

NOTE

TAX ACCOUNTING STANDARDS (TAS): THE NEW BABY ON THE RAMP

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Well, the ramp was crowded enough already - we had the ASs applicable to such companies as are not covered by Ind ASs, Ind ASs for companies covered by the same, IFRSs for companies with international exposure, US GAAPs for companies with Nasdaq listing, and now we have one more baby on the ramp - accounting standards for tax purposes.

It is not that tax accounting standards are new. Pursuant to sec 145 of the Income Tax Act, the CBDT had earlier come with two Accounting Standards relating to disclosure of accounting policies and disclosure of prior period and extraordinary items and changes in accounting policies. The reason for introduction of these accounting standards was that there is flexibility in the standards issued by the ICAI which makes it possible for an assessee to avoid the payment of correct taxes by following a particular system. Hence, it was decided to standardize one or more of the alternatives in various standards so that income for tax purpose can be computed precisely and objectively.

Initially, a committee was formed by Central Government in July 2002 for formulation of ASs under the IT Act. However, the committee, after understanding the impracticality in maintaining two sets of books, one as per AS and other as per TAS, recommended that the ASs issued by ICAI should be notified under the Act without any modifications and the Act should be accordingly amended to prevent any scope for tax evasion by adopting the AS as it is. However, these recommendations were not implemented because of several reasons – one among others was the continuous revision of the ASs by ICAI requiring simultaneous amendments in the Act.

CBDT constituted a new Accounting Standard Committee comprising of departmental officers and professionals vide Order No. 134/48/2010-SO (TPL) dated 20th December 2010. The main purpose for forming this committee was –

- to harmonize the ASs issued by ICAI with the tax laws.
- to suggest method for determination of book profit for calculating Minimum Alternate Tax (MAT) in case of companies migrating to IFRS (IND AS).
- to suggest appropriate amendments to the Act in view of transition to IFRS (IND AS) regime.

The major recommendations of the committee considering the above purposes are as follows:

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- separate Accounting Standards should be notified under Section 145(2) of the Act to ensure harmony with the provisions of the Act, to be termed as “Tax Accounting Standards” (TAS).
- the TAS notified under the Act should be made applicable only to the computation of taxable income and a taxpayer should not be required to maintain books of account on the basis of TAS.
- the TAS are based on the mercantile system of accounting, and hence should be applicable to all tax payers who follow the mercantile system of accounting, and should not be applicable to taxpayers who follow the cash basis of accounting.
- in case of conflict, the provisions of the Act shall prevail over the TAS.
- a reconciliation between the income as per the financial statements and the income computed as per the TAS should be presented, to determine the starting point for computation of income under the head “Profits and gains of business or profession” and “Income from other sources”, since presently the computations are based on the income as per the financial statements.

Presently the committee has issued drafts of two TASs: one on Construction Contracts and the other on Government Grants, and it is kept open for comments/ suggestions.

Comments:

So, the happiness among the tax payers that existed for a long time since 2002 will not be there anymore once the TAS are finalized and implemented. However, the role of professionals will be widened once more to prepare the computation of income as per the new baby.

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