MAT impact under Ind-AS Regime

16 November 2019

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Roadmap to Ind AS

Roadmap

June 2015

- CBDT has formed Ind-AS Committee

March 2016

- First Interim Report on MAT Framework

July 2016

- Second Interim Report on MAT Framework

Dec 2016

- Final Report submitted by Committee after considering the recommendation from MCA and Public

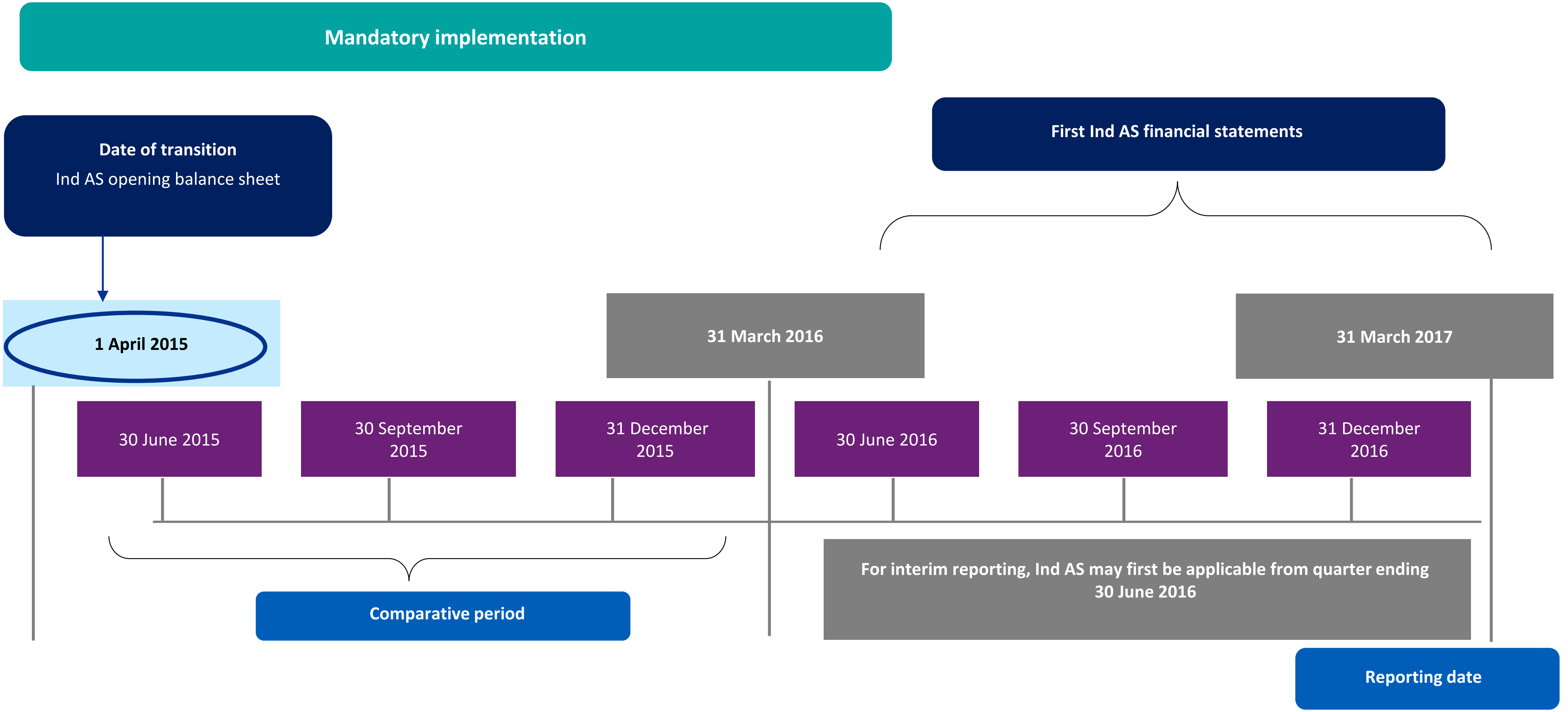
Finance Act 2017

- Rationalization of Provision of MAT in line with Ind AS
- Clarity on First time adoption of Ind AS

