Relevant part of MAT-Ind AS Committee Report dated 17th June, 2017 containing recommendations regarding amendment to the provisions of the section 115JB of the Income-tax Act, 1961 in respect of Ind AS Compliant Companies.

Under Ind AS, there are certain transactions with shareholders/related parties which are at lower or higher than fair value, needs to be accounted for at fair value with corresponding adjustments to equity. Subsequently, when these assets are either depreciated or disposed of, the value adopted at the time of receipt of such assets (i.e. fair value) would be considered for depreciation or profit/loss on disposal, as the case may be. Similarly, when loans/advances are received or given at a concessional rate of interest, a similar adjustment to equity will take place and there would be corresponding impact on the P&L during the term of such loans/ advances. While debit/ credit to the P&L would affect the book profits, the corresponding adjustment in the equity is not captured in computation of book profits. Therefore, certain amendments are required in section 115JB for these items.

It may be noted that adjustments for similar items at the time of transition to Ind AS has already been incorporated in the amendment made to section 115JB vide Finance Act 2017. Therefore, to have parity between the transition adjustment and ongoing adjustments on account of items adjusted to other equity, the committee recommends that the amendment is required to be made w.e.f. 1st April 2017 i.e. the date of effectivity of the amendment made by the Finance Act 2017.

The draft amendment to this effect to section 115JB (2A) recommended by the committee is as under.

Amendment to Section 115JB (2A)–

(2A) For a company whose financial statements are drawn up in compliance to the Indian Accounting Standards specified in Annexure to the Companies (Indian Accounting Standards) Rules, 2015, the book profit as computed in accordance with Explanation 1 to subsection

(2) shall be further—

(a) increased by all amounts credited to other comprehensive income in the statement of profit and loss under the head "Items that will not be reclassified to profit or loss";

(b) decreased by all amounts debited to other comprehensive income in the statement of profit and loss under the head "Items that will not be reclassified to profit or loss";

(c) increased by amounts or aggregate of the amounts debited to the statement of profit and loss on distribution of noncash assets to shareholders in a demerger in accordance with Appendix A of the Indian Accounting Standards 10;

(d) decreased by all amounts or aggregate of the amounts credited to the statement of profit and loss on distribution of noncash assets to shareholders in a demerger in accordance with Appendix A of the Indian Accounting Standards 10:

(e) increased by all amounts or aggregate of the amounts credited during the previous year to any item of other equity, or decreased by all amounts or aggregate of the amounts debited during the previous year to any item of other equity, as the case may be, but not including -

i. ***Profit/(loss) for the period as per statement of profit and loss transferred to other equity***
ii. ***items relating to Other comprehensive income;***
iii. ***share application money pending allotment;***
iv. ***money received against share warrants;***
v. ***capital reserve in respect of Business combinations of entities under common control as per Appendix C of Ind AS 103; and***
vi. ***securities premium reserve collected in cash and cash equivalent.***

Provided that nothing contained in clause (a) or clause (b) shall apply to the amount credited or debited to other comprehensive income under the head "Items that will not be reclassified to profit or loss" in respect of—

(i) revaluation surplus for assets in accordance with the Indian Accounting Standards 16 and Indian Accounting Standards 38; or

(ii) gains or losses from investments in equity instruments designated at fair value through other comprehensive income in accordance with the Indian Accounting Standards 109:

Provided further that the book profit of the previous year in which the asset or investment referred to in the first proviso is retired, disposed, realised or otherwise transferred shall be increased or decreased, as the case may be, by the amount or the aggregate of the amounts referred to in the first proviso for the previous year or any of the preceding previous years and relatable to such asset or investment.