Finance ministry suggests reconciling accounting standards

In a move that can help solve corporate litigation with the tax departments and mark a step forward in India's commitment to implement International Financial Reporting Standards (IFRS), the finance ministry has suggested reconciliation of Generally Accepted Accounting Principles (GAAP) and Tax Accounting Standards (TAS).

TAS are separate accounting standards to be notified under Section 145 (2) of the Income Tax Act, 1969, by the financeministry.

A committee formed by the Central Board of Direct Taxes (CBDT) has recommended that TAS be different fromaccounting standards issued by the Institute of Chartered Accountants of India (ICAI) and notified by the ministry of corporate affairs under the Companies Act, 1956. If the recommendations, made in a discussion paper, are accepted, taxable income would be computed based on provisions of TAS irrespective of the accounting standards followed for the preparation of financial statements by corporate entities.

Separate books of accounts will not be required to be maintained under TAS, reducing the compliance burden on businesses.

This will lead to more transparency in the system, according to experts.

"Currently, there are lots of areas of litigation between tax departments and companies both on account of lack of clarity in the Income Tax Act, 1969, and flexibility offered by prevailing Indian accounting standards," said a person close to the drafting of the discussion paper who did not want to be identified.

"If TAS and accounting standards are harmonized the scope for ambiguity will reduce considerably," the person said

The ministry has sought comments from all stakeholders on the suggestion by 11 November.

"Once the tax accounting standards are notified by the income tax department, it will benefit the industry, as it will go a long way in reducing litigations by clearly specifying the way taxable income has to be computed," said Ved Jain, former president of ICAI.

According to a note circulated by consulting company KPMG in India to its clients, a copy of which was reviewed by *Mint*, this will largely help the government make a transition to IFRS. India pledged in 2009 that it would implement IFRS by 2011.

The ministry of corporate affairs is yet to notify final implementation dates for the adoption of 35 IFRS convergencestandards, known as Ind-AS, in the absence of clarity around the tax impact of the transition, the KPMG note said.

The suggestion in the discussion paper “would partially address the issue relating to the impact of transition of Ind-AS on taxation, as taxes payable (other than minium alternative tax) would be computed based on TAS...”

After debating for over a decade on how best profits and gains of business be represented so that there is least ambiguity, the finance ministry last year constituted a committee to study harmonization of accounting standards issued by the ICAI with direct tax laws in India.

The committee was asked to suggest accounting standards that need to be adopted under section 145 (2) of the Income Tax Act along with relevant modifications. It was asked to suggest amendments to the Act in view of transition to an IFRS regime.

(Liveminit).