July 2017

- CBDT Clarification / FAQs

First time implementation: When and how to start



Implications of Ind AS on MAT

Comparative Statement of P&L under IGAAP and Ind-AS Regime

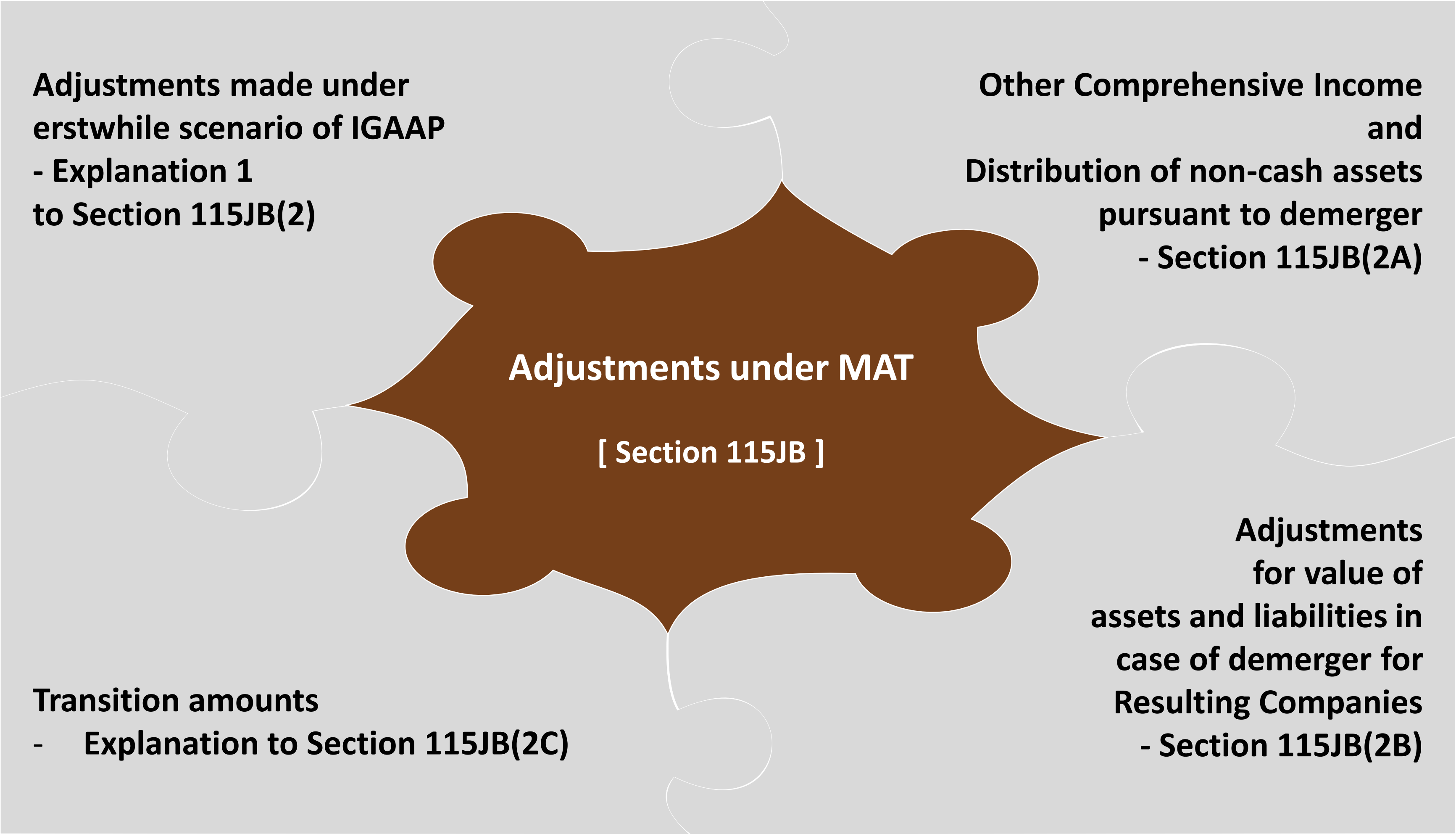
Under IGAAP Regime

Profit & Loss Account	Amount
Revenue from Operations	XXXX
Expenses	(XXXX)
Profit Before Tax	**XXXX**
Less: Current Tax Deferred Tax Starting point for MAT	(XXXX) (XXXX)
Profit After Tax	XXXX

