Deloitte.



Towards greater alignment: Income Computation and Disclosure Standards and Indian Accounting Standards

October 2026

Table of contents

1. Background 04
2. Rationale for introducing ICDS 04
3. Evolution of ICDS 04
4. Scope and enforceability 06
5. Difference between ICDS and Ind AS framework 07
6. Difficulties faced by taxpayers due to ICDS–Ind AS differences 07
7. Objective of the report 08
8. Executive summary of certain key recommendations 08
   - 8.1 Recommendations on the incorporation of ICDS into Ind AS 08
   - 8.2 Adoption of Ind AS recognition and measurement principles for tax treatment 09
9. Provisions of the Act to be followed in the absence of specific treatment under ICDS or in other specific cases 11
10. Additional suggestions to bring tax certainty 12
    - 10.1 Suggestion for clarifications/amendments under the 2025 Act in case of differences in ICDS and Ind AS framework 12
    - 10.2 Suggestions on alignment of tax framework with Ind AS framework in the absence of any ICDS 12

Annexure A – Recommendation for incorporation of ICDS into Ind AS 13

Annexure B – Adoption of Ind AS recognition and measurement principles for tax treatment 17

Annexure C – Tax principles to be followed without any alignment between ICDS and Ind AS 31

Appendix: Illustrative financial statement disclosures 37

Connect with Us 38



1. Background

In the Union Budget 2026, the Finance Minister proposed to constitute a Joint Committee of the Ministry of Corporate Affairs (MCA) and the Central Board of Direct Taxes (CBDT) for incorporating the requirements of Income Computation and Disclosure Standards (ICDS) in the Indian Accounting Standards (Ind AS). It was announced that a separate accounting requirement based on ICDS will be done away with from the tax year 2027–28.[1]

The need for such alignment may have arisen from certain key considerations outlined below:[2]

01 The alignment of the two standards could potentially reduce compliance burden and promote ease of doing business.

02 The proposal to form the panel may have emerged from consultations of Parliament's joint committee on income tax, after repeated stakeholder representations on simplifying book-tax differences and reducing litigation.

2. Rationale for introducing ICDS

The primary rationale for introducing ICDS was to establish tax certainty and achieve uniformity in the computation of taxable income. As proposed in the Union Budget 2014–15, the government sought to use its powers under Section 145(2) of the Income Tax Act, 1961 (1961 Act), to notify a dedicated set of standards that would reduce the growing volume of litigation between taxpayers and the Department. By creating a separate framework for tax purposes, the government ensured that taxable income is computed consistently across all businesses, regardless of the different accounting standards (such as Ind AS) that taxpayers might use for their financial statements. However, with a view to simplifying compliance and promoting ease of doing business, there is a need for alignment between ICDS and Ind AS.

3. Evolution of ICDS

The journey of ICDS reflects a shift from Accounting Standards focused on financial reporting to a dedicated tax-specific framework. Below is the chronological evolution:

Early 1990s – The Genesis

Section 145(2) of the 1961 Act was introduced to allow the Central Government to notify 'Accounting Standards' for tax purposes. In 1996, two basic standards (Disclosure of Accounting Policies and Prior Period Items) were notified, but the framework remained largely inactive for nearly two decades.

2010–2012 – The committee stage

The CBDT formed an expert committee[3] to harmonise accounting standards with the 1961 Act. The committee recommended Tax Accounting Standards (TAS) to compute income for tax purposes precisely and objectively. This committee had originally formulated 14 TAS and submitted a final report along with a draft TAS in August 2012.

1. Budget Speech 2026
2. Article published in The Economic Times - Govt to form panel to align tax, accounting rules and cut India Inc compliance burden
3. vide order no. F. No. 134/48/2010-SO (TPL) dated 20 December 2010

July 2014 – Legislative foundation

Through the Finance Act, 2014, the government renamed TAS as ICDS and amended Section 145 (2) of the 1961 Act to provide the necessary legislative backing for their mandatory enforcement. The CBDT revised the draft of TAS recommended by the Committee and issued a revised draft of 12 ICDS, excluding the following TAS, which had earlier been suggested by the TAS Committee:

- AS-4 - Events occurring after the balance sheet date
- AS-5 - Net profit or loss for the period, prior period items and changes in accounting policies

31 March 2015 – First official notification

The CBDT notified 10 ICDS for the first time, originally slated to be effective from AY 2016–17. The final notification issued on 31 March 2015 dropped the following two standards at this final stage:

- Leases
- Intangible Assets

29 September 2016 – Rescission and re-issue

Based on stakeholder feedback and the need for smoother implementation, the 2015 standards were rescinded. A revised set of 10 ICDS was reissued on the same day. These were made applicable from AY 2017–18 (FY 2016–17) onwards.

23 March 2017 – Interpretational clarity (Circular No. 10/2017)

The CBDT issued a comprehensive set of 25 FAQs to address implementation hurdles. Key clarifications included:

- Judicial precedents – Confirmed that ICDS takes precedence over previous court rulings in respect of transactional issues dealt with in the ICDS.
- Minimum Alternate Tax (MAT)/ Alternate Minimum Tax (AMT) – Clarified that ICDS applies to AMT but not to MAT, as MAT is based on book profits.
- Presumptive regimes – Confirmed ICDS to be applied by taxpayers under presumptive schemes (such as Sec 44AD of the 1961 Act) also.

2018 – Judicial challenge and legislative fix

In the Chamber of Tax Consultants Vs. Union of India [2017] 87 taxmann.com 92 (Delhi HC) case, the Delhi High Court struck down certain parts of ICDS. However, the Government subsequently passed retrospective amendments through the Finance Act, 2018, to validate the standards and restore their enforceability. The following key provisions[4] were added or substituted in the 1961 Act:

1 Allowance of Marked to Market (MTM) losses

Section 36(1) (xviii) of the 1961 Act [corresponding to Section 32(1)(h) of the Income Tax Act, 2025 (2025 Act)]: This new clause was inserted to allow a deduction for MTM losses or other expected losses, provided they are computed in accordance with the notified ICDS.

Section 40A(13) of the 1961 Act (corresponding to Section 36(9) of the 2025 Act): To ensure consistency, this section was added to disallow any MTM or expected loss that is not specifically covered under Section 36(1)(xviii) of the 1961 Act (corresponding to Section 32(1)(h) of the 2025 Act).

2 Foreign exchange fluctuations

Section 43AA of the 1961 Act (corresponding to Section 43 of the 2025 Act): A new section was introduced to govern the taxation of foreign exchange gains or losses. It mandates that such fluctuations be treated as income or loss and computed as per ICDS, subject to existing provisions of Section 43A of the 1961 Act (corresponding to Section 42 of the 2025 Act) (relating to assets acquired from outside India).

3 Construction and service contracts

Section 43CB of the 1961 Act (corresponding to Section 57 of the 2025 Act): This section was inserted to validate the Percentage of Completion Method (POCM) for construction and service contracts except for certain service contracts. It further clarified that retention money must be included in contract revenue. It also prohibits reducing contract costs by incidental income (such as interest or dividends).

4 Valuation of inventory and securities

Section 145A of the 1961 Act (Substituted) (corresponding to Section 277(1) of the 2025 Act): The old Section 145A of the 1961 Act was replaced to mandate inventory valuation according to ICDS.

Inventory: Must be valued at the lower of actual cost or Net Realisable Value (NRV).

