



CBDT amends the report on computation of book profits for Ind AS compliant companies

Background

The Finance Act, 2017 notified on 31 March 2017, has introduced a separate formula for computation of book profit for the entities that prepare financial statements under Indian Accounting Standards (Ind AS). The revised Section 115JB of the Income-tax Act, 1961 (the Act) prescribes that:

- No further adjustments should be made to the net profits of Ind AS compliant entities, other than those specified in Section 115JB of the 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 Minimum Alternate Tax (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 entity as well as the resulting entity
- 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:** As per the Finance Act, 2017, MAT would be calculated using the profits as per the statement of profit and loss before OCI as per Ind AS the starting point and only those adjustments, as are specified in Section 115JB of the Act or for gains and losses recognised on accounting for demergers would be made.
- **Adjustments relating to first-time adoption of Ind AS:** On first-time adoption of Ind AS, a series of adjustments relating to transition from Accounting Standards (AS) to Ind AS would be recorded in retained earnings (other equity) in the opening Ind AS balance sheet. For the adjustments recorded in OCI and other equity based on the amounts reflected on the convergence date i.e. the beginning of the first Ind AS reporting period, following adjustments to book profits are to be made:

Sr. no.	Adjustments	Requirements of the Finance Act, 2017
1.	The adjustments recorded in OCI/ reserves that would be subsequently reclassified to profit or loss	Adjust book profits in the year in which those adjustments are reclassified to profit or loss.

2.	The adjustments recorded in OCI/ reserves that would never be reclassified to profit or loss	<p>a) Deemed cost adjustment to PPE and intangible assets</p> <p>b) Gains and losses from investments in equity instruments designated at fair value through OCI</p> <p>c) Cumulative translation differences of a foreign operation in accordance with para D13 of Ind AS 101, <i>First-time Adoption of Indian Accounting Standards</i></p> <p>d) Investments in subsidiaries, joint ventures and associates</p> <p>The above adjustments would be included in book profits at the time of realisation/disposal/retirement/otherwise transferred.</p>
3.	All other adjustments recorded in 'other equity' i.e. transition amount ¹ . Certain exclusions have been specified.	Adjust book profits equally over a period of five years starting from the first-time adoption of Ind AS.

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

These adjustments have been introduced as Sections 115JB(2A), 115JB(2B) and 115JB(2C) of the Act.

Reporting of MAT

Further, Section 115JB(4) of the Act requires that every company which is liable to pay MAT should furnish a report from an accountant² certifying that the book profit has been computed in accordance with the provisions of Section 115JB along with the return of income filed under Section 139(1) of the Act or along with the return of income furnished in response to a notice under Section 142(1)(i) of the Act.

Such a report needs to be furnished in Form No. 29B - 'Report under Section 115JB of the Act for computing the book profits of the company'³.

New development

To enable the Ind AS compliant companies to report and accountants to certify the Form No. 29B appropriately, on 18 August 2017, the Central Board of Direct Taxes (CBDT) has issued revised Form No. 29B and aligned it with the requirements of Ind AS.

The revised Form No. 29B incorporates two new parts in it. They are as follows:

- **Part B - 'Details of the amount required to be increased or decreased in accordance with sub-section (2A) of Section 115JB'**: Part B of the form is applicable only where the financial statements of the company are drawn up in compliance with the Ind AS specified in Annexure to the Companies (Indian Accounting Standards) Rules, 2015 (Ind AS Rules) for the Previous Year (PY) or any part thereof.
- **Part C - 'Details of the amount required to be increased or decreased in accordance with sub-section (2C) of Section 115JB'**: Part C of the form is also applicable only where the financial statements of the company are drawn up in compliance with the Ind AS specified in Annexure to the Ind AS Rules for the PY or any part thereof. However, this part will be filled up for the year of convergence and each of the following four PYs only.

The adjustments to be reported under Part B and Part C of the form is in accordance with the adjustments comprised in Section 115JB(2A) and 115JB(2C) of the Act.