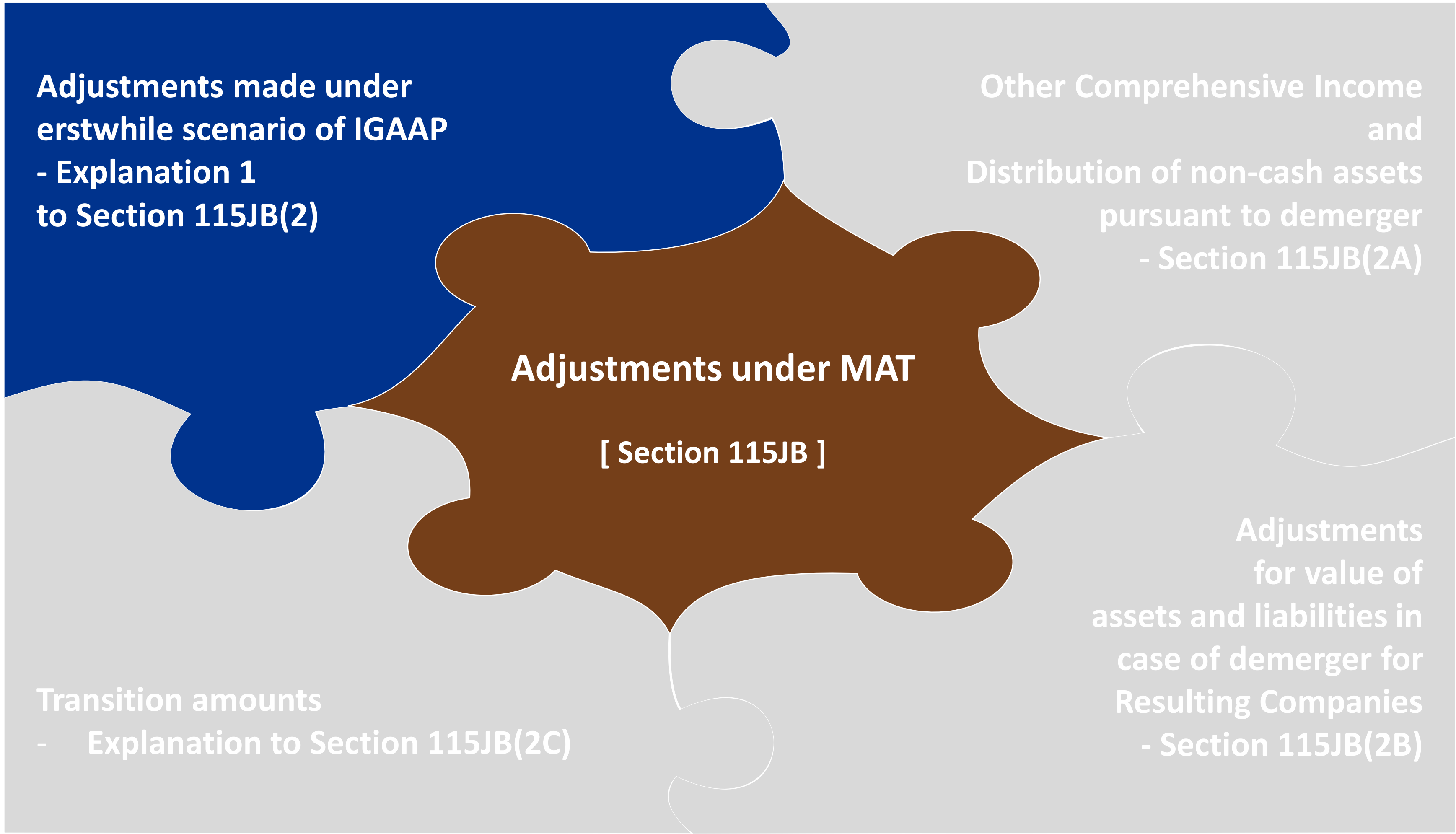
Under Ind-AS Regime

Statement of Profit & Loss	Amount
Revenue from Operations	XXXX
Expenses	(XXXX)
Profit Before Tax	**XXXX**
Less: Current Tax Deferred Tax Starting point for MAT [Q2 of FAQ]	(XXXX) (XXXX)
Profit after Tax	XXXX
Other Comprehensive Income a) Items that will not be reclassified to P&L b) Items that will be reclassified to P&L	 XXXX / (XXXX) XXXX / (XXXX)
Total Comprehensive Income	XXXX

Adjustments under MAT



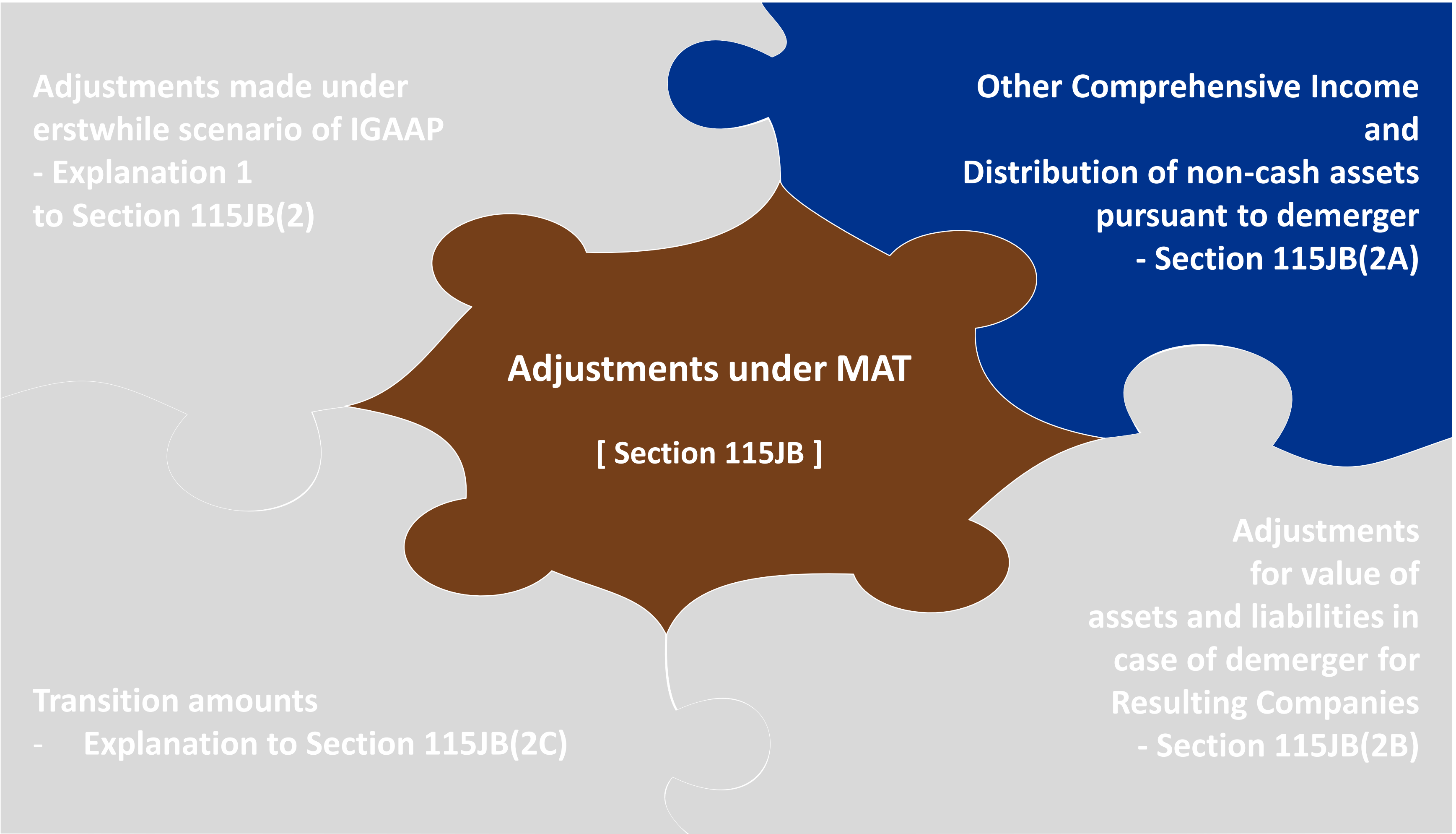
Adjustments under MAT



Adjustments under IGAAP – Explanation 1 to Section 115JB(2)

