WHITE PAPER

Income Computation and Disclosure Standards (‘ICDS’)

TABLE OF CONTENTS

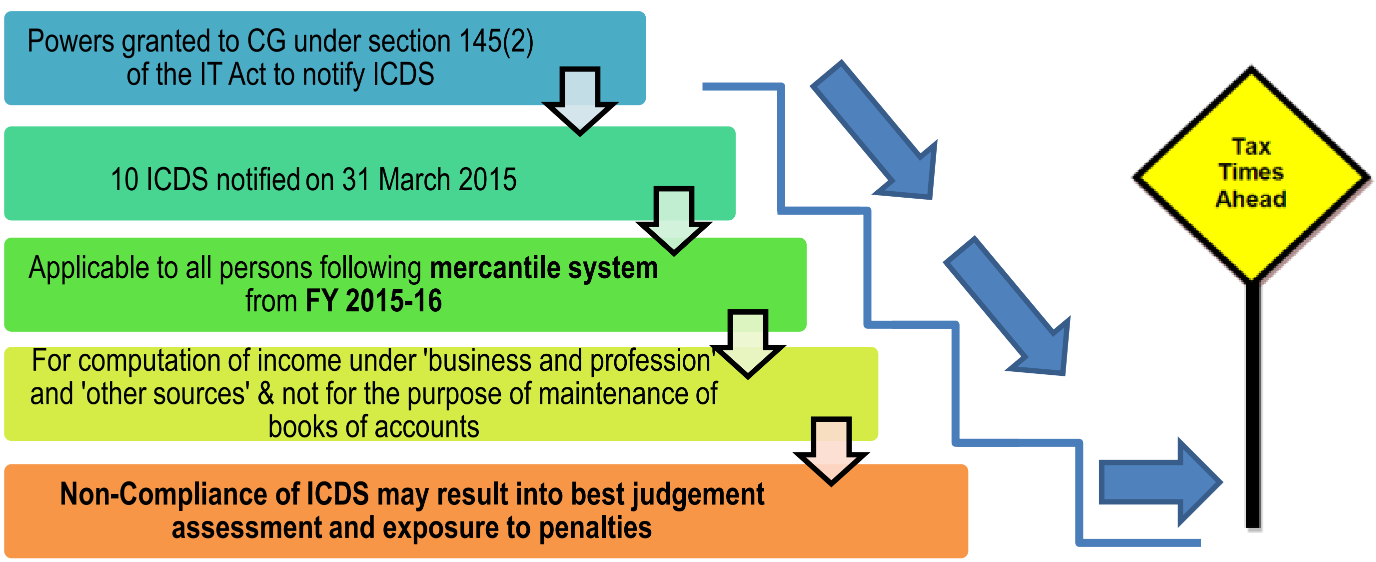
1.0 HIGHLIGHTS AND SCOPE

The Central Government has notified ten income computation and disclosure standards vide **Notification No. 32/2015 dated 31 March 2015**. The notified tax standards are likely to create a substantial impact in the approach and methodology of computing and offering the income to Income-tax.

In this white paper, we have endeavored to discuss the following aspects:

- What was the need and objective of introducing the ICDS?
- Whether it will be applicable to all entities? If yes, from which year?
- Will the notified ICDS result into material tax outlay for an entity?
- What are the significant aspects of ICDS and what would be its implications?
- What are the open issues surrounding the same?

ICDS –Brief Highlights



Which are the 10 ICDS notified vis-à-vis the current financial reporting framework?

The list of notified ICDS along with the corresponding accounting standards:

ICDS	Indian GAAP
ICDS-I Disclosure of Accounting Policies	AS-1
ICDS-II Valuation of Inventories	AS-2
ICDS-III Construction Contract	AS-7
ICDS-IV Revenue Recognition	AS-9
ICDS-V Tangible Fixed Assets	AS-10
ICDS-VI The Effects of Changes in Foreign Exchange Rates	AS-11
ICDS-VII Government Grants	AS-12
ICDS-VIII Securities	AS-13 & AS-2
ICDS-IX Borrowing Costs	AS-16
ICDS-X Provisions, Contingent Liabilities and Contingent Assets	AS-29

The preamble to each ICDS which clarifies the scope and intent on the applicability of ICDS:

- The ICDS are applicable for computation of income chargeable under the head 'profits and gains from business or profession' or 'income from other sources' and not for the purpose of maintenance of books of accounts.

- In the case of conflict between the provisions of the Income-tax Act, 1961 ('the Act') and the ICDS, the provisions of the Act shall prevail to that extent.

What was the need and objective of introducing the ICDS?

