



INCOME COMPUTATION AND DISCLOSURE STANDARDS AND REPORTING IN A NEW REGIME

CMA MRITYUNJAY ACHARJEE

Overview and key aspects

The Central Board of Direct Taxes (CBDT) issued 10 Income Computation and Disclosure Standards on 31st March 2015, in exercise of the powers conferred by section 145(2) of the Income Tax Act, 1961 by providing a framework for computation of taxable income of all assesses in relation to the income under heads “Profits and Gains under Business or Profession” and “Income from Other Sources”. This notification specified that it would be applicable for the previous year corresponding to the AY 2015-16 onwards. Numbers of representations have been made by various stake holders which were examined by an expert committee consisting of departmental officers and professionals. Consequently the committee has recommended amendments to the notified ICDS which resulted in a new notification no. 87/2016 dated 29-09-2016 released by CBDT which also repealed its earlier notification no 32/2015 dated 31-03-2015. Revised ICDS are applicable to all assesseees (other than Individual or HUF who is not covered by the provisions of tax audit u/s 44AB of the IT Act 1961) following the mercantile system of accounting, for the purposes of computation of income chargeable to income-tax under the heads “ Profits and Gains of Business or Profession” or “Income from other Sources “. Revised ICDS shall apply from AY 2017-18 onwards

The CBDT has issued Clarifications by way of 25 Nos. FAQs on it’s ‘Revised Income Computation and Disclosure Standards (ICDS 1~10)’ notified earlier u/s 145(2) of the Income-tax Act, 1961, based on reference received from stakeholders in respect of certain provisions of ICDS, as under:

Sub-section (1) of section 145 of the Income-tax Act, 1961 (‘the Act’) provides that the income chargeable under the head “Profits and gains of business or profession” or “Income from other sources” shall, subject to the provisions of sub-section (2), be computed in accordance with either cash or

mercantile system of accounting regularly employed by the assessee. Sub-section (2) of section 145 provides that the Central Government may notify Income Computation and Disclosure Standards (ICDS) for any class of assessee or for any class of income. Accordingly, the Central Government notified 10 ICDS vide Notification No.S.O.892 (E) dated 31st March, 2015 with effect from assessment year 2016-17.

After notification of ICDS, it has been brought to the notice of the Central Board of Direct Taxes ('the Board') by the stakeholders that certain provisions of ICDS may require amendment/ clarification for proper implementation. The matter was referred to an expert committee. The Committee after duly consulting the stakeholders in this regard has recommended a two-fold approach for the smooth implementation of ICDS, i.e. amendment to the provisions of ICDS in respect of certain issues and issuance of clarifications by way of FAQs for the rest of issues. Accordingly, vide Notification No. 87 dated 29th September, 2016 Central Government notified amended ICDS with effect from the assessment year 2017-18. It is now for the assessee community and the professionals who advise them, to implement the standards from the Assessment Year 2017-18 onwards. Corresponding changes have also been made by CBDT in form 3CD to be issued by an accountant in the process of Tax audit. In this article it is proposed to highlight issues and concerns being faced by the assesseees in implementing the purport of these standards.

ICDSs are expected to fill up some gaps that existed in the current taxation set up by bringing in consistency and clarity in computation of taxable income and providing stability in tax treatments of various items. ICDSs also address the significant issue relating to taxability of assesseees when companies in India move their financial reporting to Indian Accounting Standards (Ind-AS) that are converged with International Financial Reporting Standards (IFRS) in a phased manner.

The Genesis of ICDS

In 2010, when Ministry of Corporate Affairs had announced a roadmap for converging Indian financial reporting with IFRS in a phased manner, one of the biggest challenges faced by corporate sector was how this change in financial reporting would impact taxable income, as many companies would report using Ind-AS while others would report using the older Accounting Standards (AS).

In response, the CBDT set up a committee in 2010 to look at the taxation related aspects of Ind-AS implementation.

They also recognised it as an opportunity to address certain accounting issues that have been a subject matter of tax litigation due to either diversity in accounting practices or divergence in views between tax payers and tax authorities.

While globally different approaches have been adopted to deal with the tax issues arising from IFRS adoption, the CBDT has chosen to go down the path of prescribing a separate framework for computation of taxable income, which is independent of the financial reporting framework followed by the company.

The CBDT Committee as part of their report issued in October 2012, also put out fourteen draft tax accounting standards for public comments. Over two years since, and close on the heels of the press release notifying the roadmap for Ind-AS convergence on 2 January 2015, the Ministry of Finance also published a revised set of twelve draft ICDS on 8 January 2015 for final comments. The comment period ended on 8 February 2015. Finally, the notification with ten ICDS has now been issued. With the notification of ICDS, there is certainty on the path that has been chosen by the CBDT.

In this article, we would discuss about the salient features of the new Tax Accounting standards. The Standards are:

Income Computation and Disclosure Standards

ICDS I:	Accounting Policies
ICDS II:	Valuation of Inventories
ICDS II:	Construction Contracts
ICDS IV:	Revenue Recognition
ICDS V:	Tangible Fixed Assets
ICDS VI:	Effects of Changes in Foreign Exchange Rates
ICDS VII:	Government Grants
ICDS VIII:	Securities
ICDS IX:	Borrowing Costs
ICDS X:	Provisions, Contingent Liabilities & Contingent Assets