The revised form is applicable from the date of publication of the notification in the official gazette i.e. 18 August 2017.

¹Transition amount means the amount or the aggregate of the amount adjusted in the other equity (excluding capital reserve and securities premium reserve) on the date of adoption of Ind AS but does not include the specified items. There are additional Frequently Asked Questions (FAQs) issued by the CBDT for clarifying certain inclusions/exclusions. (Circular no. 24/2017 dated 25 July 2017)

²Accountant means a Chartered Accountant (CA) as defined in the Chartered Accountants Act, 1949 and who holds a valid certificate of practice and is not a person referred in clause (a) or clause (b) of explanation below Section 288(2) of the Act.

³Rule 40B of the Income-Tax Rules, 1962.

Our comments

The due date of filing of return for an assessee being a company (if no transfer pricing assessment is involved) is 30 September. Since most of the companies would be in the process of finalising their return of income, notification of revised Form No. 29B would enable an accountant (being a CA) to appropriately verify and report on the adjustments made to the book profits in the return of income to be filed by the company in a timely manner.

Ahmedabad

Commerce House V, 9th Floor,
902 & 903, Near Vodafone House,
Corporate Road,
Pralhad Nagar,
Ahmedabad – 380 051
Tel: +91 79 4040 2200
Fax: +91 79 4040 2244

Bengaluru

Maruthi Info-Tech Centre
11-12/1, Inner Ring Road
Koramangala,
Bengaluru – 560 071
Tel: +91 80 3980 6000
Fax: +91 80 3980 6999

Chandigarh

SCO 22-23 (1st Floor)
Sector 8C, Madhya Marg
Chandigarh – 160 009
Tel: +91 172 393 5777/781
Fax: +91 172 393 5780

Chennai

No.10, Mahatma Gandhi Road
Nungambakkam
Chennai – 600 034
Tel: +91 44 3914 5000
Fax: +91 44 3914 5999

Gurugram

Building No.10, 8th Floor
DLF Cyber City, Phase II
Gurugram, Haryana – 122 002
Tel: +91 124 307 4000
Fax: +91 124 254 9101

Hyderabad

Reliance Humsafar, 4th Floor
8-2-618/2, Road No.11, Banjara Hills
Hyderabad – 500 034
Tel: +91 40 3046 5000
Fax: +91 40 3046 5299

Jaipur

Regus Radiant Centres Pvt Ltd.,
Level 6, Jaipur Centre Mall,
B2 By pass Tonk Road
Jaipur, Rajasthan, 302018.
Tel: +91 141 - 7103224

Kochi

Syama Business Center
3rd Floor, NH By Pass Road,
Vytilla, Kochi – 682019
Tel: +91 484 302 7000
Fax: +91 484 302 7001

Kolkata

Unit No. 603 – 604,
6th Floor, Tower – 1,
Godrej Waterside,
Sector – V, Salt Lake,
Kolkata – 700 091
Tel: +91 33 4403 4000
Fax: +91 33 4403 4199

Mumbai

Lodha Excelus, Apollo Mills
N. M. Joshi Marg
Mahalaxmi, Mumbai – 400 011
Tel: +91 22 3989 6000
Fax: +91 22 3983 6000

Noida

Unit No. 501, 5th Floor,
Advant Navis Business Park
Tower-B, Plot# 7, Sector 142,
Expressway Noida, Gautam Budh Nagar,
Noida – 201305
Tel: +91 0120 386 8000
Fax: +91 0120 386 8999

Pune

9th floor, Business Plaza,
Westin Hotel Campus, 36/3-B,
Koregaon Park Annex, Mundhwa Road,
Ghorpadi, Pune – 411001
Tel: +91 20 6747 7000
Fax: +91 20 6747 7100

Vadodara

iPlex India Private Limited,
1st floor office space, No. 1004,
Vadodara Hyper, Dr. V S Marg
Alkapuri, Vadodara – 390 007
Tel: +91 0265 235 1085/232 2607/232 2672