2.0 HISTORY OF ICDS

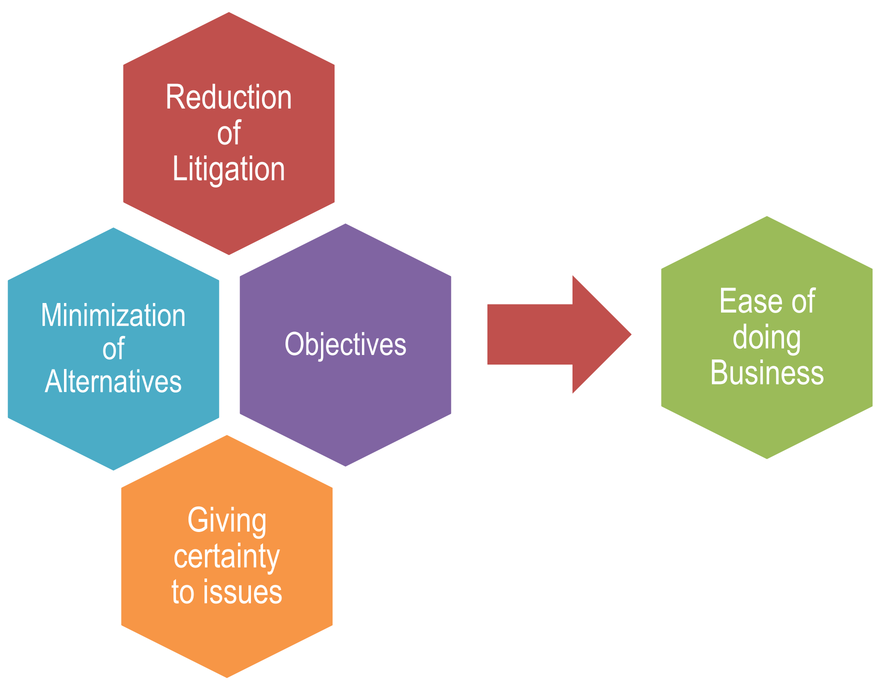
2.1 Section 145 of the Income-tax Act, 1961 ('the Act') stipulates that the method of accounting for computation of income under the heads "Profits and gains of business or profession" and "Income from other sources" can either be cash or mercantile system of accounting.

2.2 The Finance Act, 1995 empowered the Central Government to notify the Accounting Standards for any class of assessees or for any class of income. Explaining the reason for introduction of this provision, it was stated that:

"There is flexibility in the standards issued by the Institute of Chartered Accountants of India (ICAI) which makes it possible for an assessee to avoid the payment of correct taxes by following a particular system and, therefore, there is an urgent need to standardize one or more of the alternatives in various standards, so that income for tax purpose can be computed precisely and objectively."

2.3 In furtherance to the above, after failure of the committee constituted in year 2002 and notification of 28 AS issued by the ICAI under the Companies Act, 1956 (applicable for preparation and presentation of books of accounts), a new committee was formed by **CBDT** in December 2010 which has acted as a pioneer in notification of 10 ICDS vide notification dated 31 March 2015.

2.4 **The objective for introducing these ICDS were:**



How the computation of income will change after introduction of ICDS?

2.5 **Presentation of computation of income after introduction of ICDS:**

COMPUTATION OF TOTAL INCOME		
AS PER NORMAL PROVISIONS		
Net profit as per profit and loss account		XX
Add: Adjustment pertaining to ICDS	XX	
Less: Adjustment pertaining to ICDS	(XX)	XX
Net profit after giving effect to ICDS		**XX**
Add: Disallowables / Items considered separately under the Act	XX	
Less: Allowables / Items considered separately under the Act	(XX)	XX
Taxable Total Income		**XX**
Tax at normal rates (A)		**XX**
AS PER MINIMUM ALTERNATE TAX ('MAT') PROVISIONS		
Net profit as per profit and loss account		**XX**
Add: Additions as per section 115JB of the Act	XX	
Less: Reductions as per section 115JB of the Act	(XX)	XX
Book Profit as per section 115JB of the Act		**XX**
Tax at MAT rates (B)		**XX**
Tax payable (Higher of A or B)		**XX**

2.6 **Things to know about ICDS**

Sr. No.	Particulars	Remarks
1	**Applicability**	The ICDS are made applicable to all the persons following mercantile system of accounting with effect from FY 2015-16 relevant to AY 2016-17. The said standards are applicable only for computation of income and not for the purpose of maintenance of books of accounts.
2	**Conflict with the Income-tax Act?**	The ICDS are a delegated legislation (delegated to CG which was further delegated to CBDT) and the same are intended to be in harmony with the provisions of the Act. As such, it is expressly provided that in case of conflict, the provisions of the Act shall prevail over the ICDS.
3	**Selection of ICDS**	The committee examined all the 31 AS for notifying the same under section 145(2) of the Act. However, it noted that there are certain AS which relate to 'disclosure requirement' or are 'adequately dealt within the Act' and decided to notify only 14 ICDS.
4	**The ICDS which can be further notified**	Out of 14 draft ICDS which were drafted by the committee, only 10 were notified, the 4 ICDS which were not notified and which can be notified going forward: 1. Events occurring after the previous year 2. Prior period expense 3. Leases

Sr. No.	Particulars	Remarks
		4. Intangible assets Further, the ICDS covering the following areas were recommended by the committee for notification: 1. Share based payment 2. Revenue recognition by real estate developers 3. Service Concession Arrangements (example: Built, Operate, Transfer Arrangements) 4. Exploration for and evaluation of mineral resources.

