

## **Query No. 9**

**Subject:** *Deferred tax under Indian Accounting Standard (Ind AS) 12, 'Income Taxes' on fair value changes of investments under section 112A of Income-tax Act.*<sup>1</sup>

### **A. Facts of the Case**

1. A company (hereinafter referred to as 'the company') is a diversified oil and gas public sector undertaking registered under the Companies Act and is primarily engaged in refining and marketing of petroleum products, petrochemicals, sale of gas and exploration & production of oil and gas.

2. The company is also holding the shares of listed companies as non-current investments. At the time of implementation of Indian Accounting Standards (Ind ASs) during 2016-17, the company has designated equity investments (other than investments in subsidiaries, joint ventures (JV)/associates) at fair value through other comprehensive income (FVOCI) by exercising the irrevocable option provided under Indian Accounting Standard (Ind AS) 101, 'First-time Adoption of Indian Accounting Standards'. This designation of equity investments through other comprehensive income (OCI), as per the querist, is without any option of recycling to profit and loss (P&L) on realization. In other words, the company can never transfer gain/loss of fair value changes in equity investments in P&L even when the same are actually transferred/sold or realized.

3. The querist has stated that under Union Budget 2018-19, Government of India re-introduced Long-Term Capital Gain arising out of transfer of equity share in a company or a unit of an equity oriented fund or a unit of a business trust (referred to as specified securities) at the rate of 10 per cent on profit exceeding Rs.1 lakh from sale of specified securities held for over one year (under section 112A of Income-tax Act subject to exemptions as provided under the said section). The long-term capital gain tax is payable to the Government only on sale of equity shares on or after 01.04.2018. The brief provisions of section 112A have been provided by the querist as under:

- Long-term capital gains will be computed without giving the benefit of the first and the second proviso to section 48 of Income-tax Act, i.e., benefit of indexation of cost of acquisition and cost of improvement will not be allowed. Also, benefit of computation of capital gains in foreign currency, in case of non-resident, will not be allowed.
- The cost of acquisition (COA) in case of long-term capital asset acquired before 01/02/2018, shall be deemed to be higher of the following:
  - the actual cost of acquisition, and
  - the lower of –
    - the fair market value of such asset as on 31.01.2018; and
    - the full value of consideration received or accruing as a result of the transfer of the capital asset.

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<sup>1</sup> Opinion finalised by the Committee on 17.10.2018.

- Fair market value has been defined to mean:
  - In case of capital asset listed on any recognized stock exchange - Highest price quoted on such exchange on 31/01/2018. However, where there is no trading in such asset on such exchange on the 31/01/2018, the highest price of such asset on such exchange on a date immediately preceding 31/01/2018 when such asset was traded on such exchange shall be the fair market value;
  - in a case where the capital asset is a unit and is not listed on recognized stock exchange, the net asset value of such asset as on the 31st day of January, 2018.

4. The querist has further stated that from the above provision, it is evident that on the long-term equity shares held as capital assets before 01.02.2018 and sold on or after 01.04.2018, long-term capital gains tax is payable @10% as per the provisions of section 112A listed above.

5. As per the querist, since, the company is holding the shares of listed companies as its investments as on 31.03.2018, the newly inserted capital gain tax provisions under section 112A are applicable to these shares also whenever these shares will be sold by the company and the COA shall be the market value of these shares as on 31.01.2018 (since market value as on 31.01.2018 is more than the original cost of acquisition of these shares).

6. There is a variation in the market price of listed equity shares held as investments by the company between 31.01.2018 and 31.03.2018. During the financial year (F.Y.) 2017-18, fair value gain/ loss is recognised by the company in Other Comprehensive Income (OCI). Thus, there is a need to evaluate the tax impacts, if any, to be accounted for along with the fair value gain/loss in OCI.

7. According to the querist, after introduction of section 112A of Income-tax (IT) Act 1961, following three views are emerging for accounting of tax on fair value changes in the long-term investments held by the company in listed equity shares:

*No deferred tax accounting of fair value gain/loss*

Since the acquisition cost of the listed share would be considered least of the fair value as on 31.01.18 and value of actual sale thereof, and the sale of investment had not taken place upto the reporting date, the company's liability (if any) to pay long term capital gain tax as on the date of balance sheet is indeterminable. There is no tax base and thus there is no tax liability as on 31.03.2018. Consideration of deemed acquisition cost as on 31.1.2018 for working out the fair value loss/gain in equity investment and corresponding deferred tax/ liability as on 31.03.2018 or afterwards in the absence of actual sale consideration is not in line with the provision of section 112A of IT Act.

