakeholders have been positively considered by the CBDT. There seems to be an attempt to simplify MAT implications rather than providing a complex formula which could create permanent differences and reconciliations of first-time adoption matters. Additionally, the Bill considers the scenario of demergers both from the resulting company and demerged company's perspective, and makes these tax neutral transactions even from a MAT perspective.

The general principles outlined in the earlier report (issued on 18 March 2016 and 5 August 2016) have not been changed. However, the proposals in the Bill introduce certain exceptions to the general principles outlined in the report (issued on 5 August 2016) with regard to property, plant and equipment and intangible assets, investments in subsidiaries, associates and joint ventures and cumulative translation reserve. Additionally, for certain adjustments on the date of transition to Ind AS that are recorded in the retained earnings (which would never subsequently be reclassified to the statement of profit and loss), the Bill has proposed the impact of such adjustments be spread over five years (earlier proposal was to spread over three years) from the date of adoption of Ind AS while computing book profit for the purposes of MAT calculations.

The Bill also provides that it is the date of adoption of Ind AS and not the transition date from when an entity would start making adjustments to the book profits for a period of five years.

However, some matters to consider are as follows:

- **Taxation of unrealised gains and losses:** While the Bill addresses some of the concerns raised by various stakeholders in relation to the two draft reports issued earlier, given that the profits reported under Ind AS may include the impact of unrealised gains or losses (especially in relation to financial instruments), the approach suggested by the Bill for determining book profit without any adjustment for such unrealised gains and losses may result in cash outflows on account of MAT without any actual realisation of the related gains.

  This anomaly is largely driven by the approach adopted for dividend distribution where current year's profits (without any adjustment for unrealised gains/losses) are available for distribution in its entirety.

- **Parallel records:** Companies are not generally required to maintain parallel books of accounts for tax purposes. However, the recommendations of the Bill, specifically relating to PPE and investments will require companies to maintain memorandum accounts to compute the depreciation charge, when determining book profits for levy of MAT. Additionally, in the case of a demerger, a resulting company would need to maintain parallel records on the basis of the carrying value in the books of the demerged company. This requirement is similar to maintenance of records when companies carried out revaluations

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Our comments (cont.)

in the past. While companies are likely to benefit from deferring certain first-time adoption adjustments in book profits over a period of five years, additional efforts are expected to be required for maintaining these parallel records.

- **PPE and intangible asset on revaluation model**: The treatment outlined in the Bill indicates that the aggregate revaluation till the year of sale is to be adjusted for computing book profit for the year in which the asset is retired/disposed/realised/transferred. However, a combined reading of the existing requirements of Section 115JB of the IT Act, the Bill and the memorandum to the Bill suggests that the amount to be adjusted to book profit in the year of sale/disposal, etc. is to be determined after considering the impact of the differential depreciation on account of such revaluation. A clarification on this aspect may help remove the ambiguity on this matter.
- **Effective date of MAT provisions for early adopters of Ind AS**: The Bill clarifies the impact on MAT for entities where the date of transition to Ind AS is 1 April 2015 by proposing that adjustments would be made from the year of adoption of Ind AS. However, it is silent on the method of computation of MAT for the early adopters of Ind AS who adopted Ind AS from 1 April 2015 with the transition date 1 April 2014.
- **Inconsistency between the memorandum and the Bill:** There seems to be certain inconsistency between the requirements of the memorandum and the Bill - for instance, on PPE adjustments where fair value is considered as deemed cost, the memorandum seems to suggest that all such adjustments would not be taken into account while computing book profits for MAT purposes neither at the time of depreciation nor at the time of disposal/retirement/realisation/transfer.

Next steps

The companies should assess the impact of the proposals provided in the Bill while preparing their Ind AS financial statements. Additionally, the companies should consider the impact of the Bill on their expected advance tax payment in the current financial year.

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KPMG in India's IFRS institute

Visit KPMG in India's IFRS institute - a web-based platform, which seeks to act as a wide-ranging site for information and updates on IFRS implementation in India.

The website provides information and resources to help board and audit committee members, executives, management, stakeholders and government representatives gain insight and access to thought leadership publications that are based on the evolving global financial reporting framework.

Voices on Reporting

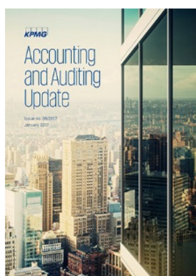
KPMG in India is pleased to present Voices on Reporting – a monthly series of knowledge sharing calls to discuss current and emerging issues relating to financial reporting.

Special session on Finance Bill, 2017 – Financial reporting perspective

In our next call, on Wednesday, 8 February 2017 between 4:00 to 5:00 pm, we will provide an overview and implications of the proposals given in the Finance Bill, 2017 on the following topics:

- Computation of book profit for Ind AS compliant companies for the purpose of levy of MAT
- Income Computation and Disclosure Standards
- Change in base of cost inflation index from 1 April 1981 to 1 April 2001
- MAT credit allowed to be carried forward to 15 Assessment Years.

Missed an issue of our Accounting and Auditing Update or First Notes



Issue no. 6/2016 – January 2017

Starting this month the Accounting and Auditing Update (AAU) includes a series of articles on the revised requirements of the Companies Act, 2013 (2013 Act). This month's edition carries an article on the Related Party Transactions (RTPs). The article provides an overview of the revised requirements for RPTs under the 2013 Act and the Securities and Exchange Board of India (SEBI) regulations.

This publication also carries an article on Initial Public Offering (IPO), which is an important event for any unlisted company. The article focusses on challenges that companies are likely to face and the significant decisions to be taken while preparing the financial information.

Additionally, this publication carries an article on derecognition of a financial liabilities under Ind AS 109, *Financial Instruments.*

Ind AS introduces many new terms and challenges in the field of financial reporting. This edition cast its lens on two such concepts under Ind AS: business combinations under common control and government incentives.

The publication also carries regular round up of regulatory updates in India and internationally.

MCA issued relaxation for an IFSC company located in an SEZ

17 January 2017

The Ministry of Corporate Affairs (MCA) on 4 January 2017 issued two notifications (G.S.R. 08(E) and G.S.R. 09(E)), to propose exceptions from, and modifications and adaptations of various provisions of the Companies Act, 2013 (2013 Act) for an International Financial Services Centre (IFSC) company.

Such an IFSC company would be licensed to operate by the Reserve Bank of India or the SEBI or the IRDA from an IFSC located in an approved multi services SEZ set-up under the SEZ Act, 2005 read with the SEZ Rules, 2006

The notification provides that certain provisions of the 2013 Act should not apply to an IFSC unlisted public or private company. Further, certain provisions of the 2013 Act would apply with specified exceptions or modifications.

This issue of First Notes provides an overview of the key sections of the 2013 Act that are applicable to an IFSC company with these modifications.

Previous editions are available to download from: www.kpmg.com/in

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