4. Finance Act, 2018

Securities: Listed securities not quoted regularly must be valued at actual cost, while other listed securities are valued at the lower of cost or NRV, compared category-wise rather than on an individual basis.

5 **Taxability of specific incomes**

Section 145B of the 1961 Act (corresponding to Section 278 of the 2025 Act): This new section was added to define the timing of taxability for certain items regardless of the method of accounting:

Escalation claims and export incentives: Taxable in the year in which reasonable certainty of realisation is achieved.

Government subsidies/grants: Deemed as income of the year of receipt, if not already charged to tax.

Post-2018 – Ind AS convergence and professional mapping

With the rollout of Ind AS for corporates, professional bodies and firms engaged in extensive mapping exercises. This period was marked by constant dialogue between the Government and tax professionals to manage the divergence between fair value accounting (Ind AS) and historical cost/realisation principles (ICDS).

2026 – Proposed integration (current status)

The Union Budget 2026 proposed the formation of a Joint Committee (MCA and CBDT) to incorporate ICDS requirements directly into Ind AS. This move aims to eliminate the need for separate ICDS computations starting from Tax Year 2027–28, effectively bringing the ICDS evolution to a full circle by returning to a unified accounting system.

4. Scope and enforceability

The legal framework for ICDS is established under Section 276(2) of the 2025 Act (corresponding to Section 145(2) of the 1961 Act). Its application is specific to tax computation and does not replace statutory book-keeping.

4.1 Scope

- ICDS applies specifically to the computation of income under two heads:
  - Profits and Gains of Business or Profession (PGBP)
  - Income from Other Sources (IFOS)
- Computation versus Accounting: ICDS is strictly for the computation of income for tax purposes. It does not require a taxpayer to maintain a separate set of books of account; however, it necessitates a reconciliation between "book profits" and "taxable income."

4.2 Applicability

ICDS is mandatory for all categories of assessees (companies, firms, AOPs, etc.) following the mercantile system of accounting, including persons computing income under the relevant presumptive taxation schemes. However, the following categories are excluded from the application of ICDS:

- Individuals and HUFs are not required to follow ICDS if they are not subject to tax audit under Section 63 of the 2025 Act (corresponding to Section 44AB of the 1961 Act).
- ICDS does not apply to taxpayers who maintain their books on a cash basis.
- ICDS is not applicable for calculating MAT under Section 206(1) of the 2025 Act (corresponding to Section 115JB of the 1961 Act)[5] but is applicable for calculating the AMT under Section 206(2) of the 2025 Act (corresponding to Section 115JC of the 1961 Act).

4.3 Enforceability

- Effective date: These standards became enforceable starting from Assessment Year (AY) 2017–18 (Financial Year 2016–17).
- Legal hierarchy: In the event of any conflict or inconsistency between the provisions of the Income-Tax Act and an ICDS, the provisions of the Income-Tax Act shall prevail to the extent of such conflict or inconsistency.
- Mandatory disclosure: Compliance is enforced through the Tax Audit Report (Form 3CD as per Income-Tax Rules, 1962 or Form 26 as per Income-Tax Rules, 2026), where the auditor must certify that the income has been computed in accordance with the notified ICDS and disclose any deviations.

5. MAT is not applicable in case of domestic companies opting to be taxed as per the new regime specified under section 200/201 of the 2025 Act.



4.4 Notified ICDS at a glance

Standard	Title
ICDS I	Accounting policies
ICDS II	Valuation of inventories
ICDS III	Construction contracts
ICDS IV	Revenue recognition
ICDS V	Tangible fixed assets
ICDS VI	Effects of changes in foreign exchange rates
ICDS VII	Government grants
ICDS VIII	Securities
ICDS IX	Borrowing costs
ICDS X	Provisions, contingent liabilities and assets

5. Difference between ICDS and the Ind AS framework

The objective of ICDS is to compute the income precisely and objectively. On the other hand, Ind AS aims to enhance transparency and international comparability of financial information, helping investors and regulators make informed decisions. It strengthens accountability by reducing information gaps and improves economic efficiency by enabling better capital allocation. Considering that the objectives of ICDS and Ind AS are different, there are differences in the measurement and timing of recognition of income and expenses, leading to differences in tax profits and accounting/book profits.

6. Difficulties faced by taxpayers due to ICDS–Ind AS differences

6.1 Dual record-keeping

Companies prepared financials under AS/Ind AS while separately computing tax using ICDS, requiring either parallel ledgers or extensive book-to-tax bridges and reconciliations. This is particularly challenging for certain industries such as financial services, NBFCs and investment companies, where Ind AS relies heavily on fair value accounting for financial instruments, while ICDS generally follows a historical cost or realisation-based approach, thereby increasing the volume of adjustments required for tax purposes.

6.2 Increased compliance burden

Tax audit reporting had to capture ICDS-specific disclosures and differences between P&L and taxable income, which expanded audit effort and documentation requirements. In industries with complex revenue models, such as technology services, infrastructure and commodities trading, these also required modifications to accounting systems and internal processes to track ICDS adjustments separately.

6.3 Timing differences and deferred tax

As ICDS creates timing differences, companies had to rework their deferred tax calculations. The impact was particularly visible in construction, real estate and infrastructure sectors, where ICDS provisions relating to revenue recognition could lead to earlier recognition

of taxable income compared to accounting income, thereby affecting cash flows and increasing deferred tax adjustments.

6.4 MAT versus regular tax divergence

Since MAT[6] is calculated based on Book Profits (Accounting Standards), and regular tax is calculated based on ICDS, the gap between the two has widened.

6.5 Increase in compliance and operational costs

Maintaining two separate frameworks for financial reporting and tax computation led to higher compliance and operational costs for companies. Businesses had to invest in additional accounting resources, system modifications, professional advisory services and internal controls to manage ICDS adjustments and reconciliations.

7. Objective of the report

The key objective of this report is to analyse how ICDS and Ind AS can potentially be aligned, considering tax principles, the objective of ICDS and the framework of Ind AS to the extent practical and feasible. The method followed in the report is as follows:

7.1 Comparative analysis

Perform a detailed analysis of ICDS provisions and corresponding Ind AS standards to determine certain key deviations in accounting and tax treatments.

7.2 Gap classification and impact assessment

Identify and categorise certain key differences into timing differences (impacting deferred tax) or valuation/ measurement gaps (impacting the carrying value of assets and liabilities), impacting the income of the taxpayers.

7.3 Alignment and point of view

Evaluate possible alignment of certain gaps, recommendations for transition, if any.

8. Executive summary of certain key recommendations

8.1 Recommendations on the incorporation of ICDS into Ind AS

ICDS I

- MTM or expected losses and gains to be routed through OCI

  MTM losses or expected losses are not considered in computing the taxable income unless allowable under other ICDS (i.e., ICDS II, ICDS VI, ICDS VIII). However, due to the valuation mechanisms prescribed in Ind AS, the MTM gains and losses based on many Ind AS form part of the statement of profit and loss (either under profit and loss or OCI). This leads to a mismatch between tax profit and book profit.

ICDS X

- Provisions for onerous contracts to be routed through OCI

  Onerous contracts are outside the scope of ICDS X, deferring loss recognition until crystallisation, while Ind AS 37 mandates recognition of provisions for onerous contracts when unavoidable costs exceed economic benefits, resulting in earlier book losses than tax deductions.

In the above cases, Ind AS may be aligned with ICDS by routing MTM gains or losses (which are not permitted under ICDS) and provisions for onerous contracts through OCI (if not routed through OCI but profit and loss) in the financial statements and not routing these items through the statement of profit and loss before they are realised or crystallised for tax purposes. It may also be provided in tax that profit before OCI is to be taken as the starting point for the computation of taxable income.