*Creation of deferred tax assets and liability on fair value changes*

As on 31.03.2018, any variation in the value of listed equity shares are applicable to long-term capital gain tax u/s 112A. Accordingly, deferred taxes on fair value loss/ gain in the value of the investments should also be recognised based on the requirement of Ind-AS

considering the concept of accrual and matching. In this option/ view, in case there is a decrease in the fair value of investments in equity shares as on the reporting date as compared to the market value as on 31.01.2018 or actual cost price, deferred tax asset (DTA) will be created on this loss and shall be taken to OCI during the period. Similarly, in case of gain or reversal of losses, deferred tax liability (DTL) shall be created or deferred tax asset shall be reversed through OCI respectively.

Non-creation of deferred tax asset on fair value loss

Another view which is possible for accounting of taxes applicable on investments covered u/s 112A is that since, as per the provisions of section 112A, the loss on sale of listed investments shall not arise even if the investments are sold at a price less than the fair market value as on 31.01.2018, no deferred tax assets should be recognised on fair value loss unless the fair value as on reporting date is less than the actual cost of acquisition of investments. However, in case there is a fair value gain in the value of investments as on the reporting date as compared to the value as on 31.01.2018, the corresponding deferred tax liability should be created.

8. *Relevant Provisions under Ind ASs*

Relevant provisions of Ind ASs for deferred tax have been listed by the querist as below:

*Ind AS 1, 'Presentation of Financial Statements'*

**“27 An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.”**

According to the querist, in view of this provision, deferred tax needs to be recognized in the same period in which losses are shown by the company in OCI.

*Ind AS 12, 'Income Taxes'*

**“5 Deferred tax assets are the amounts of income taxes recoverable in future periods in respect of:**

- (a) deductible temporary differences;**
- (b) the carryforward of unused tax losses; and**
- (c) the carryforward of unused tax credits.”**

**“The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.”**

*“Temporary differences ...*

...  
...

- (b) deductible temporary differences, which are temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.”**

As per the querist, paragraph 20 of Ind AS 12 specifically deals with the recognition of deferred tax in respect of fair valuation cases. The relevant portion of this paragraph is reproduced below:

“20 Ind ASs permit or require certain assets to be carried at fair value or to be revalued (see, for example, Ind AS 16, *Property, Plant and Equipment*, Ind AS 38, *Intangible Assets* and Ind AS 109, *Financial Instruments*). In some jurisdictions, the revaluation or other restatement of an asset to fair value affects taxable profit (tax loss) for the current period. As a result, the tax base of the asset is adjusted and no temporary difference arises. In other jurisdictions, the revaluation or restatement of an asset does not affect taxable profit in the period of the revaluation or restatement and, consequently, the tax base of the asset is not adjusted. Nevertheless, the future recovery of the carrying amount will result in a taxable flow of economic benefits to the entity and the amount that will be deductible for tax purposes will differ from the amount of those economic benefits. The difference between the carrying amount of a revalued asset and its tax base is a temporary difference and gives rise to a deferred tax liability or asset. This is true even if:

- (a) the entity does not intend to dispose of the asset. In such cases, the revalued carrying amount of the asset will be recovered through use and this will generate taxable income which exceeds the depreciation that will be allowable for tax purposes in future periods; or
- (b) tax on capital gains is deferred if the proceeds of the disposal of the asset are invested in similar assets. In such cases, the tax will ultimately become payable on sale or use of the similar assets.”

“24 **A deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is *probable* that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:**

- (a) is not a business combination; and**
- (b) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).”**

(Emphasis supplied by the querist.)

Paragraph 26 of Ind AS 12 also confirms creation of deferred tax assets on assets measured at fair value through specific example as reproduced below:

“26 The following are examples of deductible temporary differences that result in deferred tax assets:

...

- (d) certain assets may be carried at fair value, or may be revalued, without an equivalent adjustment being made for tax purposes (see paragraph 20). A deductible temporary difference arises if the tax base of the asset exceeds its carrying amount.”

