



Impact of Ind AS on MAT

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Speakers for the call



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Ind AS MAT committee¹



Committee mandate - To suggest a framework for computation of book profits for the purposes of levy of MAT under Section 115JB of the Income-tax Act, 1961 (IT Act) for Ind AS compliant companies in the year of adoption of Ind AS and thereafter.

Comments/suggestions to bring out issues/points that would require further clarification invited by CBDT on the committee report by 10 May 2016.

Current MAT calculation

- The starting point for MAT calculation is profit as per statutory financial statements.
- The current MAT provision prescribes certain adjustments to book profits, viz:
 - Items relating to income tax
 - Provision for dividend, unascertained liability and losses of subsidiary
 - Adjustment for brought forward loss/unabsorbed depreciation, etc.



- The above adjustments seek to compute the realised profit before tax.
- There appears to be an implicit relation between the distributable profits available for payment of dividend and tax base for levying MAT.



With companies transitioning to Ind AS, adjustment to current MAT formula is required.

MCA clarification - January 2016¹

- Under Ind AS, total comprehensive income has two components – profit or loss and OCI
- **All notional/unrealised gains** included in OCI are required **to be excluded** for the purposes of arriving at free reserves (Section 2(43)), distributable profits for payment of dividend (Section 123) and calculation of profit for managerial remuneration (Section 197 and 198).
- The MCA **suggested** the above principle may be extended for reckoning book profits for the purposes of MAT provisions.

Items of OCI listed by MCA are as following:

- i. Changes in revaluation surplus (Ind AS 16, *Property, Plant and Equipment* and Ind AS 38, *Intangible Assets*)
- ii. Re-measurements of defined benefit plans (Ind AS 19, *Employee Benefits*)
- iii. Gain and losses arising from translating the financial statements of a foreign operation (Ind AS 21, *The Effects of Changes in Foreign Exchange Rates*)
- iv. Gains and losses from investments in equity instruments designated at fair value (Ind AS 109, *Financial Instruments*)
- v. Gains and losses on financial assets measured at fair value (Ind AS 109)
- vi. The effective portion of gains and losses on hedging instruments in a cash flow hedge and the gains and losses on hedging instruments that hedge investments in equity instruments measured at fair value through OCI (Ind AS 109)
- vii. For particular liabilities designated as at fair value through profit or loss, the amount of the change in fair value that is attributable to changes in the liability's credit risk (Ind AS 109)
- viii. Changes in the value of the time value of options when separating the intrinsic value and time value of an option contract and designating as the hedging instrument only the changes in the intrinsic value (Ind AS 109)
- ix. Changes in the value of the forward elements of forward contracts when separating the forward element and spot element of a forward contract and designating as the hedging instrument only the changes in the spot element, and changes in the value of the foreign currency basis spread of a financial instrument when excluding it from the designation of that financial instrument as the hedging instrument (Ind AS 109).

Framework for MAT as per the Committee Report¹

- **Net profit to be the starting point for paying MAT.**
- **No further adjustments** to be made to net profits - other than those already specified under Section 115JB of the IT Act.
- Items that will permanently be recorded in reserves and hence never be reclassified to the statement of profit and loss, to be included in the book profits for MAT at an appropriate time.

Sr. No.	Illustrative list of items	Recommendation of the committee
1	Changes in revaluation surplus (Ind AS 16 and Ind AS 38)	To be included in book profits at the time of realisation/disposal/retirement
2	Remeasurements of defined benefit plans (Ind AS 19)	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 other comprehensive income (Ind AS 109)	To be included in book profits at the time of realisation

Framework for MAT as per the Committee Report (cont.)

Committee recommendations on impact of first time adoption of Ind AS: MAT on adjustments for differences between Ind AS and previous GAAP which are directly adjusted in retained earnings/reserves at the date of transition would be accounted as follows:

Sr. No.	Particulars	MAT inclusion/exclusion
1	Opening transition adjustments - Subsequently reclassified to the statement of profit and loss	Include in book profits in the year of reclassification
2	Opening transition adjustments - Never reclassified to the statement of profit and loss	Include in book profits at appropriate times (as mentioned in the previous slide)
3	Opening transition adjustments - which would otherwise never subsequently be reclassified to the statement of profit and loss	Include in book profits in the year of first time adoption of Ind AS.

Adjustments would be subject to the existing provisions of Section 115JB (e.g. the amount set aside as provision for diminution in the value of any asset is required to be added to book profits and accordingly would not be included in any of the adjustments).

Implementation challenges

This report and its recommendations are expected to have a significant impact on the entities covered under the Ind AS road map, for example:

- i. Impact of unrealised gains and losses in current year profit
- ii. Interpretation of reclassification vs reversals of adjustments recognised in reserves on first-time adoption of Ind AS
- iii. Impact for entities that are not covered by MAT provisions in the year of first-time adoption of Ind AS
- iv. Impact on demergers
- v. Impact on application of Ind AS 101, *First-time Adoption of Indian Accounting Standards* while selecting accounting policies and first-time exemptions.