3.0 CRITICAL EVALUATION OF EACH ICDS

As per committee's recommendation, the AS issued by the ICAI could not be adopted for notification under the Act. As such, the committee drafted the ICDS based on the AS but with certain deviations in view of the objectives set forth. The said deviations along with the possible impact have been summarized as follows:

<table>
<tr><th>Key Feature / Difference</th><th>Implications of the same</th></tr>
<tr><td colspan="2">ICDS-I Disclosure of Accounting Policies</td></tr>
<tr><td>Concept of materiality absent</td><td>If the ICDS are applied so strictly, there may be tax impact on low value items though the tax impact may not be so significant.

For instance, under post ICDS regime, even small and non-material assets may have to be capitalized.</td></tr>
<tr><td>Concept of 'Prudence' absent</td><td>Prudence is understood to mean non-recognition of anticipated profits but recognition of known liabilities and losses on best estimate basis.

The said approach facilitates earlier recognition of estimated loss which affects the revenue and thus the taxes.

In view of the above, in a need to collect taxes hurriedly, the said concept is not recognized in ICDS except for the situations specifically mentioned in ICDS. Owing to this, the loss will be allowed only on actual basis.

Further, if the expected loss is recognized as per AS in books of accounts, the same will be disallowed at the time of making provision and shall be allowed only on actual basis in the income computation. The same will lead to timing difference and creation of deferred tax asset. Further, a track of the position will have to be kept to ensure that the loss is considered as allowable as soon as it crystallizes.

Further, it may also lead to taxability of higher income than real income due to interplay of income taxable under normal and MAT provisions.

Example:

<table>
<tr><th>Year</th><th>Loss on prudent basis</th><th>Other Income</th><th>Income under normal provisions (ICDS)</th><th>Income under MAT provisions</th></tr>
<tr><td>Year 1</td><td>Loss Rs. 10,000 expected</td><td>8,000</td><td>8,000</td><td>(2,000)</td></tr>
<tr><td>Year 2</td><td>Loss realized Rs. 10,000</td><td>8,000</td><td>(2,000)</td><td>8,000</td></tr>
</table>
</td></tr>
</table>

Key Feature / Difference	Implications of the same
	The Entity will have to pay tax on income of Rs. 8,000 in year 1 and Rs. 6,000 [Rs. 8,000 – Rs. 2,000 (set-off of brought forward book loss)] in year 2. In all the entity pays tax on Rs. 14,000. However, the entity's real income is Rs. 6,000 (Rs. 8,000 + Rs. 8,000 – Rs. 10,000). Yes, the MAT credit will be available but the same is subject to certain conditions.
ICDS-II Valuation of Inventories	
Standard Cost method not accepted	The entities following standard cost method for valuing their inventories will have to change their method to other acceptable methods as per ICDS. If the entity decides to continue to follow the same method then it shall entail maintenance of separate records for valuation using other acceptable method for income computation.
Cost of services included in inventory cost and for service provider	The inclusion of the cost of services in inventory cost will change the values at which inventories are carried forward in the balance sheet. Definition of cost of services inserted: *"The costs of services in the case of a service provider shall consist of labour and other costs of personnel directly engaged in providing the service including supervisory personnel and attributable overheads."* Given that, the service providers will also have to maintain inventory records as the cost of their services for the work in progress will be carried as inventory forward to next year. There will be practical difficulties in valuing the inventory in the case of service providers. The inventories are valued at cost or NRV, whichever is less. As per the said principle, the NRV of the services will have to be determined for the valuation of inventories which may be tedious as well.
Inventories to be valued at NRV on dissolution	As per ICDS, inventories will have to be continuously valued at NRV on dissolution of firm, AOP or BOI whether or not there is discontinuance of business. As such, the profit or loss which arises on such valuation would be chargeable to Income-tax. The said requirement will not affect the case where the firm, AOP or BOI is dissolved and business is discontinued as in the said case, the assets are generally valued at NRV for settlement of accounts. However, in case where business is continued, the inventory is generally carried forward at cost only. In this situation, the inventory will mandatorily have to be valued at NRV and the difference will have to be offered to tax. The same will lead to timing difference and creation of deferred tax asset. The said requirement is against the principles laid down by the judicial precedents and will be prone to litigation as it brings the artificial income to taxation.