9. *Arguments for and against creation of deferred tax:*

Arguments in favour of creation of DTA on losses in light of above Ind AS provisions are as follows:

1. Deferred tax asset should be recognised due to existence of deductible temporary differences as the losses incurred will be adjustable in future (Paragraph 5 of Ind AS 12).
2. Creation of deferred tax is required even when the tax base of the asset is not adjusted which is the case in India (Paragraph 20 of Ind AS 12).
3. Reasonable certainty is required for creation of DTA under Ind AS. The company has classified its equity investments under non-current investments as the intention is to hold them over a longer period of time and keeping in view the past trends, the value of investment is likely to increase in future.

Arguments in favour of non-creation of DTA on losses in light of above Ind AS provisions are as follows:

1. There was no tax base and no tax liability as on 31.03.2018 since taxability u/s 112A arises after 01.04.2018 at the time of actual sale.
2. Paragraph 24 of Ind AS 12 forbids the recognition of a deferred tax asset if that asset arises from the initial recognition of an asset or liability in a transaction that at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

10. *Actual trend of value of investments:*

	Rs. per share			
	<b>Company A</b>	<b>Company B</b>	<b>Company C</b>	<b>Total</b>
<b>Cost Price</b>	<b>10</b>	<b>400</b>	<b>10</b>	<b>420</b>
<b>Market Value as on</b>				
- 31.01.2018	200	360	400	
- 31.03.2018	180	215	450	
- 30.06.2018	160	220	425	
Bonus in FY 2017-18 after 31.01.2018	Nil	1:2	Nil	
<b>Gain/(Loss) on base/ original shares as on</b>				
- 31.03.2018	(20)	(185)	50	(155)

- 30.06.2018	(40)	(180)	25	(195)
<b>Gain/(Loss) on Bonus shares as on</b>				
- 31.03.2018	-	107.50	-	107.50
- 30.06.2018	-	110	-	110
<b>Total Gain/(Loss) as on</b>				
- 31.03.2018	(20)	(77.50)	50	(47.50)
- 30.06.2018	(40)	(70)	25	(85)

## B. Query

11. In view of the above, opinion of the Expert Advisory Committee (EAC) has been sought by the querist on the following:

- (i) Whether accounting of deferred tax is applicable on fair value changes of equity investments covered under section 112A or tax effect to be given only at the time of sale.
- (ii) In case the deferred tax is to be recognised on items covered under section 112A:
  - (a) Whether deferred tax asset is to be recognised on fair value losses on investments or only the deferred tax liabilities and its reversal is to be recognised.
  - (b) Whether the deferred tax needs to be computed on total net gain/loss on all investments during the period or needs to be computed separately for individual investments.
- (iii) If the impact is to be given at the time of sale only, whether the items covered under section 112A is an exception to general principle of Ind-AS that tax impact of items in OCI is also to be netted off in OCI itself in the same period.
- (iv) Whether the bonus shares received after 31.01.2018 needs to be separately considered for computing tax u/s 112A or to be combined with original shares.
- (v) Whether for financial year (F.Y.) 2017-18:
  - (a) Company A – DTA needs to be created on the loss of Rs. 20 or not.
  - (b) Company B - DTA needs to be created on loss of Rs. 185 on original shares or not. DTL needs to be created on the gain of Rs. 107.50 on bonus shares or not.
  - (c) Company C - DTL needs to be created on the gain of Rs. 50 or not.
- (vi) Whether for first quarter (Q1) of 2018-19:

- (a) Company A – DTA needs to be created on the loss of Rs. 20 or not.
  - (b) Company B - DTL needs to be created on gain of Rs. 7.50 on original as well as bonus shares or DTA created in F.Y. 2017-18 needs to be reversed on gain of Rs. 5 on original shares and DTL needs to be created on gain of Rs. 2.50 on bonus shares. In other words, whether in case of bonus issue, no DTA can be created on loss incurred on original shares but DTL needs to be created on all MTM gains including bonus shares.
  - (c) Company C - DTL created in F.Y. 17-18 needs to be reversed on loss of Rs. 25 or not.
- (vii) In other words, how taxes need to be computed and accounted for F.Y. 2017-18 and Q1 of F.Y. 2018-19 for each of the investments listed in table provided in paragraph 10 above?