This approach could meet the objective of Ind AS to report MTM gains and losses, provision for onerous contracts and is also consistent with the objective of ICDS to compute income for tax purposes based on realised gains/losses.

ICDS III

- Incidental income to be reduced from contract costs

  ICDS III read with Section 57 of 2025 Act (corresponding to section 43CB of 1961 Act) provides that contract costs should be reduced by any incidental income (not being in the nature of interest, dividends and capital gains) that is not included in contract revenue (for example, sale of surplus material) whereas in the absence of any guidance in Ind AS, the said income is generally charged to the profit and loss in the year it is received. This leads to a mismatch between tax profit and book profit. Thus, Ind AS may be aligned with ICDS, i.e., contract costs to be reduced by

6. MAT is not applicable in case of domestic companies opting to be taxed as per the new regime specified under section 200/201 of the 2025 Act.

any incidental income (not being in the nature of interest, dividends and capital gains) that is not included in contract revenue.

ICDS V

- Replacement costs and major inspections to be expensed

  As per ICDS V, an expenditure that increases the future benefits from the existing asset beyond its previously assessed standard of performance is added to the actual cost. Therefore, the replacement cost of an item of property, plant and equipment and major inspections are generally expensed when incurred for tax purposes if the expense does not increase the life of the asset. However, as per Ind AS 16, an entity recognises in the carrying amount of an item of property, plant and equipment, the cost of replacing part of such an item when that cost is incurred and major inspection costs, if the recognition criteria are met. The inspection/replacement cost may be expensed in the tax profit, whereas it is capitalised in the books of accounts (if recognition criteria are met), leading to a difference in the book and tax profits. Thus, Ind AS may be aligned with ICDS, and the replacement and major inspection costs may be expensed unless the object of expenditure is to obtain a new advantage.

Alternative approach

If alignment as per ICDS (as suggested above) is not feasible under Ind AS, an alternative approach could be to incorporate explicit disclosures within the Ind AS financial statements reflecting the corresponding tax treatment, to facilitate clarity and reduce reconciliation challenges.

Detailed analysis and recommendations for the incorporation of ICDS into Ind AS for the differences between ICDS and Ind AS are provided in **Annexure A.**

8.2 Adoption of Ind AS recognition and measurement principles for tax treatment

ICDS II

- Presentation for the measurement of inventories

  The cost of the inventory as per ICDS II includes tax and duties, whereas Ind AS excludes duties and taxes, which are subsequently recoverable from the taxing authorities. Thus, the value of inventory as per Ind AS will be lower than the value as per ICDS to the extent of duties and taxes which are recoverable (by way of refund, input tax credit, etc.). As there is no impact on the taxable income on account of adjustments of duties and taxes required in the tax framework, it may be considered to align ICDS II with Ind AS by amending section 277 of the 2025 Act (corresponding to Section 145A of the 1961 Act). There will, however, be a one-time impact on the opening stock of the inventory to exclude the value of recoverable duties and taxes for which a transitional provision may be included in the tax law.

ICDS III

- Revenue recognition for contracts

  As per ICDS, contract revenue should be recognised when there is reasonable certainty of its ultimate collection. Further, revenue and costs of a construction contract shall be recorded as per the percentage of completion method. In contrast, Ind AS 115 requires revenue recognition based on satisfaction of performance obligations, determined by when control of goods or services transfers to the customer, either over time or at a point in time.

  This difference leads to timing mismatches in revenue recognition. Since Ind AS 115 is built on a completely different revenue recognition framework, which encourages more qualitative judgment and assessment of performance obligations and companies have already aligned their systems accordingly, reconciling with ICDS increases the overall burden on companies. Therefore, aligning ICDS with Ind AS principles would ensure revenue is taxed based on economic substance and also lower reconciliation and compliance efforts for taxpayers.

  In this regard, section 57 of the 2025 Act (corresponding to section 43CB of the 1961 Act) may be amended to allow revenue recognition based on satisfaction of performance obligations in line with Ind AS 115. Also, a specific transition provision may be introduced to ensure that revenue which has already been offered to tax under the percentage of completion method shall not be taxed again upon recognition under the Ind AS 115-based revenue recognition model and vice versa, to ensure that total income taxed over the life of the contract corresponds to the total contractual revenue.

ICDS IV

- Revenue recognition for the sale of goods

  ICDS IV recognises revenue from the sale of goods when the property in the goods or all significant risks and rewards of ownership is transferred to the buyer and the seller retains no effective control of the goods transferred, while Ind AS recognises revenue

based on a 5-step model for services and for goods and focuses on whether performance obligations are satisfied over time or at a point in time. ICDS uses a simpler, rule-based approach, whereas Ind AS follows substance-based accounting. ICDS I also provides for substance-based recognition of transactions and events. Aligning ICDS IV with Ind AS would ensure consistent application of the substance principle and also reduce compliance burdens by minimising reconciliation between accounting and taxable income. Also, a specific transition provision may be introduced to ensure that revenue which has already been offered to tax earlier shall not be taxed again upon recognition under the Ind AS 115-based revenue recognition model and vice versa.

ICDS VI

- Derivatives: MTM v/s settlement-based differences

  ICDS has a limited scope for foreign currency derivatives and mandates settlement-based recognition, while Ind AS 109 measures most derivatives at fair value with MTM gains or losses recognised in each reporting period. Under Ind AS, differences between the spot and forward rates are not recognised through a separate premium or discount amortisation mechanism; instead, such differences are subsumed within the fair-value measurement of the forward contract and recognised as part of the net gain or loss at each reporting date. Further, the definition of a forward exchange contract under ICDS VI has also led to interpretation issues on whether a particular instrument is covered under the definition or not, for example, a cross-currency interest rate swap.

  Aligning the definition of forward exchange contract under ICDS VI with Ind AS, removing the requirement for separate premium or discount amortisation on forward exchange contracts and accepting a fair-value-based measurement approach, consistent with Ind AS, may reduce disputes and compliance burden and improve alignment with recognised accounting principles.

ICDS VIII

- Pre-acquisition interest or dividend

  ICDS VIII requires pre-acquisition interest or dividend on securities to be reduced from the cost of the security, whereas Ind AS 109 generally recognises such amounts in profit or loss without adjusting the security's carrying amount. This creates differences in carrying values and the timing of income recognition, especially where Ind AS applies the effective interest rate method. Aligning tax treatment with Ind AS—treating pre-acquisition interest as revenue income rather than cost adjustment—would remove timing distortions and bring consistency with judicial trends that view broken period interest as revenue in nature.

- Valuation of securities

  ICDS requires a category-wise comparison of cost and NRV for securities, whereas Ind AS mandates security-level valuation, resulting in significantly different values for the same portfolio. This mismatch can artificially inflate or suppress profits under ICDS and increase compliance complexity for entities holding large numbers of instruments. Shifting to an Ind AS–aligned security level test would better reflect real market values and align tax outcomes with judicial precedent.

ICDS IX

- Income on temporary investment from borrowed funds

  ICDS requires the full interest expense on borrowed funds to be capitalised into the cost of an asset, while interest income earned from temporary investment of those funds is taxed separately as other income. In contrast, Ind AS 23 nets such interest income against specific-purpose borrowing costs, resulting in a lower capitalised cost and alignment of book value with economic reality. Aligning tax rules with the Ind AS approach would remove dual tracking and significantly reduce compliance burden.