<table>
<tr><th>Key Feature / Difference</th><th>Implications of the same</th></tr>
<tr><td colspan="2">ICDS-III Construction Contract</td></tr>
<tr><td>Revenue to be compulsorily recognized beyond 25% of stage of completion</td><td>As per AS-7 on construction contracts, in case of early stages of contract, when outcome of the contract cannot be estimated reliably, the revenue is to be recognized only to the extent of cost incurred.

The ICDS is in consonance with the said requirement, however it goes further to define early stage of contract as not beyond 25% of stage of completion. The effect of the said definition is that the revenue cannot be further postponed once the contact reached 25% of the stage of completion and will have to be mandatorily recognized on reaching the said limit.</td></tr>
<tr><td>Expected loss on contract not to be recognized</td><td>As per AS-7, following the concept of prudence, expected loss on contract, if any, has to be immediately recognized. However, the said condition is deleted in ICDS. Owing to the same, the expected loss, if recognized in books of accounts will be disallowed in the computation of income. The same will lead to creation of timing difference.

Further, interplay of the MAT provisions and normal computation may create an anomaly as under:

Example:
a. Expected loss in Year 1 = Rs. 500
b. Actual Loss in Year 1,2 & 3 = Rs. 200, Rs. 200, Rs. 50

The computation for 3 years:

<table>
<tr><th rowspan="2">Year</th><th colspan="2">MAT</th><th colspan="2">Normal Computation</th></tr>
<tr><th>Particulars</th><th>(loss)/pft</th><th>Particulars</th><th>(loss)/pft</th></tr>
<tr><td>Year 1</td><td>Expected Loss</td><td>(Rs. 500)</td><td>Actual Loss</td><td>(Rs. 200)</td></tr>
<tr><td>Year 2</td><td>-</td><td>-</td><td>Actual Loss</td><td>(Rs. 200)</td></tr>
<tr><td>Year 3</td><td>Reversal of loss</td><td>Rs. 50</td><td>Actual Loss</td><td>(Rs. 50)</td></tr>
</table>

From the above, we may observe that due to mismatch between computation under normal provisions and MAT, An entity may have to pay tax under MAT provisions even though it has incurred loss as a whole.</td></tr>
<tr><td>Retention money included in contract revenue</td><td>Unlike AS-7, retention money has been included in the contract revenue in ICDS. The said inclusion will open the floodgates to litigation as in several judicial decisions; it has been held that retention money could not be taxed as the same was not accrued to assessee till completion of work.</td></tr>
</table>

<table>
<tr><th>Key Feature / Difference</th><th>Implications of the same</th></tr>
<tr><td colspan="2">ICDS-IV Revenue Recognition</td></tr>
<tr><td>Completed contract method of revenue recognition not allowed</td><td>AS-9 on revenue recognition allowed two methods for recognition of revenue viz. percentage of completion method and completed contract method. However, the ICDS has prescribed only one method i.e. percentage of completion method. (‘POCM’)

In view of the above, the revenue recognition of services will have to be compulsorily done through percentage of completion method only.

The entities recognizing revenue by completed contract method will have to switch their method or undertake extra compliance by maintenance of separate records of tax and computation of timing difference.

The POCM as per normal provisions and completed contract method as per the AS for maintenance of books of accounts, if followed may lead to following:

<table>
<tr><th>Year</th><th>Revenue as per ICDS</th><th>Revenue as per books (MAT)</th></tr>
<tr><td>Year 1</td><td>Rs.100</td><td>-</td></tr>
<tr><td>Year 2</td><td>Rs.100</td><td>-</td></tr>
<tr><td>Year 3</td><td>Rs.100</td><td>Rs.300</td></tr>
</table>

In view of the above, an entity will pay tax on Rs.100 in first and second year and on Rs.300 for last year. Given that, in scenario of profit of Rs.300, an entity may end up paying tax on Rs.500.</td></tr>
<tr><td>In alignment with ICDS III on construction contract</td><td>The conditions regarding recognition of revenue beyond 25% of the stage of completion applicable to service contracts (POCM) even for service providers.

Condition regarding retention money also applicable.</td></tr>
<tr><td>Postponement of Revenue Recognition</td><td>AS-9 provides for postponement of recognition of revenue in relation to any claim where the ability to assess the ultimate collection with reasonable certainty is lacking.

However, under the ICDS, postponement of revenue due to uncertainty is restricted to claims for price escalation and export incentives. As such, revenue in relation to other claims may not be allowed to be postponed.</td></tr>
<tr><td>Interest income to be recognized on time basis.</td><td>As per ICDS, interest income will have to recognized on time basis and not on due basis.

The same is conflicting with the various judicial precedents. For instance in case of time deposits, it was held that interest on time deposits is taxable only on maturity as the right to receive income gets established at that point of time.