Items to be added back to PAT	Items to be deducted from PAT
• Income Tax (Paid or payable) and provision • Amount transferred to any reserve • Provision for unascertained liabilities • Dividend Paid or Proposed • Expenses relating to income covered u/s 10 [other than sec.10(38)], 11 & 12 • Depreciation • Deferred Tax (If debited) • Provision for diminution in the value of any asset • Expenditure relatable to income, being share in income of BOI or AOP on which no tax has been paid • Expenditure relatable to income by way of royalty in respect ot patent chargeable to u/s 115BBF • Expenditure relating to prescribed incomes • Notional loss on transfer of capital assets to business trust	• Amount withdrawn from Reserve • Income covered u/s 10 [other than sec.10(38)], 11 & 12 • Amount of depreciation excluding depreciation on revaluation of assets • Amount withdrawn from Revaluation Reserve • Share in income of AOP/BOI on which no tax paid • Prescribed incomes arising to an assesse being a foreign company • Royalty income in respect of patent chargeable to tax u/s 115BBF • Notional gain on transfer of capital assets to a business trust • Amount withdrawn from Reserve • Income covered u/s 10 [other than sec.10(38)], 11 & 12 • Amount of depreciation excluding depreciation on revaluation of assets • Amount withdrawn from Revaluation Reserve • Brought forward Depreciation (As per books of account) • Brought forward Loss excluding depreciation (As per books of account) • Deferred Tax (If credited) • Profit of sick industry company

Adjustments under MAT



Other Comprehensive Income – Section 115JB(2A)

Profit computed as per Explanation 1 to section 115JB(2)

−	+	+	−
Amounts debited to OCI that will <u>NOT</u> be re-classified to PnL (subject to exceptions)	Amounts credited to OCI that will <u>NOT</u> be re-classified to PnL	Amounts debited to Pnl on account of distribution of non-cash assets in demerger	Amounts credited to Pnl on account of distribution of non-cash assets in demerger

ADJUSTMENT REQUIRED SINCE AMOUNTS WILL NOT FORM PART OF PNL IN ANY FUTURE YEARS

ADJUSTMENT REQUIRED TO KEEP DEMERGER MAT NEUTRAL

OCI adjustments under section 115JB(2A) are required to be evaluated and made on a year-on-year basis

Other Comprehensive Income – Section 115JB(2A)

Exception to OCI effect for "items that will NOT be re-classified to PnL"

Revaluation surplus in accordance with

Ind AS 16 – Property, Plant and Equipments

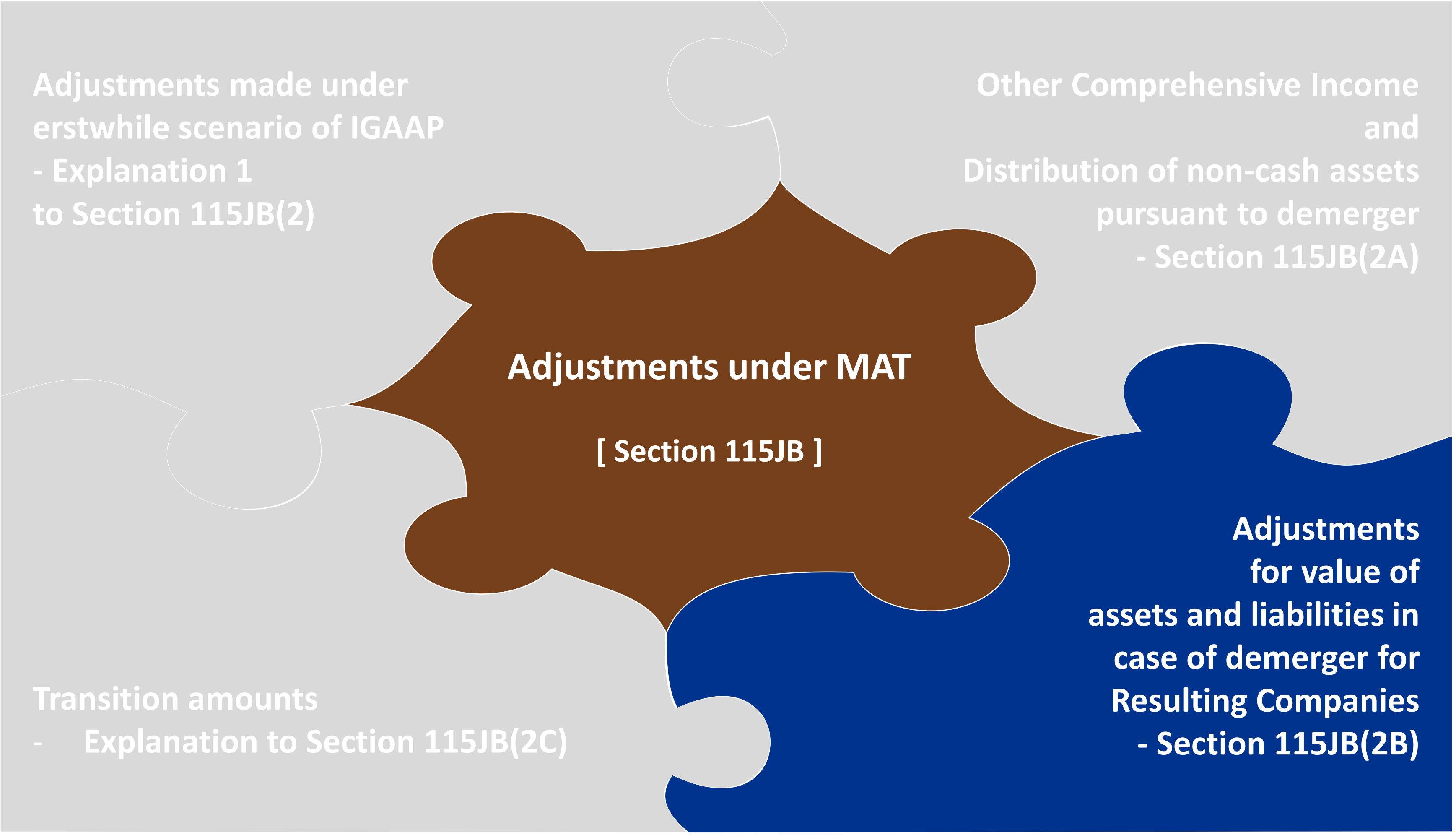
Ind AS 38 - Intangible Assets

Gains / losses from FVOCI in respect of investments in equity instruments in accordance with Ind AS 109 – Financial Instruments