ICDS X

- Recognition of provisions

  ICDS X requires provisions to be recognised only when an outflow is 'reasonably certain', while Ind AS 37 applies a lower 'probable' threshold, resulting in delayed tax recognition of provisions, timing differences between book and tax profits, deferred tax implications and increased litigation due to the undefined nature of 'reasonably certain'. In view of the same, ICDS may be aligned with Ind AS by adopting the 'probable' criterion, as this would reduce compliance burden, enhance certainty and align tax treatment with established judicial principles laid down by the Supreme Court in 'Rotork Controls India (P) Ltd.' [(2009) 314 ITR 62 (SC)]. Also, a specific transition provision may be introduced in the tax laws to allow deduction for provisions which could not be claimed in earlier years.

- Recognition of contingent assets

  While both frameworks prohibit recognition of contingent assets, ICDS X allows recognition when inflow becomes 'reasonably certain', whereas Ind AS 37 requires 'virtual certainty', leading to mismatches where income may be taxed earlier than recognised in books. Also, the terms 'reasonable certainty' and 'virtual certainty' are not defined, leading to differences in interpretation and application. Aligning ICDS with Ind AS by applying a 'virtually certain' threshold for income recognition would reduce the timing differences between book and tax profits and the interpretational issues in relation to the same. Also, a specific transition provision may be introduced in the tax laws to exclude any income with respect to contingent assets which has already been offered to tax in earlier years.

  The above has been discussed in detail in **Annexure B.**

9. Provisions of the Act to be followed in the absence of specific treatment under ICDS or in other specific cases

In the following cases, Ind AS provides specific treatment, whereas ICDS does not provide for any specific deviation/ treatment. Accordingly, in such cases, provisions of the Act and/or tax principles are followed to compute the income chargeable to tax. In view of the same, there is a difference in the book profits and tax profits on account of tax provisions/principles, and not ICDS. Thus, the question of alignment of ICDS with Ind AS does not arise.

ICDS II, ICDS IV and ICDS V

- Deferred settlement terms/Significant financing component

  As per Ind AS 2/ Ind AS 16, the difference between the purchase price of inventories/ assets for normal credit terms and the amount paid for deferred settlement terms is recognised as interest expense and not included in the cost of inventory/ asset. Thus, under Ind AS, interest is expensed, while under tax, interest is ordinarily capitalised into inventory/ asset cost.

  Similarly, as per Ind AS 115, the entity shall adjust the consideration for the effects of the time value of money when a significant financing component exists. An entity shall present the effects of financing (interest revenue or interest expense) separately from revenue from contracts in the profit and loss statement (over the period of the contract) (for example, subvention schemes). Thus, under Ind AS, the interest determined is charged to the profit and loss account, whereas in tax, the same is considered as a part of the contract revenue.

ICDS IV

- Variable consideration

  As per Ind AS, the entity shall include the variable consideration in the transaction price only to the extent it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Thus, there may be a difference in revenue recognition in tax and in books due to conditions prescribed in Ind AS for recognising variable consideration.

ICDS V

- Costs of dismantling and removing the item and restoring the site ('decommissioning costs')

  As per Ind AS, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is included in the costs of the asset. Thus, the cost of the asset recorded in the books will differ from the cost of the asset added to the block of assets as per tax to the extent of such decommissioning costs.

  In the following cases, the provisions of the Act address the differences between the treatment provided under ICDS and Ind AS, and alignment between the two standards is not required.

ICDS VII

- Initial recognition of government grants

  The key difference between ICDS VII and Ind AS 20 lies in the timing of recognising government grants. Ind AS permits recognition only when there is reasonable assurance of compliance, whereas ICDS mandates that recognition cannot be postponed beyond the actual date of receipt. This creates mismatches in the timing of income recognition or depreciation. As section 278 of the 2025 Act (corresponding to section 145B of the 1961 Act) already provides for taxability of grants, alignment is not required for tax purposes.

- Treatment of government grants relating to fixed assets

  ICDS VII requires government grants for depreciable fixed assets to directly reduce the asset's actual cost or written down value, while Ind AS 20 allows either deferred income recognition or reducing the carrying amount. The deferred income recognition method leads to differences in timing and asset

values between the two frameworks. Without altering the provisions under Ind AS, the grant relating to a depreciable fixed asset may be reduced from the asset cost / WDV of the asset based on section 39(1)(d) of the 2025 Act.

The above has been discussed in detail in **Annexure C,** along with some other differences in ICDS and Ind AS for which tax principles can be applied, and alignment of ICDS and Ind AS may not be required.

10. Additional suggestions to bring tax certainty

10.1 Suggestion for clarifications/amendments under the 2025 Act in case of differences in ICDS and Ind AS framework

- Taxability of interest on tax, duty or cess

  As per ICDS IV, interest on any tax, duty or cess shall be deemed to be the income of the year in which such interest is received. As per Ind AS, interest may be generally recorded in books on an accrual basis. Thus, there is a timing difference in revenue recognition (for example, interest on income tax refund may be recorded in the books in the year when the order is passed. However, the interest may be offered to tax in the year of receipt which may be a subsequent tax year). Accordingly, it may be codified in the Act itself to provide that interest on refund is to be taxed on actual receipt to incorporate the principles of ICDS IV into the tax framework and provide tax certainty.

- Refund of government grants relating to fixed assets

  For tax purposes, notwithstanding the accounting treatment adopted under Ind AS, any refund of a government grant relating to a depreciable asset shall be given effect by increasing the actual cost or WDV of the asset or block of assets by the amount refunded, with depreciation to be allowed prospectively on the revised amount. An explicit provision may be introduced in the tax law to codify the above treatment.

10.2 Suggestions on alignment of tax framework with Ind AS framework in the absence of any ICDS

- Recognition of financial lease in the tax framework

  Under Ind AS 116, the lessor classifies leases as operating or financial leases based on economic substance. In contrast, the tax framework does not explicitly provide conditions for such recognition, resulting in a mismatch, particularly in relation to depreciation. Accordingly, the tax framework may be aligned to recognise financial leases in line with substance (a principle already embedded in ICDS I) as laid down under Ind AS 116, thereby ensuring consistency between accounting and tax outcomes. Consequently, Circular No. 2/2001 dated 9 February 2001 (Finance lease agreements – Effect of publications of accounting standards on allowability of depreciation), which states that by itself accounting standards will have no implication on the allowance of depreciation on assets under the provisions of the 1961 Act, may also be withdrawn for companies following Ind AS.

- Recognition of expenditure on Employee Stock Option Plans (ESOP) and other similar instruments

  Ind AS 102 requires ESOP expense to be recognised over the vesting period based on the grant-date fair value of the options. The Income-tax Act does not contain any specific provision governing the deductibility of ESOP expenditure. Consequently, the issue has been the subject matter of significant litigation and uncertainty.

  The Karnataka High Court in CIT (LTU) v. Biocon Ltd.[7] held that the discount on the issue of ESOPs constitutes employee compensation and represents an ascertained business expenditure allowable as a deduction under section 37(1) of the 1961 Act. The decision supports recognition of ESOP expenditure in line with the accounting treatment adopted over the vesting period. However, the issue has not attained finality, as the Revenue's Special Leave Petition against the decision has been admitted by the Supreme Court.