In view of the above, the recognition of interest income will be subject to colossal litigation.</td></tr>
</table>

<table>
<tr><th>Key Feature / Difference</th><th>Implications of the same</th></tr>
<tr><td colspan="2">ICDS-V Tangible Fixed Assets</td></tr>
<tr><td>Change in case of acquisition of fixed asset in exchange</td><td>The ICDS mandates that in case where fixed asset is acquired in exchange of securities or other asset, the fair value of the asset acquired shall be its actual cost. The same is in deviation of AS-10 which has prescribed to take fair value of the asset given up to be the cost of asset acquired if the same is more evident.

The entities will have to follow the same accordingly. If the same is not followed and the cost of asset so acquired is taken as per AS-10, then the impact areas may be as follows:

1. On which value will the depreciation will be allowed
2. How the same will impact the deferred tax computation.</td></tr>
<tr><td>Clarification inserted for certain items</td><td>Clarification inserted that stand-by equipment and servicing equipment shall be capitalized.

Machinery spares shall be compulsorily charged to revenue as and when it is consumed, however, spares having irregular use and used only in connection with tangible fixed asset shall be capitalized.

In view of the aforesaid clarifications, the treatment of such items will have to be mandatorily done as per the aforesaid clarifications.</td></tr>
<tr><td>Non-clarity of treatment of expenses incurred after test run but before commercial production</td><td>The ICDS states that the expenditure incurred on start-up and commissioning of the project, including the expenditure incurred on test runs and experimental production, shall be capitalized. The expenditure incurred after the plant has begun commercial production shall be treated as revenue expenditure.

One will observe that while treatment of expenses incurred before trial run and after commercial production have been specified, there is no clarity on expenses between trial run and commercial production.

In absence of clarification, the same may be subject to litigation. However, if we go by the principles laid down by the Act and the ICDS, the expenses between trial run and the commercial production will have to be capitalized.</td></tr>
<tr><td colspan="2">ICDS-VI The Effects of Changes in Foreign Exchange Rates</td></tr>
<tr><td>Revenue non-monetary item which is carried at fair value (inventory)</td><td>The deviation is as under:

<table><tr><th>As per AS-11</th><th>As per ICDS</th></tr><tr><td>The item is to be translated at closing rate and the exchange difference arising out of the same is to be debited to profit and loss account.</td><td>As the same is non-monetary item, it should be translated at actual rate of transaction.</td></tr></table>
In view of the above, it may be possible that the exchange difference debited to the profit and loss account may not be allowed in the computation of income as per ICDS.</td></tr>
</table>

<table>
<tr><th>Key Feature / Difference</th><th>Implications of the same</th></tr>
<tr><td></td><td>

The impact of this deviation by ICDS from the provisions of AS may be understood with the help of following illustration:

Exchange rate on date of transaction : 1$ = Rs. 70
Exchange rate at closing date : 1$ = Rs. 65

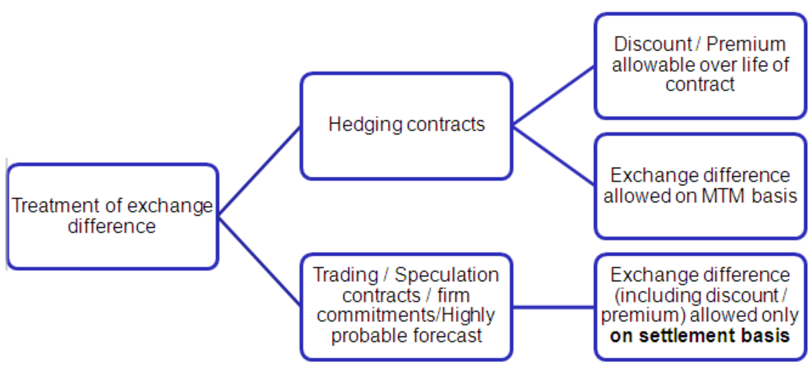
<table>
<tr><th>Particulars</th><th>Amount</th></tr>
<tr><td>Cost</td><td>$ 500</td></tr>
<tr><td>NRV</td><td>$ 400</td></tr>
<tr><td colspan="2">Valuation of inventory (Cost or NRV, whichever is less) = $ 400</td></tr>
<tr><td>As per AS (400*65)</td><td>Rs. 26,000</td></tr>
<tr><td>As per ICDS (400*70)</td><td>Rs. 28,000</td></tr>
</table>

</td></tr>
<tr><td>Capital exchange difference on monetary items (example: foreign currency borrowing)</td><td>

ICDS allows exchange difference on monetary items to be transferred to revenue account. However, the same is subject to section 43A of the Act. It is pertinent to note that section 43A of the Act applies to only foreign exchange difference pertaining to imported assets.