Not to be adjusted since the item remains as part of Balance Sheet

Adjustment to MAT in the year of retirement / disposal / realisation / transferred

Adjustments under MAT



MAT computation in RC on Demerger – Section 115JB(2B)

Scenario 1 - Fair Value > Book Value

Fair Value = INR 1000 crores

Book Value = INR 250 crores

Difference (gains) = 750 crores

Depreciation (assumed @ 10 per cent)

IGAAP of RC (asset at BV)

PAT	500
Add: Depreciation	25
Less: Depreciation (ex. reval)	(25)
Book Profit	500

Ind AS of RC (asset at FV)

PAT	500
Add: Depreciation	100
Less: Depreciation (ex. reval)	(25)
Less: Adj Sec 115JB(2B)	**(75)**
Book Profit	500

Tax Neutral

Scenario 2 - Fair Value < Book Value

Fair Value = INR 250 crores

Book Value = INR 1000 crores

Difference (loss) = 750 crores

Depreciation (assumed @ 10 per cent)

IGAAP of RC (asset at BV)

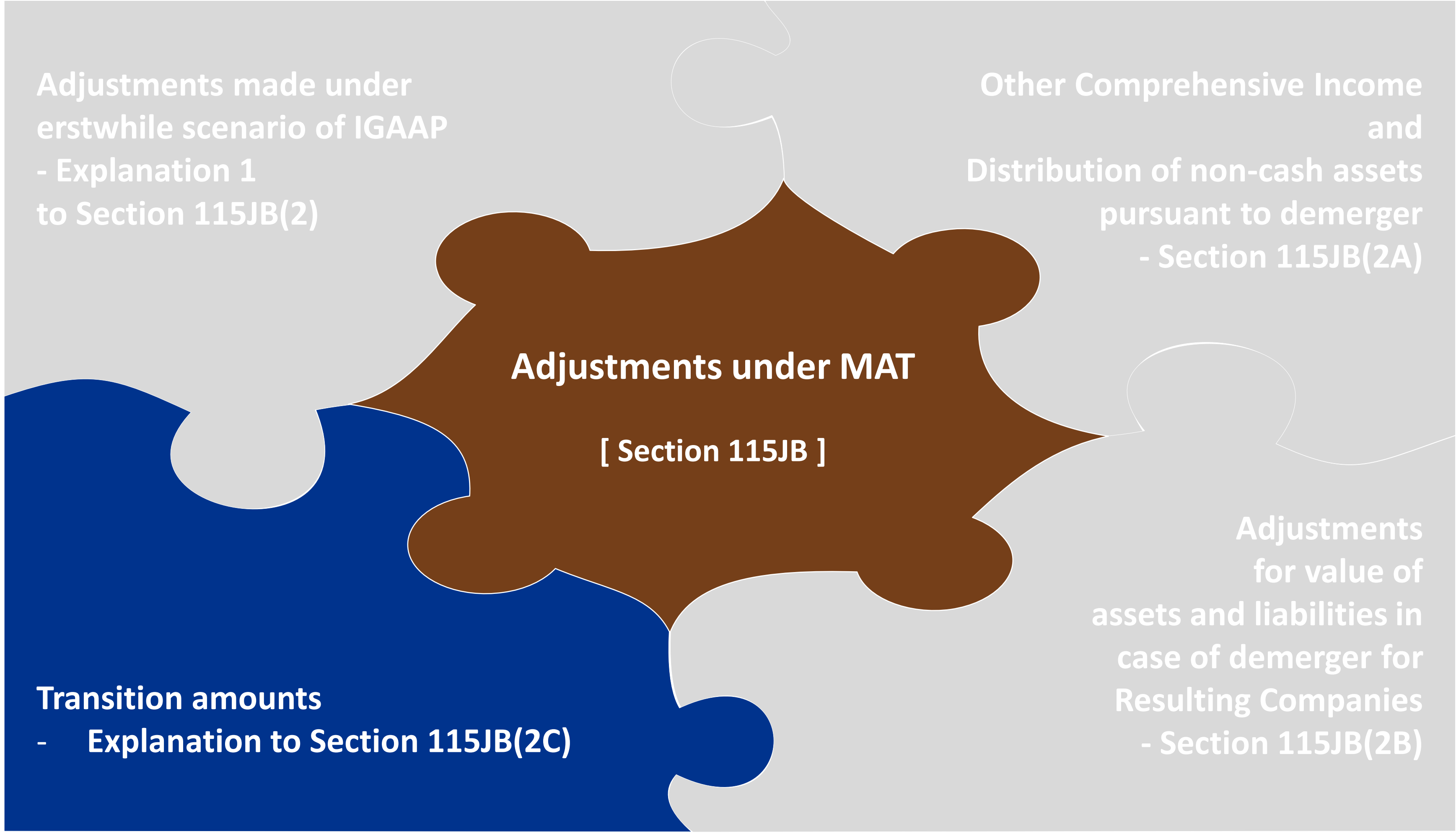
PAT	500
Add: Depreciation	100
Less: Depreciation (ex. reval)	(100)
Book Profit	500

Ind AS of RC (asset at FV)

PAT	500
Add: Depreciation	25
Less: Depreciation (ex. reval)	(100)
Add: Adj Sec 115JB(2B)	**75**
Book Profit	500

Tax Neutral

Adjustments under MAT



Transition Amount – Section 115JB(2C)

Adjustment to book profit in the year of convergence

Adjustment in the year of convergence i.e. first day of reporting period

Transition amounts <u>on convergence</u>
Amounts adjusted to other equity (excluding capital reserve and securities premium reserve) and excluding

Adjustment to the extent of one-fifth for the year of convergence and subsequent 4 years