Q&A

Sources

1. Ministry of Finance press release dated 28 April 2016

Glossary

MAT – Minimum Alternate Tax

CBDT – Central Board of Direct Taxes

MCA – Ministry of Corporate Affairs

ICAI – Institute of Chartered Accounts of India

Ind AS – Indian Accounting Standard

OCI – Other Comprehensive Income

Links to previous recordings of VOR

Month	Topics	Link
October 2015	<ul style="list-style-type: none">• Overview of Ind AS 32, <i>Financial Instruments, Presentation</i>• Key differences between Indian GAAP and and Ind AS 32• Overview of Exposure Drafts on Ind AS 11, <i>Construction Contracts</i> and Ind AS 18, <i>Revenue</i>	Click here
November 2015	<ul style="list-style-type: none">• Overview of Ind AS 109, <i>Financial Instruments</i>• Draft interpretations on IAS 12, <i>Income Taxes</i> and IAS 21, <i>The Effects of Changes in Foreign Exchange Rates</i>	Click here
December 2015	<ul style="list-style-type: none">• Ind AS road map, IFC and ICDS• The SEBI matters• The accounting matters	Click here
January 2016	<ul style="list-style-type: none">• Overview of Ind AS 21, <i>The Effects of Changes in Foreign Exchange Rates</i>• Key regulatory updates.	Click here
February 2016	<ul style="list-style-type: none">• Report of the Companies Law Committee• Securities and Exchange Board of India (SEBI) issues the Frequently Asked Question (FAQs) on the SEBI Listing Regulations, 2015.	Click here
April 2016	<ul style="list-style-type: none">• Updates on Ind AS convergence• Updates on SEBI regulations• Updates on the Companies Act, 2013 (2013 Act)• Updates on accounting and financial reporting	Click here

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First Impressions: Revised IFRS 15, *Revenue from Contracts with Customers*

20 April 2016

The International Accounting Standards Board (IASB) issued amendments to IFRS 15 on 12 April 2016, to clarify some requirements and provide additional transitional relief to companies that are implementing IFRS 15.

The amendments do not change the underlying principles of IFRS 15 but clarify how these principles are to be applied. This was a result of the discussions of the Transition Resource Group (TRG) which was set up jointly by the IASB and the U.S. Financial Accounting Standards Board (FASB).

This issue of IFRS Notes provides an overview of the revised guidance.

The MCA notifies amendments to the consolidation exception for investment entities

19 April 2016

On 30 March 2016, MCA notified the Companies (Indian Accounting Standards) (Amendments) Rules, 2016 (Ind AS), which included amendments to the following standards:

- Ind AS 110, *Consolidated Financial Statements*
- Ind AS 112, *Disclosure of Interests in Other Entities*, and
- Ind AS 28, *Investments in Associates and Joint Ventures*.

These amendments provide additional guidance and clarity when applying the consolidation exception for investment entities. They are based on identical amendments that were made to the corresponding IFRS in December 2014, which are applicable for accounting periods beginning on or after 1 January 2016 internationally.

The Ind AS amendments would apply from accounting periods beginning from 1 April 2016 onwards and shall result in convergence with the currently applicable IFRS.

This issue of IFRS Note provides an overview of the recent amendments made by the MCA.



Topics discussed in AAU and First Notes

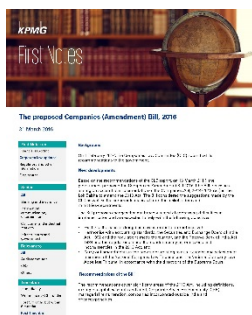
Accounting and Auditing Update (AAU)



Issue no. 8/2016 | Financial Services

- Ind AS impact on the financial services sector
- Impact of new adjustments on derivative valuation
- Conversation with Mr. Keki Mistry
- Private equity/venture capital funds
- The Reserve Bank of India's framework for revitalising distressed assets in the economy
- Non-performing assets recognition for banks in India
- Financial statement ratios: Are they always comparable?
- Deferred tax liability on special reserve under the Income Tax Act, 1961
- Impact of ICDS on the financial services sector
- Impact of GST on the financial services sector
- Regulatory updates.

First Notes



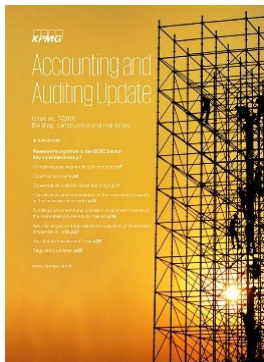
The proposed Companies (Amendment) Bill, 2016

31 March 2016

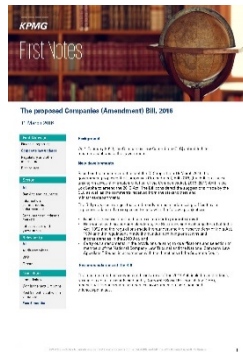
Based on the recommendations of the CLC report, on 16 March 2016, the government proposed the Companies (Amendment) Bill 2016, (the Bill) on issues arising on account of implementation of the Companies Act, 2013 (2013 Act) in the Lok Sabha to amend the 2013 Act. The Bill considered the suggestions made by the CLC as well as the comments received from the stakeholders and ministries/departments.

Others

Missed an issue of Accounting and Auditing Update



Missed an issue of First Notes



Coming up next

May 2016

New issue of:

- Accounting and Auditing Update
- First Notes
- IFRS Notes

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