  In view of the absence of explicit statutory guidance and the continuing litigation on the issue, a specific provision may be introduced to allow deduction of ESOP expenditure in accordance with its recognition under Ind AS 102. Clarity may also be provided for true-up adjustment based on the fair market value of shares on the date of exercise. Since Ind AS accounting reflects the economic substance of the transaction, a principle also recognised under ICDS I, alignment of tax deductibility with the accounting treatment would reduce litigation and provide greater certainty to taxpayers and tax authorities alike.

7. CIT (LTU) v. Biocon Ltd. [(2020) 121 taxmann.com 351 (Karn)

Annexure A – Recommendation for incorporation of ICDS into Ind AS

Sr. No.	Topic	ICDS I (Accounting policies)	Ind AS 1 (Presentation of Financial Statements) and Ind AS 8 (Accounting Policies, Changes in Accounting Estimates and Errors)	Difference and impact assessment	Possible method of alignment
1.	Mark-to-Market (MTM) or Expected Losses and Gains	MTM losses or expected losses are not considered in computing the taxable income unless allowable under other ICDS (say ICDS II, ICDS VI, ICDS VIII), which is also in accordance with section 32(h) read with section 36(9) of the 2025 Act (corresponding to section 36(1)(xviii) read with section 40A(13) of the 1961 Act). Further, as per Question 8 of the CBDT Circular No 10/2017 dated 23 March 2017, MTM or expected gains are also not taxable.	Due to the valuation mechanisms prescribed in Ind AS, the MTM gains and losses based on many Ind AS (for example, Ind AS 109) form part of the statement of profit and loss (either being part of Profit and Loss or OCI).	There is a mismatch in tax profit vis-à-vis book profit to the extent of MTM gains and losses provided in the books and not allowed/ recognised for tax purposes. This increases the burden on taxpayers for reconciliation and compliance.	MTM gains or losses are unrealised income or losses and therefore cannot be recognised for tax purposes unless specifically provided for. Therefore, principles of ICDS on MTM gains or losses need to be incorporated in Ind AS, where Ind AS is not in alignment with ICDS. MTM gains and losses (which are not permitted under ICDS) can be routed through OCI in the financial statements and thus, excluded from the profit and loss until realised for tax purposes. Further, for computing income under the head Profit and Gains of Business and Profession, the starting point for the computation of income may be taken as profit before OCI. This may be provided in the tax laws if the suggested approach is accepted. The aforesaid approach meets the objective of Ind AS to report MTM gains and losses. Further, it is also consistent with the objective of ICDS to compute income for tax purposes based on realised gains/losses. Further, the tracking of MTM losses and gains will become simpler for taxpayers. However, if such alignment is not feasible under Ind AS, explicit disclosures may be made in the financial statements reflecting the corresponding tax treatment for MTM gains and losses. Manner of disclosure in the financial statement, with an example, is provided in the Appendix.

Sr. No.	Topic	ICDS III (Construction contracts)	Ind AS 115 (Revenue from contracts with customers)	Gap	Possible method of alignment
1.	Incidental income	ICDS III read with Section 57 of the 2025 Act (corresponding to section 43CB of the 1961 Act) provides that contract costs should be reduced by any incidental income not being in the nature of interest, dividends and capital gains, that is not included in contract revenue (for example, sale of surplus material)	No guidance is provided. Accordingly, the income is generally charged to the profit and loss in the year it is received.	Under ICDS, incidental income reduces contract costs and is recognised proportionately using the percentage of completion method, whereas under Ind AS, the entire incidental income is recognised in the year it is received. This creates temporary differences in taxable profit and book profit, leading to deferred tax calculation.	Ind AS may be aligned with ICDS, i.e., contract costs to be reduced by any incidental income not being in the nature of interest, dividends and capital gains, that is not included in contract revenue. This would align with the ruling of CIT vs Bokaro Steel Ltd [1999] (236 ITR 315) (SC) wherein it was held that receipts which are intrinsically connected with the construction of the asset should be reduced from the cost of construction. Aligning the treatment of incidental income under ICDS with Ind AS would ensure that the timing and method of recognition are consistent across both frameworks. This would simplify compliance for taxpayers and minimise the need for adjustments or reconciliations between accounting profits and taxable income. Where such alignment with tax principles is not feasible under Ind AS, an alternative approach could be to incorporate explicit disclosures within the Ind AS financial statements reflecting the corresponding tax treatment, to facilitate clarity and reduce reconciliation challenges.
2.	Revenue recognition where the outcome of the contract cannot be estimated reliably	The percentage of completion method is applicable, except during the early stages of a contract when the outcome of the contract cannot be estimated reliably. The early stage of a contract should not extend beyond 25 percent of the stage of completion. In this case, revenue is recognised to the extent of costs incurred.	No specific thresholds were specified to determine the early stage of a contract.	There may be a timing difference in revenue recognition. This may lead to a mismatch in the book and tax profits, leading to deferred tax adjustments.	Ind AS may be aligned with ICDS to provide for a threshold of 25 percent. This may ensure consistency and reduce reconciliations.

Sr. No.	Topic	ICDS V (Tangible fixed assets)	Ind AS 16 (Property, plant and equipment)	Gap and impact	Possible method of alignment
1.	Spare parts, stand-by equipment and servicing equipment	As per ICDS, stand-by equipment and servicing equipment are to be capitalised. Further, machinery spares shall be charged to the revenue as and when consumed ('regular spares'). However, when such spares can be used only in connection with an item of tangible fixed asset and their use is expected to be irregular, they shall be capitalised.	Spare parts, stand-by equipment and servicing equipment are to be recognised as assets if they meet the definition of Property, Plant and Equipment. Otherwise, they are classified as inventory. Property, plant and equipment are tangible items that: (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and (b) are expected to be used during more than one period.	In case the spare parts (other than regular spares), stand-by equipment and servicing equipment are recognised as inventory, the same may be expensed to the profit and loss account, which are otherwise required to be capitalised under ICDS. The amount expended for spare parts, stand-by equipment, and servicing equipment, which has been debited to the profit and loss account, will have to be added to the profit in computing the taxable income and added to the appropriate block of assets, with a corresponding depreciation claim.	For spare parts (other than regular spares), stand-by equipment and servicing equipment, the treatment under Ind AS 16 may be aligned with ICDS V, i.e., such items should generally be capitalised when they are acquired. The ICDS has provided certainty on the treatment of assets being classified as spare parts, service equipment and stand-by equipment without providing any recognition criteria. Hence, the same may be adopted in Ind-AS as well. This alignment will reduce the reconciliations to be prepared by taxpayers due to different treatment in accounting and tax for the same assets. Where such alignment with tax principles is not feasible under Ind AS, an alternative approach could be to incorporate explicit disclosures within the Ind AS financial statements reflecting the corresponding tax treatment, to facilitate clarity and reduce reconciliation challenges.
2.	Replacement costs and major inspections	An expenditure that increases the future benefits from the existing asset beyond its previously assessed standard of performance is added to the actual cost. ICDS V does not specifically provide treatment for major inspection costs.	An entity recognises in the carrying amount of an item of property, plant and equipment, the cost of replacing part of an item when that cost is incurred, and the major inspection cost if the recognition criteria are met.	The inspection/ replacement cost may be expensed in the tax profit when the cost incurred does not lead to an increase in benefit as compared to the earlier standard of performance, whereas it is capitalised in the books of accounts (if recognition criteria are met), leading to a difference in the book and tax profits. Also, for the derecognised parts, book profit may be higher or lower than tax profit.	Ind AS may be aligned with ICDS, and the replacement and major inspection costs may be expensed unless the object of expenditure is to obtain a new advantage. This is in alignment with the principle laid down by the Hon'ble Supreme Court in CIT v Saravana Spg. Mills (P.) Ltd [2007] 293 ITR 201 (SC) This will align tax and book profit, thereby reducing the reconciliations to be prepared for the items of costs expensed as per tax and capitalised in the books.