- Amounts adjusted in OCI which will be re-classified to PnL
  - Adjustment in the year of re-classification
- Revaluation surplus as per Ind AS 16 and Ind AS 38
- Gains / losses from FVOCI in respect of investments in equity instruments in accordance with Ind AS 109
- Deemed Cost treatment of PPE and Intangible Assets
- Deemed Cost treatment of investment in JV / subsidiary / associates
  - Adjustment to MAT in the year of retirement / disposal / realisation / transferred
- Cumulative translation differences of a foreign operation
  - Adjustment in the year of disposal / transferred

Adjustments under MAT

Adjustments under MAT

[Section 115JB]

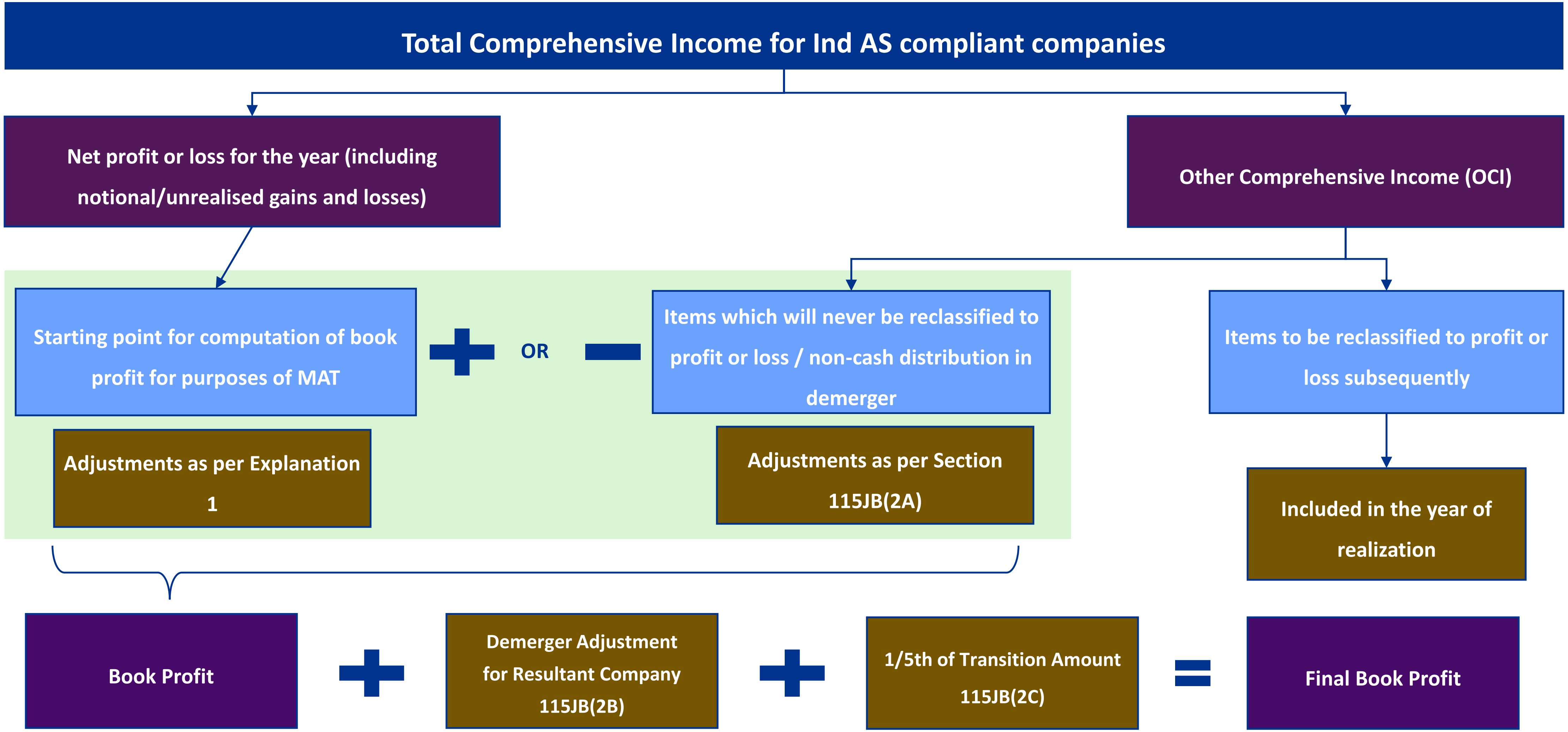
Adjustments made under erstwhile scenario of IGAAP
- Explanation 1 to Section 115JB(2)

Other Comprehensive Income and Distribution of non-cash assets pursuant to demerger
- Section 115JB(2A)

Adjustments for value of assets and liabilities in case of demerger for Resulting Companies
- Section 115JB(2B)

Transition amounts
- **Explanation to Section 115JB(2C)**

Overview of impact of Ind AS on MAT Computation



Illustrations

Taxability of notional income / expenses routed through PnL

- As per Ind AS, several notional income and expenses are routed through the Statement of Profit & Loss. Whether notional income / expenses which are credited / debited to Statement of Profit & Loss can be excluded for the purpose of MAT computation?