In view of the above, a position may be taken that foreign exchange difference on foreign loan taken for domestic assets may be allowed as per the ICDS. However, the said view is litigious in presence of various judicial precedents on 'non-allowance of exchange difference on capital account'.

</td></tr>
<tr><td>Foreign exchange difference on forward exchange contracts including options</td><td>



In view of the above, there is change in position of exchange contracts in case of trading / speculation / firm commitments and highly probable forecast transactions from MTM basis to settlement basis. The exchange difference or premium / discount will be allowed in the computation of income only on settlement basis and not on MTM basis.

</td></tr>
<tr><td>Translation of non-integral foreign operation (branch)</td><td>

The exchange difference arising on translation of foreign integral operation is transferred to foreign currency translation reserve as per AS-11.

As per ICDS, the exchange difference has to be transferred to revenue account. As such,

</td></tr>
</table>

Key Feature / Difference	Implications of the same
	the foreign translation reserve standing in the books of the head office will be treated as income and further, any difference arising on year to year basis will be treated on revenue account. By impact, it will result in substantial income being offered to tax in year 1 of ICDS (i.e. FY 2015-16). Also, the same is against real income theory of taxation which can be challenged based on judicial precedents.
ICDS-VII Government Grants	
Treatment of capital grants	ICDS gives two options for treatment of grants: ➢ The grants can be adjusted against the cost of the assets (in case of depreciable assets) ➢ Treated as income by transferring to revenue account (It may be deferred if the conditions are attached to grants) In view of the above, option of treating the grant as capital reserve is not available. As such, grants received on capital account (not for depreciable assets) have to be directly treated as income. The same is also supported by amendment to section 2(24) of the Act by which even grants and subsidies are brought within the purview of income. The above will lead to taxation of capital grants which is inconsistent with the settled judicial position.
Recognition of Grants	As per ICDS and AS, grants should be recognized when there is certainty that: ✓ Grants will be received ✓ Conditions attached to the grant will be complied with However, ICDS goes one step further stating that **recognition of grants cannot be postponed beyond receipt of grant.** As such, in post ICDS regime, grants need to be mandatorily recognized on receipt basis whether or not compliance to conditions is assured.
ICDS-VIII Securities	
Applicability	This ICDS is applicable only to the securities held as stock in trade other than derivatives.
Valuation of securities	Securities shall be valued on the end of the financial year at cost or NRV, whichever is lower and such valuation shall be done category-wise (Shares, debt securities, convertible securities and any other securities). Further, unlisted / unquoted securities shall be valued at actual cost only. This is in deviation from AS-13 as the classes mentioned for valuation are equity shares, preference shares, convertible debentures etc. The illustration explaining the impact of such deviation is as under:

<table>
<tr><th>Key Feature / Difference</th><th>Implications of the same</th></tr>
<tr><td></td><td>
<table>
<tr><th>Shares</th><th>Cost</th><th>NRV</th><th>Valuation as per books</th><th>Valuation as per ICDS</th></tr>
<tr><td>1</td><td>50</td><td>40</td><td>40</td><td>NA</td></tr>
<tr><td>2</td><td>70</td><td>60</td><td>60</td><td>NA</td></tr>
<tr><td>3</td><td>30</td><td>10</td><td>10</td><td>NA</td></tr>
<tr><td>4</td><td>60</td><td>90</td><td>60</td><td>NA</td></tr>
<tr><td>Total</td><td>210</td><td>200</td><td>170</td><td>200</td></tr>
<tr><td></td><td></td><td></td><td>Itemized</td><td>Category wise</td></tr>
</table>
In view of the above, amount of Rs. 30 (Rs. 200 – Rs. 170) will be treated as additional profits subject to tax.
</td></tr>
<tr><td>Valuation of unquoted securities</td><td>As per ICDS, the unquoted securities are to be valued at cost only and shall not be evaluation on NRV basis.

As a result of this if the said securities are valued at NRV (assuming NRV being lower) at beginning of the FY 2015-16, it will be enhanced to cost for valuation on 31 March 2016. It will result in taxation of artificial gains in FY 2015-16.</td></tr>
<tr><td colspan="2">ICDS-IX Borrowing Costs</td></tr>
<tr><td>Condition of 12 months for qualifying asset removed</td><td>The period of 12 months for capitalizing borrowing cost is not applicable as per ICDS (except inventories). As such, borrowing cost can be capitalized even if asset takes less than 12 months' time for its completion.</td></tr>
<tr><td>Borrowing cost methodology</td><td>
<table>
<tr><th rowspan="2">Particulars</th><th colspan="2">AS-16</th><th colspan="2">ICDS</th></tr>
<tr><th>Specific Borrowing</th><th>General Borrowing</th><th>Specific Borrowing</th><th>General Borrowing</th></tr>
<tr><td>Commencement date of capitalization</td><td colspan="2">Fulfillment of all three conditions viz. incurrence of capex, incurrence of borrowing cost and activities necessary to prepare the assets for its intended use or sale is in progress.</td><td>Date of Borrowing</td><td>Date of utilization of funds</td></tr>
<tr><td>Method of capitalization</td><td>Specific cost from date of fund to date of asset being ready for use</td><td>Weighted average cost from date of expenditure to date of asset being ready for use.</td><td>Specific borrowing cost from date of borrowing to date of asset first put to use.</td><td>Specific Formula</td></tr>
</table>
In view of the above, owing to change in the method & 'commencement date and cessation date' of capitalization, there will be substantial difference between interest to be capitalized as per AS-16 and as per ICDS.
</td></tr>
</table>