Sr. No.	Topic	ICDS V (Tangible fixed assets)	Ind AS 16 (Property, plant and equipment)	Gap and impact	Possible method of alignment
		Therefore, the replacement cost of an item of property, plant and equipment (where it does not increase the life of the asset/standard of performance) and major inspection costs are generally expensed when incurred.	The carrying amount of those parts that are replaced is derecognised: (a) on disposal; or (b) when no future economic benefits are expected from its use or disposal.	The amount capitalised in the accounts will have to be added as an expenditure to be claimed in computing the taxable income, and an adjustment for derecognition will have to be made for tax profits, with no addition/deletion to be made to the block of assets, for depreciation claim.	Where such alignment with tax principles is not feasible under Ind AS, an alternative approach could be to incorporate explicit disclosures within the Ind AS financial statements reflecting the corresponding tax treatment, to facilitate clarity and reduce reconciliation challenges. Manner of disclosure in the financial statement, with an example, is provided in the Appendix.

Sr. No.	Topic	ICDS X ('Provisions, contingent liabilities and contingent assets')	Ind AS 37 (Provisions, contingent liabilities and contingent assets)	Gap and impact	Possible method of alignment
1.	Onerous contracts	Executory contracts are outside the scope of ICDS X. Hence, losses expected on onerous executory contracts are generally not recognised until the liability crystallises.	Under Ind AS 37, an entity must recognise a provision when a contract becomes onerous, i.e., when the unavoidable cost of meeting the contractual obligation exceeds the economic benefits expected. The provision equals the lower of the cost of fulfilment or compensation/ penalty for non-performance.	There would be a mismatch in tax profit vis-à-vis book profit to the extent of provisions recognised in the books for onerous contracts and not allowed as per ICDS.	The provision in respect of onerous contracts may be recognised through OCI. The starting point for the computation of income for tax purposes could be the profit before OCI, which does not include provisions in respect of onerous contracts. When the loss actually crystallises, the loss could be reclassified to P&L to be recognised even for tax. Where such alignment through OCI is not feasible under Ind AS, an alternative approach could be to incorporate explicit disclosures within the Ind AS financial statements reflecting the corresponding tax treatment, to facilitate clarity and reduce reconciliation challenges. Refer to the Appendix for the suggested manner of disclosure and example.

Annexure B – Adoption of Ind AS recognition and measurement principles for tax treatment

Sr. No.	Topic	ICDS II (Valuation of inventories)	Ind AS 2 (Inventories)	Gap and impact	Adoption of Ind AS principles for tax purposes
1.	Inventories Cost of Purchases – duties and taxes	The cost of inventory includes duties and taxes. [Inclusive method]	The costs of inventory exclude duties and taxes, which are subsequently recoverable from the taxing authorities [Exclusive method].	The value of inventory as per Ind AS will be lower than the value as per ICDS to the extent of duties and taxes which are recoverable (by way of refund, input tax credit, etc.). Irrespective of whether a taxpayer adopts the inclusive method or the exclusive method of valuing inventories, there would be no impact on the income from a tax perspective. This is also affirmed by [2003] Indo Nippon Chemicals Co. Ltd (261 ITR 275) (SC). However, taxpayers are required to maintain dual valuation systems for inventory.	As there is no impact on the taxable income on account of adjustments of duties and taxes while valuing inventories following the exclusive method prescribed under Ind AS 2, it may be considered to align ICDS II with Ind AS 2 for the valuation of inventory by amending section 277 of the 2025 Act (corresponding to Section 145A of the 1961 Act). There will, however, be a one-time impact on the opening stock of the inventory to exclude the value of recoverable duties and taxes for which a transitional provision may be included in the tax law. Further, there will be no loss to revenue on account of the said change.

Example:

- There are no opening stocks. 100 units are purchased at INR10 per unit, plus INR2 for GST, aggregating to INR12.
- 60 units are sold in the year. The remaining 40 units are sold in the subsequent year.
- The units are sold at a price of INR12 per unit (plus GST of INR3 per unit).

Exclusive method (Net method)

Particulars	Unit	Rate	Amt	Particulars	Unit	Rate	Amt
Purchase	100	10	1000	Sales	60	12	720
				Closing stock	40	10	400
Profit			**120**				
Total			**1120**	**Total**			**1120**

Sr. No.	Topic	ICDS II (Valuation of inventories)	Ind AS 2 (Inventories)	Gap and impact	Adoption of Ind AS principles for tax purposes

Inclusive method (Gross method)

Particulars	Unit	Rate	Amt	Particulars	Unit	Rate	Amt
Purchase	100	12	1200	Sales	60	15	900
GST paid on the sale of goods is included in sales	60	3	180	Closing stock	40	12	480
				GST credit availed and utilised on COGS	60	2	120
Profit			**120**				
Total			**1500**	**Total**			**1500**



Sr. No.	Topic	ICDS III relating to construction contracts	Ind AS 115 (Revenue from contracts with customers)	Gap and impact	Adoption of Ind AS principles for tax purposes
1.	Revenue recognition - Timing	Contract revenue should be recognised when there is reasonable certainty of its ultimate collection. Further, revenue and costs of a construction contract shall be recognised as per the percentage completion method, i.e., on the basis of the stage of completion. Section 57 of the 2025 Act (corresponding to section 43CB of the 1961 Act) also provides for the percentage of completion method for recognition of profits and gains from a construction contract.	An entity shall recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service (i.e., asset) to the customer. An asset is transferred when the customer obtains control of that asset. An entity transfers control of a good or service over time and therefore satisfies a performance obligation and recognises revenue over time, if any of the prescribed conditions are met. If not, then the performance obligation is satisfied at a point in time, and hence, revenue is recognised at a point in time.	ICDS prescribes a mandatory percentage of completion method without offering alternative measurement approaches, whereas Ind AS 115 follows a performance-obligation model based on transfer of control, and does not focus only on costs incurred. Consequently, in contracts where a performance obligation is not satisfied over time (for example, construction of an asset based on the design provided by the customer to be delivered after completion, which may take a period of say 18 months), revenue will be recognised at a point in time, whereas ICDS would still require recognition based on the stage of completion. Due to differences in the framework, there may be differences in the recognition of income under ICDS and Ind AS.	Ind AS 115 is built on a completely different revenue recognition framework compared to ICDS III. Ind AS focuses on performance obligations and transfer of control, whereas ICDS primarily relies on percentage of completion rules. As a result, trying to adjust accounting systems to match ICDS treatment can become cumbersome. In addition, Ind AS was implemented less than a decade ago, and companies have already aligned their ERP, processes, and controls to this framework. Making further changes to their systems solely to incorporate ICDS requirements may increase the overall burden on companies. Further, Ind AS also encourages more qualitative judgment and assessment of performance obligations, unlike ICDS, which is quantitative and mechanical. Given the above, ICDS may be aligned with Ind AS principles for determining the timing of revenue recognition. Alignment would ensure that revenue is taxed based on the economic substance of contractual performance, consistent with Ind AS 115 principles. Furthermore, such alignment would reduce the compliance burden on taxpayers by minimising the need for reconciliation between accounting profits and taxable income. In this regard, section 57 of the 2025 Act (corresponding to section 43CB of the 1961 Act) may be amended to allow revenue recognition based on satisfaction of performance obligations in line with Ind AS 115. Also, a specific transition provision may be introduced to ensure that revenue which has already been offered to tax under the percentage of completion method shall not be taxed again upon recognition under the Ind AS 115-based revenue recognition model and vice versa, to ensure that total income taxed over the life of the contract corresponds to the total contractual revenue.