- **Apollo Tyres v. CIT [2002] 255 ITR 273 (SC)**
  - *the Assessing Officer while computing the income under section 115J has only the power of examining whether the books of account are certified by the authorities under the Companies Act as having been properly maintained in accordance with the Companies Act.*
  - *The Assessing Officer thereafter has limited power of making additions and reductions as provided for in the Explanation to the said section. To put it differently, the Assessing Officer does not have the jurisdiction to go behind the net profit shown in the profit and loss account except to the extent provided in the Explanation to section 115J.*

- **City Gold Media Ltd.**
  - *Theory of real income do not apply in the context of the provisions of section 115JB*

Investment in Subsidiary / Associate / JV

Ind AS gives following options to record investment in Subsidiary / Associate / JV on transition date:

Option 1: Deemed Cost approach
Under this approach, the company adopts Fair Value on transition date and retains such fair value as 'deemed cost' of the asset without any further year-on-year adjustment on account of fair valuation

Option 2: Fair Value through OCI
Under this approach, the company adopts Fair Value on transition date and thereafter, undertake fair valuation adjustment on year-on-year basis through OCI

Option 3: Fair Value through PnL
Under this approach, the company adopts Fair Value on transition date and thereafter, undertake fair valuation adjustment on year-on-year basis through PnL

Option 4: Retain the Book Value as per IGAAP

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Under this approach, the company adopts Fair Value on transition date and thereafter, undertake fair valuation adjustment on year-on-year basis through OCI

Option 3: Fair Value through PnL

Under this approach, the company adopts Fair Value on transition date and thereafter, undertake fair valuation adjustment on year-on-year basis through PnL

Option 4: Retain the Book Value as per IGAAP

Investment in Subsidiary / Associate / JV – Deemed Cost

Date / Period	Cost of Investment	Fair Value on Date / Period	Treatment given under Ind AS	MAT Effect
1 April 2014	INR 100 crores	Purchase at INR 100 crores	No impact [IGAAP period]	Not applicable
1 April 2015	INR 100 crores	INR 120 crores	Fair valuation gains of INR 20 crores credited to Retained Earnings	Not applicable
31 March 2016	INR 100 crores	INR 130 crores	Investment carried at Fair Value as on 1 April 2015	Not applicable
31 March 2017	INR 100 crores	INR 140 crores	Investment carried at Fair Value as on 1 April 2015	• Excluded from transition amount - Explanation to Section 115JB(2C)
31 March 2018	INR 100 crores	Sold at INR 150 crores	Realised gains of INR 30 crores credited to PnL	• Gains of INR 20 crores (fair value adjustment) taxable in AY 2018-19 - Proviso 1 to Section 115JB(2C) • Gains of INR 30 crores as per PnL taxable as usual credit to PnL.

Investment in Subsidiary / Associate / JV

Ind AS gives following options to record investment in Subsidiary / Associate / JV on transition date:

Option 1: Deemed Cost approach
Under this approach, the company adopts Fair Value on transition date and retains such fair value as 'deemed cost' of the asset without any further year-on-year adjustment on account of fair valuation

Option 2: Fair Value through OCI
Under this approach, the company adopts Fair Value on transition date and thereafter, undertake fair valuation adjustment on year-on-year basis through OCI

Option 3: Fair Value through PnL
Under this approach, the company adopts Fair Value on transition date and thereafter, undertake fair valuation adjustment on year-on-year basis through PnL

Option 4: Retain the Book Value as per IGAAP

Investment in Subsidiary / Associate / JV – Fair Value through OCI

Date / Period	Cost of Investment	Fair Value on Date / Period	Treatment given under Ind AS	MAT Effect
1 April 2014	INR 100 crores	Purchase at INR 100 crores	No impact [IGAAP period]	Not applicable
1 April 2015	INR 100 crores	INR 120 crores	Fair valuation gains of INR 20 crores credited to OCI Reserve	Not applicable
31 March 2016	INR 100 crores	INR 130 crores	Fair valuation gains of INR 10 crores credited to OCI Reserve	Not applicable
31 March 2017	INR 100 crores	INR 140 crores	Fair valuation gains of INR 10 crores credited to OCI	• Excluded from transition amount - Explanation to Section 115JB(2C) • Excluded from OCI adjustments - Proviso 1 to Section 115JB(2A)
31 March 2018	INR 100 crores	Sold at INR 150 crores	Realised gains of INR 10 crores credited to PnL	• Gains of INR 10 crores as per PnL taxable as usual credit to PnL. • Gains of INR 30 crores (fair value adjustment) and INR 10 crores (OCI adjustment) taxable in AY 2018-19 - Proviso 1 to Section 115JB(2C)

Investment in Subsidiary / Associate / JV

Ind AS gives following options to record investment in Subsidiary / Associate / JV on transition date:

Option 1: Deemed Cost approach
Under this approach, the company adopts Fair Value on transition date and retains such fair value as 'deemed cost' of the asset without any further year-on-year adjustment on account of fair valuation

Option 2: Fair Value through OCI
Under this approach, the company adopts Fair Value on transition date and thereafter, undertake fair valuation adjustment on year-on-year basis through OCI

Option 3: Fair Value through PnL
Under this approach, the company adopts Fair Value on transition date and thereafter, undertake fair valuation adjustment on year-on-year basis through PnL

Option 4: Retain the Book Value as per IGAAP

Investment in Subsidiary / Associate / JV – Fair Value through PnL

Date / Period	Cost of Investment	Fair Value on Date / Period	Treatment given under Ind AS	MAT Effect
1 April 2014	INR 100 crores	Purchase at INR 100 crores	No impact [IGAAP period]	Not applicable
1 April 2015	INR 100 crores	INR 120 crores	Fair valuation gains of INR 20 crores credited to Retained Earnings	Not applicable
31 March 2016	INR 100 crores	INR 130 crores	Fair valuation gains of INR 10 crores credited to PnL	Not applicable
31 March 2017	INR 100 crores	INR 140 crores	Fair valuation gains of INR 10 crores credited to PnL	• Gains of INR 6 crores taxable (one-fifth of INR 30 crores) - Section 115JB(2C) • Gains of INR 10 crores as per PnL taxable as usual credit to PnL.
31 March 2018	INR 100 crores	Sold at INR 150 crores	Realised gains of INR 10 crores credited to PnL	• Gains of INR 6 crores taxable (one-fifth of INR 30 crores) - Section 115JB(2C) • Gains of INR 10 crores as per PnL taxable as usual credit to PnL.