Key Feature / Difference	Implications of the same
ICDS-X Provisions, Contingent Liabilities and Contingent Assets	
Definition of provision and contingent assets changed	As per ICDS, a provision should be recognized when: ✓ A person has a present obligation as a result of a past event; ✓ It is ~~**probable**~~ **"reasonably certain"** that an outflow of resources embodying economic benefits will be required to settle the obligation; and ✓ A reliable estimate can be made of the obligation amount. Probable as per AS Reasonably Certain as per ICDS **Deferment of recognition of provision** As per ICDS, Contingent asset must be assessed continually and if it becomes ~~**virtually certain**~~ **"reasonably certain"** that inflow of economic benefit will arise, the asset and the income are recognized in previous year in which the change occurs. Virtually certain as per AS Resonably certain as per ICDS **Early recognition of contingent assets**
Onerous Contract	As per AS-29, a provision shall be made at best estimate for onerous contracts (unavoidable loss making contracts) However, ICDS is silent on the onerous contracts. Given that, the loss arising out onerous contract shall not be allowed on provision basis.

Transition Provisions

As the ten ICDS are introduced for the first time to be made applicable from FY 2015-16, each ICDS (Except ICDS on securities) contains transition provisions for effective adoption of the same.

Disclosure Requirements

Like AS, even ICDS have certain disclosure requirements to be fulfilled which are mentioned beneath each ICDS. However, ICDS is silent about where such information needs to be disclosed. Tax audit report or ITR form for AY 2016-17 may provide needed clarity on the disclosure aspect.

What are the open issues surrounding the ICDS?

4.0 CERTAIN IMPLEMENTATION CHALLENGES

The certain open issues / implementation challenges arising out of the ICDS are as under:

- **A Delegated Legislation**

  The powers to notify the accounting standards were delegated to the Central Government under section 145(2) of the Act. Such ICDS were notified by the CG under section 145(2) of the Act.

  In all, the ICDS are a creation of a delegated legislation. As such, it cannot override the main legislation (the Income-tax Act, 1961). Given that, though it does not override the Act, it does override various judicial precedents and settled position of law which was decided on interpretation of the Act.

  Whether tax position as per judicial precedents based on the interpretations of the Act may still prevail over the ICDS?

- **Maintenance of separate records**

  It is clarified in the preamble to each ICDS that ICDS are not applicable to the maintenance of book of accounts. However, the ICDS are not in alignment with the financial reporting framework viz. AS and soon to be applicable Ind-AS.

  Given that, the ICDS will mandate separate set of records in a form of reconciliations which will lead to additional compliance and extra cost.

- **Deferred tax impact**

  The ICDS have further widened the gap between accounting profits and the taxable profits giving rise to timing difference and the creation of deferred tax items.