Sr. No.	Topic	ICDS IV relating to revenue recognition	Ind AS 115 (Revenue from contracts with customers)	Gap and Impact	Adoption of Ind AS principles for tax purposes
1.	Sale of goods – Revenue recognition	The revenue shall be recognised when the seller of goods has transferred to the buyer the property in the goods for a price, or all significant risks and rewards of ownership have been transferred to the buyer, and the seller retains no effective control of the goods transferred to a degree usually associated with ownership. If the transfer of property in goods does not coincide with the transfer of significant risks and rewards of ownership, revenue in such a situation shall be recognised at the time of transfer of significant risks and rewards.	An entity shall recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service (i.e., asset) to the customer. An asset is transferred when the customer obtains control of that asset. Control of an asset refers to the ability to direct the use of and obtain all the remaining benefits from the asset substantially. An entity transfers control of a good or service over time and therefore satisfies a performance obligation and recognises revenue over time, if any of the prescribed conditions are met. If not, then the performance obligation is satisfied at a point in time, and hence, revenue is recognised at a point in time.	There will be a timing difference in revenue recognition, considering that Ind AS may recognise income at a point in time, whereas, as per ICDS, income for tax purposes may be recognised over a period of time leading to differences between tax and books profits.	Due to the difference in frameworks, ICDS may be aligned with Ind AS, and hence revenue may be recognised as per the criteria laid down in Ind AS. Ind AS follows substance-based accounting and ICDS I also provides for substance-based recognition of transactions and events. By following Ind AS, the substance criteria will be taken care of. This would also be supported by the case law of CIT v. Virtual Soft Systems Ltd. [2018] (404 ITR 409), which provides that if the method of accounting followed is a valid method of capturing real income based on the substance of a transaction, the same can be followed for tax purposes. Furthermore, such alignment would reduce the compliance burden on taxpayers by minimising the need for reconciliation between accounting profits and taxable income. Also, a specific transition provision may be introduced to ensure that revenue which has already been offered to tax earlier shall not be taxed again upon recognition under the Ind AS 115-based revenue recognition model and vice versa.

Sr. No.	Topic	ICDS IV relating to revenue recognition	Ind AS 115 (Revenue from contracts with customers)	Gap and Impact	Adoption of Ind AS principles for tax purposes
		Example: Sale of residential units by a real estate developer As per Ind AS - In case the real estate developer satisfies conditions for performance obligation over time, then the revenue will be recognised over time. If conditions prescribed for recognising income over time are not satisfied, income would be required to be recognised at a point in time when control passes on to the customers (say, on transfer of title or possession). As per Ind AS, revenue may be recognised at a point in time when the buyer gets possession, as the buyer does not have control over the asset until that time. As per ICDS – In certain situations, the agreement for sale between developer and buyer may be considered to have the effect of transferring all significant risks and rewards of ownership to the buyer, even though the legal title is not transferred or the possession of the real estate has not been transferred to the buyer. In such a case, any acts on the real estate performed by the seller may be considered to be performed on behalf of the buyer in a manner similar to a contractor. Accordingly, revenue in such cases may be recognised by applying the percentage of completion method. In view of the above, there could be differences in the recognition of income under accounting and for tax purposes.			



Sr. No.	Topic	ICDS V relating to tangible fixed assets	Ind AS 16 (Property, plant and equipment)	Gap and impact	Adoption of Ind AS principles for tax purposes
1.	Costs to be capitalised	The expenditure incurred till the plant has begun commercial production, that is, production intended for sale or captive consumption, shall be treated as capital expenditure, i.e., expenses incurred in the interval when the plant is ready to commence commercial production and when it actually commences production may also be required to be capitalised. Reference may be drawn to Question No 15 of the CBDT Circular No 10/2017 dated 23 March 2017.	Directly attributable costs may be capitalised only until the asset is "capable of operating in the manner intended by management". If an asset is purchased or constructed and can operate in that manner immediately, costs incurred whilst the asset is standing idle may not be capitalised.	There is a difference in the cost of the asset to the extent of expenses incurred in the interval between when the asset is ready to commence commercial production and when it actually commences production. The said amount expended in the accounts will have to be added to profit in computing the taxable income and added to the appropriate block of assets, with a corresponding depreciation claim. Thus, the taxable profit is higher than the book profit.	As per the ruling of CIT versus Escorts Tractors Ltd. (56 taxmann.com 333) (Delhi HC), depreciation can be claimed once the trial run is done. Thus, a corollary should follow that all expenses after the trial run (post which the asset is ready to use) should be revenue expenses. Accordingly, ICDS may be aligned with Ind AS, and it may be clarified that costs are to be capitalised only until the asset is "capable of operating in the manner intended by management," i.e., expenses incurred in the interval when the plant is ready to commence commercial production and when it actually commences production shall not be capitalised. This may be relevant only for cases where business operations have already commenced. This will align the cost of the asset as per books and tax records, thereby reducing the reconciliations to be prepared for the items of costs capitalised as per tax and expensed in the books.



Sr. No.	Topic	ICDS VI (Effects of changes in foreign exchange rates)	Ind AS 21 (The effects of changes in foreign exchange rates)	Gap and impact	Adoption of Ind AS principles for tax purposes
1.	Scoping for derivatives	Treatment of foreign currency transactions in the nature of forward exchange contracts is covered by this ICDS. "Forward exchange contract" includes a foreign currency option contract or another financial instrument of a similar nature. It does not cover all types of derivatives (for example, embedded derivatives, options).	Ind AS 109 covers the recognition and measurement of almost all derivatives (options, forwards, swaps, futures). Ind AS 21 applies to the translation of these derivative-related amounts from a foreign currency into the functional currency. Furthermore, for embedded derivatives (derivatives within host contracts), Ind AS 109 and Ind AS 21 work together to determine if the derivative must be 'separated' and how the host transaction is translated. Accordingly, these standards have a much wider scope than ICDS.	ICDS VI has a narrow scope covering only Forward Exchange Contracts and similar instruments, whereas Ind AS 109 is much broader, covering almost all derivatives and embedded derivatives. Accordingly, certain foreign currency derivatives fall under Ind AS but are outside ICDS coverage. • Items measured at fair value under Ind AS may not be recognised under ICDS, creating timing differences. • Derivatives used for hedging may receive different accounting treatments, affecting profit recognition. • Leads to mismatches in tax computation, increasing provisioning complexities.	The definition of "forward exchange contract" under ICDS VI is inclusive and covers other financial instruments of a similar nature. Such an inclusive definition gives rise to interpretational ambiguity and litigation issues. In case of ACIT v. Jamnagar Utilities and Power Pvt. Ltd. (ITA Nos. 5312 and 5310/Mum/2024), issue arose whether cross currency interest rate swaps ('CCIRS') are forward exchange contracts. The department argued that they are covered whereas assessee argued that the features of CCIRS are not akin to forward exchange contract and therefore, are not covered under the definition of forward exchange contract as defined in ICDS VI. The Tribunal held that CCIRS entered by the assessee is covered by the expression "another financial instrument of a similar nature" and is, therefore, to be treated as forward exchange contracts for the purpose of the standard. Similar issues may also arise for other instruments. A clearer and more aligned framework consistent with the Ind AS may reduce litigation and improve certainty in tax computation.
2.	Accounting for forward exchange contracts	In respect of forward exchange contracts not intended for trading or speculation purposes, premium or discount arising at the inception of such a contract shall be amortised as expense or income over the life of the contract.	Accounted for as a derivative under Ind AS 109, wherein derivatives are measured at fair value with change in fair value recognised in profit or loss unless they qualify as hedging instruments in a cash flow hedge or in a net investment hedge.	ICDS uses settlement-based recognition and an amortised premium/discount model. Ind AS uses fair-value measurement. This causes significant timing differences.	Under Ind AS, differences between the spot and forward rates are not recognised through a separate premium or discount amortisation mechanism; instead, such differences are subsumed within the overall fair value measurement of the forward contract and recognised as part of the net gain or loss at each reporting date.