Investment in Subsidiary / Associate / JV – FVTPL – Loss scenario

Date / Period	Cost of Investment	Fair Value on Date / Period	Treatment given under Ind AS	MAT Effect
1 April 2014	INR 100 crores	Purchase at INR 100 crores	No impact [IGAAP period]	Not applicable
1 April 2015	INR 100 crores	INR 80 crores	Fair valuation loss of INR 20 crores debited to Retained Earnings	Not applicable
31 March 2016	INR 100 crores	INR 70 crores	Fair valuation loss of INR 10 crores debited to PnL	Not applicable
31 March 2017	INR 100 crores	INR 60 crores	Fair valuation loss of INR 10 crores debited to PnL	• Deduction of INR 6 crores available (one-fifth of INR 30 crores) - Section 115JB(2C) • Loss of INR 10 crores as per PnL ?? - Explanation 1 sub-clause i ??
31 March 2018	INR 100 crores	Sold at INR 50 crores	Realised loss of INR 10 crores debited to PnL	• Deduction of INR 6 crores available (one-fifth of INR 30 crores) - Section 115JB(2C) • Loss of INR 10 crores as per PnL allowed as deduction

Investment in Subsidiary / Associate / JV

Ind AS gives following options to record investment in Subsidiary / Associate / JV on transition date:

Option 1: Deemed Cost approach
Under this approach, the company adopts Fair Value on transition date and retains such fair value as 'deemed cost' of the asset without any further year-on-year adjustment on account of fair valuation

Option 2: Fair Value through OCI
Under this approach, the company adopts Fair Value on transition date and thereafter, undertake fair valuation adjustment on year-on-year basis through OCI

Option 3: Fair Value through PnL
Under this approach, the company adopts Fair Value on transition date and thereafter, undertake fair valuation adjustment on year-on-year basis through PnL

Option 4: Retain the Book Value as per IGAAP

Brought forward loss - FAQ NO. 12 of CBDT Circular No. 24/2017 [1/3]

Particulars	Amount (in crores)
Profit / (Loss) as per iGAAP (March 2016)	**(100)**
Add: DTA credited to Retained Earnings [on transition to Ind AS]	150
Retained Earnings as per Ind AS (March 2016)	**50**
Add: Profit for YE March 2017	30
Retained Earnings as per Ind AS (31 March 2017)	**80**
Add: Profit for YE March 2018	20

- **For the year of transition**
  Clarifies that the value of brought forward losses shall be as per the position of the last iGAAP financials for the year of transition

  - B/f loss for AY 2017-18 – INR 100 (loss)
  - Impact of DTA credit – Section 115JB(2C) is not applicable as per FAQ NO. 5

- **For subsequent years**
  Clarifies that the value of brought forward losses shall be as per the position as per the books of accounts drawn as per Ind AS

  B/f loss for AY 2018-19 – NIL

Brought forward loss - FAQ NO. 12 of CBDT Circular No. 24/2017 [2/3]

Particulars	Amount (in crores)
Profit / (Loss) as per iGAAP (March 2016)	**(100)**
Add: Fair valuation of land [on transition to Ind AS]	150
Retained Earnings as per Ind AS (March 2016)	**50**
Add: Profit for YE March 2017	30
Retained Earnings as per Ind AS (31 March 2017)	**80**
Add: Profit for YE March 2018	20

- **For the year of transition**
  Position of the last iGAAP financials for the year of transition

  - B/f loss for AY 2017-18 – INR 100 (loss)
  - Impact of Fair valuation of land – Taxable in the year of sale - first Proviso to Section 115JB(2C)

- **For subsequent years**
  Position as per the books of accounts drawn as per Ind AS

  B/f loss for AY 2018-19 – NIL

- Assume that land has been sold in YE March 2018, INR 150 crores shall be taxable in AY 2018-19 as per first Proviso to Section 115JB(2C)
- Whether losses lost on account of fair valuation will be available for set-off?
  CIT v. Sumi Motherson Innovative Engg. Ltd. [2011] 336 ITR 321 (Delhi HC)

Brought forward loss - FAQ NO. 12 of CBDT Circular No. 24/2017 [3/3]

Particulars	Amount (in crores)
Profit / (Loss) as per iGAAP (March 2016)	**(100)**
Add: DTA credited to Retained Earnings [on transition to Ind AS]	150
Retained Earnings as per Ind AS (March 2016)	**50**
Add: Profit for YE March 2017	30
Retained Earnings as per Ind AS (31 March 2017)	**80**
Add: Profit for YE March 2018	20
Retained Earnings as per Ind AS (31 March 2018)	**100**
Less: Write off of revenue offered to tax in earlier years (on first time adoption of Ind AS 115)	(120)
Retained Earnings as per Ind AS financials for March 2019 (31 March 2018 - restated)	(20)

- **For the year of transition**
  Position of the last iGAAP financials for the year of transition

  - B/f loss for AY 2017-18 – INR 100 (loss)
  - Impact of DTA credit – Section 115JB(2C) is not applicable as per FAQ NO. 5

- **For subsequent years**
  Position as per the books of accounts drawn as per Ind AS

  B/f loss for AY 2018-19 – NIL

Whether the Company has brought forward loss for next year i.e. AY 2019-20 for adjustment against profit for YE March 2019?

Thank you

CA Hemantkumar Salian

Annexures

Illustrative list of Other Comprehensive Income

Items that will be classified to PnL in subsequent years	Items that will **NOT** be classified to PnL in subsequent years
• Gains realized on the disposal of available-for-sale financial assets (Ind AS 39) • Disposal of a foreign operation (Ind AS 21) • Hedged forecast transactions affecting profit or loss	• Changes in Revaluation surplus (Ind AS 16 or 38) • Actuarial gains and losses on defined benefit plans • Fair value of Equity Instruments • Debt investments measured at fair value through other comprehensive income • Share of Other Comprehensive Income in Associates and Joint Ventures, to the extent not to be classified into profit or loss