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Voices on Reporting

7 November 2019

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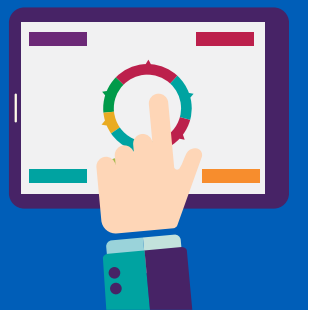
Welcome

01 Series of knowledge sharing calls

02 Covering current and emerging reporting issues



03 Scheduled towards the end of each month

04 Look out for our Accounting and Auditing Update, First Notes and Voices on Reporting publications

Speaker for the webinar

Ruchi Rastogi

Partner

Assurance
KPMG in India

Impact of recent tax amendments

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Tax ordinance: Applicability

On 20 September 2019, the Taxation Law (Amendment) Ordinance, 2019 was brought to make certain amendments in the Income-tax Act, 1961 and the Finance (No.2) Act, 2019.

- The Ordinance includes an option for domestic companies to pay income tax at a concessional rate of 22 per cent (concessional tax rate) provided:
  - The company does not claim certain deductions/incentives which, *inter alia,* include SEZ[1] benefit, additional depreciation, including set-off of loses arising from these deductions/incentives
  - MAT[2] will not be applicable to such companies
  - The company exercises the option before filing of returns (the option once availed cannot be withdrawn).
- CBDT[3] has clarified that credit of MAT paid will not be available to a domestic company exercising the option.

Issues

- **Would the choice be available at the group level or an entity level?**
- **What are the possible considerations that should be evaluated while analysing options available in the Ordinance?**
- **Would the ordinance be considered enacted or substantially enacted?**

[1]*Special Economic Zone*

[2]*Minimum Alternate Tax*

[3]*Central Board of Direct Taxes*

Scenario A: Decision to opt for concessional tax rate not taken until filing of the return for AY2020-21

- The Ordinance allows companies time until filing of the income-tax returns (i.e. with respect to FY2019-20, until 30 September 2020 or 30 November 2020, as the case may be) to exercise the option to adopt the concessional tax rate.

- Hence, it is possible that a company may not decide as at an interim or annual reporting date on adoption of concessional tax rate.

Issues

- **What are potential accounting and reporting consequences for companies?**
- **What is the responsibility of the auditor?**

Scenario B: Not opt for the concessional tax rate

- As at 30 September 2019, many large IT companies have not opted for concessional tax rate as their ETR[4] is already lower than the concessional rate of 22 per cent.
- This could be due to:
  - Benefits/incentives availed under Sections 10AA, 80IA or 80IB.
  - Existence of significant MAT asset on the balance sheet and companies may want to avail its benefit.

Issues

- **What factors needs to be considered while evaluating giving up tax holiday benefits and moving to the concessional rates?**
- **What would be the impact on existing MAT assets which are:**
  - **Recognised in the books**
  - **Unrecognised in the books?**

[4]Effective Tax Rate

Scenario C: Opt for the concessional tax rate from AY2020-2021

If the company has adopted the option for concessional tax rate effective from AY2020 -21 (i.e. year ended 31 March 2020).

Issues

- **When and how should the change in the tax rate be accounted for in the financial statements?**
- **What is the impact on deferred tax assets and liabilities?**

Scenario D: Opt for the concessional tax rate after AY2020-21

- The Ordinance allows companies to opt for the concessional tax rate from a year later than FY2019-20
- Companies may chose this option, say three or five years from now, after performing an impact assessment as at that date (for instance, after realisation of the existing MAT assets).

Issue

How should deferred tax asset or liability be measured in the financial statements?

Impact on deferred taxes recognised on Ind AS adoption

At the time of first-time adoption of Ind AS, Company A made adjustments resulting from recognition of deferred tax assets and deferred tax liabilities directly in equity.

It made similar adjustments for tax effects directly in equity at the time of initial application of Ind AS 115 and Ind AS 116, the new revenue recognition and lease standards respectively.

Company A has decided to avail the lower tax rate in FY2019-20 as per the Ordinance.

Issue

What is the accounting consequence of the remeasurement of deferred tax assets and liabilities recognised in equity as above?

