Impact of Ind AS on Minimum Alternate Tax (MAT)

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1. Introduction

As the book profit based on Ind AS compliant financial statement is likely to be different from the book profit based on existing Indian GAAP, the CBDT constituted a committee in June, 2015 for suggesting the framework for computation of MAT liability under section 115JB for Ind AS compliant companies in the year of adoption and thereafter. On 22nd December, 2016, the Committee submitted its final report after taking into account all the comments/ suggestions received in respect of the first and second interim report submitted on 18th March, 2016 and 5th August, 2016 respectively.
This article discusses the amendments made to section 115JB to incorporate adjustments as mandated by Ind AS.

2. MAT on Ind AS compliant financial statement

(i) 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 Other Comprehensive Income (OCI). No further adjustments to the "net profits before other comprehensive income" of Ind AS compliant companies, other than those already specified under section 115JB of the Act shall be made.

(ii) The other comprehensive income includes certain items that will permanently be recorded in reserves and hence never be reclassified to the statement of profit and loss included in the computation of book profits. These items shall be included in book profits for MAT purposes at the point of time as specified below—

Sl. No.	Items	Treatment under Ind AS	The point of time it will be included in book profits
1	Changes in revaluation surplus of Property, Plant or Equipment (PPE) and Intangible assets (Ind AS 16 and Ind AS 38)	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 realisation / disposal/ retirement or otherwise transferred.

2	Gains and losses from investments in equity instruments designated at fair value through other comprehensive income (Ind AS 109)	Fair value adjustments are 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 realisation / disposal/ retirement or otherwise transferred.
3	Remeasurements of defined benefit plans (Ind AS 19)	Fair value adjustments are recognised through OCI.	To be included in book profits every year as the remeasurements gains and losses arise.
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

3. MAT on distribution of non-cash assets to shareholders

Appendix A of Ind AS 10 provides that any distribution of non-cash assets to shareholders (for example, in a demerger) shall be accounted for at fair value. The book profit shall be computed after considering the amounts or aggregate of amounts debited or credited to the statement of profit and loss account on such distribution.
However, in the case of a resulting company, where the property and the liabilities of the undertaking or undertakings being received by it are recorded at values different from values appearing in the books of account of the demerged company immediately before the demerger, any change in such value shall be ignored for the purpose of computing of book profit of the resulting company.

4. MAT on first time adoption

4.1. Impact

The adjustments arising on account of transition to Ind AS from existing Indian GAAP is required to be recorded directly in Other Equity at the date of transition to Ind AS. Several of these items would subsequently never be reclassified to the statement of profit and loss and therefore not included in the computation of book profits. Accordingly, the following treatment is proposed:

(I) Those adjustments recorded in other comprehensive income and which would subsequently be reclassified to the profit and loss, shall be included in book profits in the year in which these are reclassified to the profit and loss;

(II) Those adjustments recorded in other comprehensive income and which would never be subsequently reclassified to the profit and loss shall be included in book profits as specified in table above *(refer point 2 (ii) above).*

(III) All other adjustments recorded in Reserves and Surplus (excluding equity component of compound financial instruments, capital reserve and securities premium reserve) as referred to in Division II of Schedule III of Companies Act, 2013 and which would otherwise never subsequently be reclassified to the profit and loss account, shall 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 the following:

a. PPE and intangible assets at fair value as deemed cost

- An entity may use fair value in its opening Ind AS Balance Sheet as deemed cost for an item of PPE or an intangible asset *(Para D5 and D7 of Ind AS 101)*.
- The existing provisions for computation of book profits under section 115JB of the Act provide that in case of revaluation of assets, any impact on account of such revaluation shall be ignored for the purposes of computation of book profits. Further, the adjustments in retained earnings on first time adoption with respect to items of PPE and Intangible assets shall be ignored for the purposes of computation of book profits.
- Depreciation and gain/loss on realisation/ disposal/ retirement of such assets shall be computed ignoring the amount of aforesaid retained earnings adjustment.
- In such cases retained earnings adjustment shall be included in the book profit when such asset is retired, disposed, realised or otherwise transferred.

b. Investments in subsidiaries, joint ventures and associates at fair value as deemed cost

- An entity may use fair value in its opening Ind AS Balance Sheet as deemed cost for investment in a subsidiary, joint venture or associate in its separate financial statements *(Para D15 of Ind AS 101)*. In such cases retained earnings adjustment shall be included in the book profit when such investment is retired, disposed, realised or otherwise transferred.

c. Cumulative translation differences

- An entity may elect a choice whereby the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to Ind AS. Further, the gain or loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of transition to Ind AS and shall include only the translation differences after the date of transition.
- In such cases, to ensure that such Cumulative translation differences on the date of transition which have been transferred to retained earnings, are taken into account, these shall be included in the book profits at the time of disposal of foreign operations (para 48 of Ind AS 21).

d. Any other item such as remeasurements of defined benefit plans, decommissioning liability, asset retirement obligations, foreign exchange capitalisation/ decapitalization, borrowing costs adjustments, etc.

- Adjustments to be made in opening retained earnings/ other equity.

- To be included in book profits equally over a period of five years starting from the year of first time adoption of Ind AS.

4.2. Reference year for first time adoption adjustments

In the first year of adoption of Ind AS, the companies would prepare Ind AS financial statement 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 previous Indian GAAP 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 shall be considered.

For example, companies which adopt Ind AS with effect from 1 April 2016 are required to 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, shall be considered for computation of MAT liability for previous year 2016-17 (Assessment year 2017¬18) and thereafter. Further, in this case, the period of five years proposed above shall be previous years 2016-17, 2017-18, 2018-19, 2019-20 and 2020-21.

5. Our Insights:

For ensuring horizontal equity across the companies irrespective of the fact that whether they follow Ind AS or the existing Indian GAAP, the amendments to section 115JB as discussed above are being made. Though there is a positive impact of MAT credit due to extension of MAT set off availability from 10 years to 15 years, the companies need to make careful choices of first time adoption Ind AS options to minimize a negative MAT impact.

As a bold step, the Government could have considered abolishing MAT in view of the reduced differences between book and taxable profit i.e. phasing out of tax holidays/weighted deductions and expected reduced corporate tax rate. This suggestion can be further justified in order to maintain uniformity in taxation of non-Ind AS and Ind-AS companies.

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