### C. Points considered by the Committee

12. The Committee notes that the basic issue raised by the querist relates to accounting for deferred tax arising on fair value changes in investments in equity shares of listed companies designated as at FVOCI under Ind AS 109 due to the enactment of section 112A under Income-tax Act for the financial year ended 31st March 2018 and for 3 months period ended on 30th June 2018. Accordingly, the Committee has restricted its opinion only to the accounting of deferred tax under Ind ASs and not looked into any taxation issues arising from the enactment of section 112A. At the outset, the Committee wishes to point out that the Committee has not looked into the specific numerical scenarios/trend provided by the querist in paragraph 10 above. Further, the Committee, while expressing its opinion hereinafter, has laid down the principles to be followed by the company in the extant case and has not specifically computed/calculated deferred tax impact (if any) in different scenarios provided by the querist. The Committee also notes that the investments in the extant case are investments other than investments in subsidiaries, associates and any joint venture and hence, the Committee has restricted its consideration to such investments only.

13. The Committee notes that section 112A of Income-tax Act was inserted vide Finance Bill 2018 and is applicable only on sale of equity shares on or after 1.4.2018. Therefore, an issue may arise as to whether the same should be considered while accounting for deferred taxes for the reporting period ending on 31<sup>st</sup> March, 2018. In this context, the Committee notes that Ind AS 12 contains following requirements with respect to measurement of deferred tax assets and liabilities:

**“47 Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.”**

The Committee notes that the Finance Act, 2018 was issued in the Official Gazette on 29<sup>th</sup> March 2018. Thus, the entire process of enactment, including the President’s assent, was complete prior to the balance sheet date. Therefore, the Committee is of the view that the

company should consider Finance Bill 2018 as enacted as at 31<sup>st</sup> March 2018 and should consider the requirements of section 112A for the reporting period ending on 31<sup>st</sup> March, 2018.

14. In paragraph 7 above, the company has provided one of the arguments for not recognizing DTA on account of section 112A is that the sale of investment had not taken place up to the reporting date, i.e., 31<sup>st</sup> March 2018. In this regard, the Committee notes that if the investments were sold up to the reporting date, there would have been no temporary difference since the investment would not have been there in the company's balance sheet as at 31<sup>st</sup> March 2018. The Committee further notes the requirements of Ind AS 12 as follows:

**“Temporary differences are differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Temporary differences may be either:**

- (a) taxable temporary differences, which are temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled; or**
- (b) deductible temporary differences, which are temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.**

**The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.”**

“20 Ind ASs permit or require certain assets to be carried at fair value or to be revalued (see, for example, Ind AS 16, *Property, Plant and Equipment*, Ind AS 38, *Intangible Assets* and Ind AS 109, *Financial Instruments*). In some jurisdictions, the revaluation or other restatement of an asset to fair value affects taxable profit (tax loss) for the current period. As a result, the tax base of the asset is adjusted and no temporary difference arises. In other jurisdictions, the revaluation or restatement of an asset does not affect taxable profit in the period of the revaluation or restatement and, consequently, the tax base of the asset is not adjusted. Nevertheless, the future recovery of the carrying amount will result in a taxable flow of economic benefits to the entity and the amount that will be deductible for tax purposes will differ from the amount of those economic benefits. The difference between the carrying amount of a revalued asset and its tax base is a temporary difference and gives rise to a deferred tax liability or asset. This is true even if:

- (a) the entity does not intend to dispose of the asset. In such cases, the revalued carrying amount of the asset will be recovered through use and this will generate taxable income which exceeds the depreciation that will be allowable for tax purposes in future periods; or

- (b) tax on capital gains is deferred if the proceeds of the disposal of the asset are invested in similar assets. In such cases, the tax will ultimately become payable on sale or use of the similar assets.”

From the above, the Committee notes that the temporary differences on the investments are based on the taxable or deductible amounts determining taxable profit or deductible loss in future periods when the carrying amounts of the investments are recovered. This is because deductible (taxable) temporary differences are differences between the carrying amount of an asset or liability in the statement of financial position and its tax base, which will result in amounts that are deductible (taxable) in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled. The temporary difference is based on the premise of future sale of the asset attracting taxable profit or tax deductible loss in future, rather than actual sale of the asset until the reporting date. Therefore, the Committee is of the view that the company’s argument is not sustainable. The company should consider the provisions of section 112A while recognizing and measuring the deferred tax asset and liability on the relevant investment. The Committee is further of the view that the deferred tax liability or asset should be computed separately for individual investments since the cost of acquisition, market value at 31<sup>st</sup> January 2018 and the fair value at the reporting date for each investment may vary and, resultantly, the tax base and temporary difference for each individual investment would vary.