Ind AS 115 – Practical and emerging challenges

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Transition - Performance obligation assessment and SSP[5] determination

- Company A ('Co.') enters into a three year IT infrastructure support contract with a customer.
- Prior to commencing support, Co. would render transition services involving:
  - Obtaining a detailed understanding of the existing processes and shadow support
  - Documentation of contractual deliverables (implicit or explicit) which are signed-off by and transferred to the customer.
- Transition is billable under the contract.

Issues

- **Would 'transition' qualify to be a separate performance obligation?**
- **Would the answer change if transition is free of cost?**
- **If transition qualifies to be a separate performance obligation, how would its SSP be determined?**

[5]*Stand-alone Selling Price*

Transition - Accounting for revenue and costs

Continuing from the previous example,

- Transition is expected to be performed over a three month period. Steady state support would commence thereafter.
- During transition, the Co. incurs costs in the nature of employee costs, training, etc.

Issues

If transition does not qualify to be a separate performance obligation:

- **Would revenue be recognised over the total contract period (i.e. including transition) or only over the steady state period?**
- **Would the transition costs be capitalised? If yes, what is the amortisation period?**

Variable consideration - Allocating transaction price | recognising revenue

Scenario: In an IT infrastructure support contract, the Co. has determined that its contract consists of a single performance obligation satisfied over time involving a series of distinct days of service.

A. The price per support ticket is as below:

Contract period	Price per support ticket (INR)
Year 1	100
Year 2	80
Year 3	75

A.1 The change is dependent on the level of transformations/applications supported

A.2 The change is linked to the change in an index

A.3 The change is solely on passage of time.

B. Fixed up-front fee of INR1 million and INR100 per transaction processed.

C. Fixed up-front fee of INR1 million and tiered transaction pricing that resets on a monthly basis. The per transaction pricing is as follows:

Transactions processed	Price per transaction (INR)
0 – 1,000	100
1,001 – 5,000	80
> 5,000	75

Issue

How is transaction price determined and revenue recognised in such arrangements?

Contracts with employee takeover

- Co. has entered into an IT infrastructure support contract with a customer.
- Under the terms, Co. has taken over all the employees of the customer's in-house IT services team.
- In consideration of this, Co. would pay USD2 million to the customer.

Issues

- **What are the accounting consequences of this transaction?**
- **Would the answer be different if there is no transfer of consideration?**
- **If customer reimburses the cost for initial period of six months for rebadged employees, then what will be the accounting treatment?**

Q&A

Links to previous recordings of VOR

Month	Topics	Link
May 2019 (special session)	• Uncertainty over income tax treatments and impact of new standard on leases on life sciences sector	Click here
July 2019	• Brief overview of Ind AS 116, *Leases* transition options and considerations • Prudential framework for resolution of stressed assets • Over of the new guidance relating to uncertainty over income tax treatments • Important Ind AS implementation issues provided in the Ind AS Technical Facilitation Group (ITFG) Bulletin 19 and 20	Click here
August 2019 (special session)	• Prevention of insider trading and safeguarding of UPSI • Issuance of Differential Voting Rights (DVR) shares • Revised formats for compliance report on corporate governance	Click here
August 2019 (special session)	• Ind AS 116, *Leases* - Impact on the technology sector	Click here
October 2019	• Clarification on 'appointed date' and 'acquisition date' in a scheme of arrangement • FAQ on presentation of dividend and DDT • Ind AS Technical Facilitation Group (ITFG) clarifications - Bulletin 21 • The Taxation Laws (Amendment) Ordinance, 2019 • Revised formats for compliance report on corporate governance • Disclosure of cash flow statement	Click here

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Our publications

Accounting and Auditing Update

First Notes

Coming up next

New issue of:

- Accounting and Auditing Update
- First Notes
- Voices on Reporting - publication

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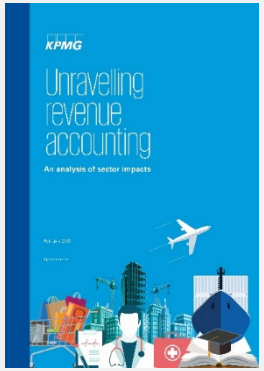
Unravelling revenue accounting - An analysis of sector impacts



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Thank you

KPMG in India contact:

Ruchi Rastogi
Partner
Assurance
E-mail: ruchirastogi@kpmg.com

Feedback/queries can be sent to: aaupdate@kpmg.com

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