Companies to see different method of computing taxes from current FY

Companies will have to change the way they compute their income, say, from construction services or accounting for mark- to- market losses (writing down assets in line with current valuations) for tax purposes as the Central Board of Direct Taxes (CBDT) has come out with standards for this purpose.

The Income Computation Disclosure Standards (ICDS), effective from the current financial year, are based on current accounting standards and not new standards (Ind AS). This could lead to further divergence between accounting standards and tax standards after Ind AS becomes applicable for companies from 2016- 17 in a phased manner.

The government has asked all companies, listed and unlisted, with a net worth of above ? 500 crore, to start following Ind AS for accounting periods beginning April 1, 2016.

ICDS does not recognise expected losses or mark- to- market losses, unless specifically provided by any of the ICDS. This is in sharp divergence with accounting standard (AS 1), which allows recognition of expected losses. However, AS 1 does not recognise anticipated profits.

An earlier CBDT committee had recommended doing away with mark- to- market losses as well since the accounting standard amounts to differential treatment for recognition of income and losses.

Besides, ICDS for construction contracts diverges from the current accounting standards on various points. For example, accounting standards permit upfront recognition of expected loss on contracts whereas ICDS requires such recognition to be based on percentage completion method.

Further, ICDS requires retention money to be recognised according to this method whereas currently, some companies might be recognising retention money only at the end of the contract.

Construction companies will be required to identify the gaps between ICDS and accounting standards and evaluate the impact of such differences on its taxable income.

This would also change the way income is computed for bundled contract, that is supply of hardware along with the software.

KR Sekar, partner, Deloitte Haskins & Sells, said, " Normally, companies recognise revenue only after the implementation of the hardware and the software. However, with the introduction of ICDS, service providers will be posed with a challenge of recognition of revenue as they would be required to recognise revenue under percentage completion method." Although maintenance of separate set of books are not mandatory, tax- payers will have to maintain a separate set of books of accounts or have the backup data to explain the differences between ICDS and regular accounting.

(Business standard)