15. The Committee is of the view that the company should account for deferred tax liability on the investments when there is taxable temporary difference arising between the carrying amount of an investment and the tax base under Ind AS 12. In this regard, the Committee notes paragraph 15 of Ind AS 12, which, inter alia, states, “A deferred tax liability shall be recognised for all taxable temporary differences, except ...” On the other hand, when there is a deductible temporary difference between the carrying amount of an investment and the tax base under Ind AS 12, the company shall account for deferred tax asset. For recognising deferred tax asset, the Committee notes that Ind AS 12 lays down the following requirements:

**“Deferred tax assets are the amounts of income taxes recoverable in future periods in respect of:**

- (a) deductible temporary differences;**
- (b) the carryforward of unused tax losses; and**
- (c) the carryforward of unused tax credits.”**

**“24 A deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:**

- (a) is not a business combination; and**

- (b) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

**However, for deductible temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements, a deferred tax asset shall be recognised in accordance with paragraph 44.”**

“26 The following are examples of deductible temporary differences that result in deferred tax assets:

...

- (d) certain assets may be carried at fair value, or may be revalued, without an equivalent adjustment being made for tax purposes (see paragraph 20). A deductible temporary difference arises if the tax base of the asset exceeds its carrying amount.”

“29 When there are insufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, the deferred tax asset is recognised to the extent that:

- (a) it is probable that the entity will have sufficient taxable profit relating to the same taxation authority and the same taxable entity in the same period as the reversal of the deductible temporary difference (or in the periods into which a tax loss arising from the deferred tax asset can be carried back or forward). In evaluating whether it will have sufficient taxable profit in future periods, an entity:

...

- (ii) ignores taxable amounts arising from deductible temporary differences that are expected to originate in future periods, because the deferred tax asset arising from these deductible temporary differences will itself require future taxable profit in order to be utilised; or
- (b) tax planning opportunities are available to the entity that will create taxable profit in appropriate periods.”

**“34 A deferred tax asset shall be recognised for the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.”**

From the above, the Committee notes that a deferred tax asset represents a future tax benefit. It is, therefore, necessary that the entity should have sufficient future taxable profits against which such benefit can be claimed. Ind AS 12 allows deferred tax asset to be recognised only to the extent that sufficient future taxable profits will be available against which the

deductible temporary differences can be utilised. The sources of taxable profits against which an entity can utilize deductible temporary differences include:

- future reversal of existing taxable temporary differences;
- taxable profit in future periods; and
- tax planning opportunities.

The Committee further notes that the Companies (Indian Accounting Standards) Amendments Rules, 2018, inter alia, inserted the following paragraphs in Ind AS 12:

“27A When an entity assesses whether taxable profits will be available against which it can utilise a deductible temporary difference, it considers whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. If tax law imposes no such restrictions, an entity assesses a deductible temporary difference in combination with all of its other deductible temporary differences. However, if tax law restricts the utilisation of losses to deduction against income of a specific type, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type.”

From the above, the Committee notes that the assessment of the availability of taxable profits against which a deductible temporary difference can be utilised should be made considering whether the relevant tax laws restrict the sources of taxable profits or the head of income against which that deductible temporary difference can be utilised. The company should consider the relevant provisions of Income-tax Act, including with respect to set-off of the long-term capital loss under section 112A against other long-term capital gains and the time limit up to which the unabsorbed loss can be carried forward and set-off against future long-term capital gains. The company should recognize deferred tax asset on long-term capital loss under section 112A only if it has reasonable certainty about taxable income/gain that would arise in future that can be set off against the unabsorbed capital loss within the prescribed time period. For this purpose, the company should consider, amongst others, future reversal of existing taxable temporary differences (for example, future capital gains against which the long term capital loss can be set-off, existing carried forward long term capital losses) and tax planning opportunities. The Committee is also of the view that while presenting the deferred tax asset/liability, the company should also consider the criteria provided in Ind AS 12 (paragraph 74) for offsetting deferred tax assets and deferred tax liabilities.