  As a result, an entity will have to keep a proper track of deferred tax items

- **Unidentifiable Double Taxation?**

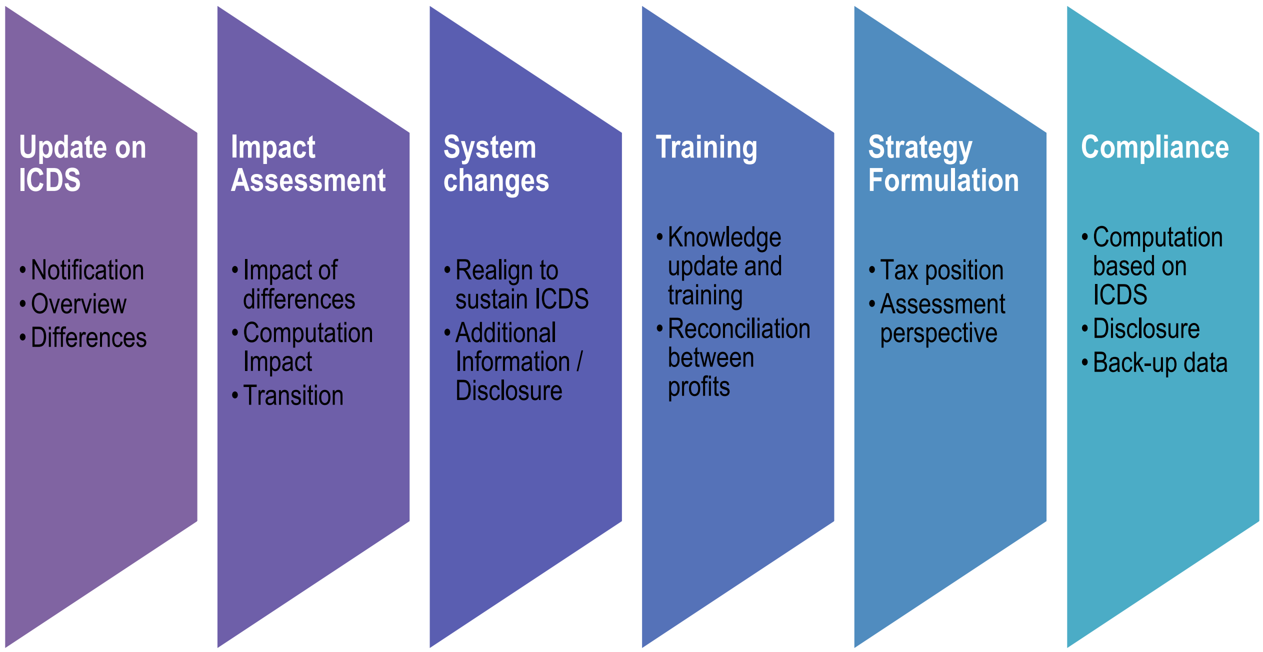
  As we have analyzed in number of cases, the interplay of ICDS and MAT provisions lead to double taxation. Problems arise when in regard of large volume of business and computation items, such double taxation will not be identifiable.

  In this regard, certainly some amendments should be made to MAT provisions to avoid double taxation.

  As an entity, the items which may lead to double taxation shall be identified pre-hand and proper track shall be maintained to recognize double taxation and eliminating it.

5.0 ICDS IMPLEMENTATION ROADMAP

An implementation roadmap for implementation of ICDS may be as follows:



6.0 CONCLUSION

- ICDS will have to be mandatorily followed by all persons for computing their income. While computing such income, reliance may be placed on favourable judicial pronouncements.

- The reason behind ICDS was to bring ‘certainty to issues’ and ‘reduction of litigation’. However, the application of various provisions of ICDS may result in preponment of income and deferment of losses which might create dissatisfaction amongst the assessees.

For further information please contact:
RSM Astute Consulting Pvt. Ltd.
13th Floor, Bakhtawar, 229, Nariman Point, Mumbai - 400 021.
T: (91-22) 6108 5555 / 6121 4444
F: (91-22) 6108 5556 / 2287 5771
E: emails@rsmindia.in
W: www.rsmindia.in

Offices: Mumbai, New Delhi - NCR, Chennai, Kolkata, Bengaluru (Bangalore), Surat, Hyderabad, Ahmedabad, Pune, Gandhidham, Indore and Jaipur.

facebook.com/RSMinIndia

twitter.com/RSM_India

linkedin.com/company/rsm-india

RSM Astute Consulting Pvt. Ltd. (Including its affiliates) is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network.

Each member of the RSM network is an independent accounting and consulting firm each of which practices in its own right. The RSM network is not itself a separate legal entity of any description in any jurisdiction.

The RSM network is administered by RSM International Limited, a company registered in England and Wales (company number 4040598) whose registered office is at 11 Old Jewry, London EC2R 8DU.

The brand and trademark RSM and other intellectual property rights used by members of the network are owned by RSM International Association, an association governed by article 60 et seq of the Civil Code of Switzerland whose seat is in Zug.

This white paper on the Insurance industry gives us a glimpse of the Insurance business history & structure in India, the various components that form an integral part of the Indian Insurance industry and how the recent developments are changing the face of this industry. It may be noted that nothing contained in this publication should be regarded as our opinion and facts of each case will need to be analyzed to ascertain applicability or otherwise of the circulars and notifications (as issued by Insurance authorities in India and the Government) and appropriate professional advice should be sought for applicability of legal provisions based on specific facts. We are not responsible for any liability arising from any statements or errors contained in this publication.

The purpose of this White Paper ('Paper') is to provide a brief overview of the income computation and disclosure standards concerning the Income-tax regime. The Paper is prepared for general use and our views as stated above would be required to be revalidated vis-à-vis the facts of each case. The Income-tax authorities or judicial authorities may or may not subscribe to the views expressed herein Under no circumstances, the above should be used as any tax avoidance scheme. While we have taken steps to ensure that the White Paper is a qualitative document in all material respect, professional guidance must be sought before taking action and we are not responsible for any liability arising from any statements or errors contained in this Paper .

16 September 2016