16. The Committee notes that if investments covered under section 112A are purchased by the company after 31<sup>st</sup> January 2018, then the provisions of deemed cost of acquisition under the section do not apply. Accordingly, the Committee is of the view that determination of cost of acquisition of bonus shares, viz., whether bonus shares allotted after 31st January 2018 should be considered at nil cost of acquisition or deemed cost of acquisition is a matter of interpretation of the provisions of Income-tax Act. Therefore, the Committee has not examined the matter. The company should determine the tax base under Ind AS 12 considering the relevant provisions, interpretations and legal pronouncements. In this context, the Committee notes that in case there is uncertainty about the tax position with regard to bonus shares, Ind AS 12 provides the following disclosure requirement:

“88 An entity discloses any tax-related contingent liabilities and contingent assets in accordance with Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets*. Contingent liabilities and contingent assets may arise, for example, from unresolved disputes with the taxation authorities. Similarly, where changes in tax rates or tax laws are enacted or announced after the reporting period, an entity discloses any significant effect of those changes on its current and deferred tax assets and liabilities (see Ind AS 10, *Events after the Reporting Period*).”

17. The Committee also notes that Ind AS 12 contains the following requirement:

**“61A Current tax and deferred tax shall be recognised outside profit or loss if the tax relates to items that are recognised, in the same or a different period, outside profit or loss. Therefore, current tax and deferred tax that relates to items that are recognised, in the same or a different period:**

- (i) in other comprehensive income, shall be recognised in other comprehensive income (see paragraph 62).**
- (b) directly in equity, shall be recognised directly in equity (see paragraph 62A).”**

Therefore, when the deferred tax relates to items that are recognised in other comprehensive income, the deferred tax is also recognised in other comprehensive income (OCI). Since the company has designated the investments as at FVOCI, the fair value gains and losses are also recognised in OCI. Consequently, the deferred tax arising from the investments should also be recognised in OCI.

#### **D. Opinion**

18. On the basis of above, the Committee is of the following opinion on the issues raised in paragraph 11 above:

- (i) As stated in paragraph 14 above, accounting for deferred tax under Ind AS 12 is applicable on fair value changes of equity investments including those covered under section 112A and the tax effect is required to be given in respect of all investments which are held as at 31st March 2018.
- (ii) (a) The company should recognize deferred tax asset on long-term capital loss under section 112A only if it has reasonable certainty about taxable income/gain that would arise in future that can be set off against the unabsorbed capital loss within the prescribed time period. For this purpose, the company should consider, amongst others, future reversal of existing taxable temporary differences (for example, future capital gains against which the long term capital loss can be set-off, existing carried forward long term capital losses) and tax planning opportunities, as discussed in paragraph 15 above.

- (b) The deferred tax liability or asset shall be computed separately for individual investments since the cost of acquisition, market value at 31 January 2018 and the fair value at the reporting date for each investment may vary and, resultantly, the tax base and temporary difference for each individual investment would vary, as discussed in paragraph 14 above. Further, the company should consider the relevant tax provisions, interpretations and legal pronouncements including the criteria provided in Ind AS 12 for offsetting deferred tax assets and deferred tax liabilities.
- (iii) Refer (i) above. As stated in paragraph 17 above, the deferred tax charge or income resulting from fair value remeasurement of investments that are designated as at FVOCI under Ind AS 109 shall be recognised directly in OCI since the fair value remeasurement is also recognised in OCI.
- (iv) Whether or not bonus shares allotted after 31<sup>st</sup> January 2018 should be considered at Nil cost of acquisition or deemed cost of acquisition is a matter of interpretation of the provisions of Income-tax Act. Therefore, the Committee has not looked in the matter. The company should calculate the tax base under Ind AS 12 considering the relevant provisions, interpretations and legal pronouncements. In case there is uncertainty regarding the tax position with regard to taxability of bonus shares or investments purchased after 31<sup>st</sup> January 2018, appropriate disclosures under Ind AS 12, as discussed in paragraph 16 above, should be provided.
- (v), (vi) and (vii) The company should consider the above-mentioned principles while considering the accounting for the deferred tax asset or liability in the scenarios provided in paragraph 10 above. Also refer paragraph 12 above.
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