Sr. No.	Topic	ICDS VI (Effects of changes in foreign exchange rates)	Ind AS 21 (The effects of changes in foreign exchange rates)	Gap and impact	Adoption of Ind AS principles for tax purposes
		For other forward exchange contracts that are intended for trading or speculation purposes or that are entered into to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction, a premium, discount or exchange difference shall be recognised at the time of settlement.	MTM gains/losses are recognised every reporting period.	Further, ICDS does not permit MTM remeasurement unless the contract is settled, while Ind AS requires periodic revaluation. MTM gains/losses recognised under Ind AS are not recognised under ICDS, leading to: • Tax computation differences. • Deferred tax implications. • Distortion in effective tax rate and provisioning.	Accordingly, removing the requirement for separate premium or discount amortisation on forward exchange contracts and accepting the approach of fair-value measurement as per Ind AS may reduce disputes and compliance burden, improve alignment with recognised accounting principles. Some suggestions for transitional provisions are as follows: 1. The revised treatment should apply prospectively only to forward exchange contracts entered into on or after the effective date. 2. For forward contracts outstanding on the transition date, the methodology followed under ICDS of amortising the premium/ discount may be continued.
	Example: Importer buys goods worth US$10,000 on 1 Feb @ 92 Payment due in 3 months (30 April). To hedge, the importer enters a forward contract to buy US$ on 30 April @ 93. US$ value at 31 March is 91, at 30 April is 94 and MTM as on 31 March is 92.5	Premium amortised as on 31 March is INR6,667 (i.e., 10000/3*2) No MTM gain/loss is recognised. Forex restatement of liability will be a gain of INR10,000 [being (92–91)*10000] Net ICDS impact is INR3333 (10000-6667)	Restating payable at the closing rate Gain of INR10,000 [being (92–91)*10000] – Same as ICDS Forward contract fair value = (Forward market rate, i.e., MTM rate on 31 March – contracted forward rate) × amount, i.e., loss of INR5000 [(92.50 – 93.00) × US$10,000)] Net Ind AS impact is INR5000		

Sr. No.	Topic	ICDS VIII (Securities)	Ind AS 109 (Financial instruments)	Gap and impact	Adoption of Ind AS principles for tax purposes
1.	Pre-acquisition interest and dividend	Where unpaid interest has accrued before the acquisition of an interest-bearing security and is included in the price paid for the security, such pre-acquisition interest is deducted from the cost.	No specific guidance is provided in Ind AS Under the Effective Interest Rate (EIR) method, such amounts are generally recognised in profit or loss as income unless they reduce the instrument's effective yield. Ind AS does not mechanically adjust the carrying amount of the financial asset as ICDS does.	ICDS prescribes a reduction of the security's cost for pre-acquisition interest/dividend, whereas Ind AS generally recognises such amounts in P&L as income (unless they adjust the effective yield), and therefore does not adjust the carrying amount of the financial asset. • Different carrying amounts under ICDS vs Ind AS result in basis differences for subsequent measurement (NRV vs amortised cost/ FV). • Taxable income timing differs: – Under ICDS, receipt of pre-acquisition interest/dividend is not taxable upfront (since deducted from cost). – Under Ind AS, it is recognised as income in P&L. • May create DTA/ DTL where Ind AS recognises interest income immediately, but ICDS defers taxation until sale (via reduced cost).	Treatment of pre-acquisition interest may be aligned with the Ind AS approach, i.e., pre acquisition interest/dividend to be considered as income (P&L), without adjusting the cost of the security. This approach aligns tax treatment with the Ind AS 109 EIR model and removes timing differences in initial cost. It is also consistent with judicial trends for banking entities, where courts have held broken-period interest to be revenue in nature, for example: • Dena Bank v. ACIT[8] • CIT v. State Bank of India[9] While these rulings apply specifically to banks (ICDS VIII- Part B), the underlying rationale—that pre-acquisition interest represents a period cost rather than a capital asset element—may be extended as a policy choice for non-banks if the intent is to achieve greater Ind AS alignment and reduce book-tax differences. Vijaya Bank Ltd. v. CIT[10] had a different view wherein the Supreme Court held that the pre-acquisition interest is not income and is a capital payment that must reduce the cost of the security. When received later, it is merely a recovery of capital. However, this precedent is distinguished by the Bombay High Court in American Express,[11] which held that the decision in Vijaya Bank did not apply if the computation of income was under the head "Profits and gains of business or profession". In other words, if securities are held as a stock in trade.

8. (2022) 139 taxmann.com 46 (Bom HC)
9. (2021) 124 taxmann.com 255 (Kar HC)
10. (1991) 187 ITR 541 (SC)
11. American Express International Banking Corporation V CIT [2002] 258 ITR 601

Sr. No.	Topic	ICDS VIII (Securities)	Ind AS 109 (Financial instruments)	Gap and impact	Adoption of Ind AS principles for tax purposes
2.	Subsequent measurement	The comparison of cost and NRV shall be done category-wise and not for each individual security. For this purpose, securities shall be classified into the following categories: • Shares • Debt securities • Convertible securities, and • Any other securities In case where initial cost cannot be specifically identified (for securities other than unlisted securities or listed but not regularly quoted securities), the cost shall be determined on a first-in-first-out basis or a weighted average cost formula.	Ind AS requires the valuation to be done per security.	Difference on account of category-wise classification for valuation of securities (as per ICDS), whereas Ind AS requires valuation per security: Example: For Share A, the cost is 100, and the NRV is 75 For Share B, the cost is 120, and the NRV is 150 As per Ind AS, the security will be valued at INR195 (75 for Share A + 120 for Share B) As per ICDS, the value will be INR220, being a lower total cost of shares of INR220 (100 +120) or NRV of INR225 (75+150). The above causes: • Category wise comparison under ICDS may artificially suppress/inflate profits, unlike instrument level fair value under Ind AS. • Dual tracking becomes burdensome for treasuries holding hundreds or thousands of instruments.	It may be better to shift valuation from category wise to individual security level NRV test under the tax laws to better reflect actual market values. As per the example given earlier, it can be noted that the value of the inventory is different in the case of valuation as per ICDS and as per Ind AS. In a category-wise approach, the appreciation of one security offsets the depreciation of another within the same "bucket". The value of securities is more precise if the historical cost of each specific asset is compared to its individual expected selling price. As the valuation as per ICDS does not show real value, it is inconsistent with the real income doctrine. Security-level NRV is the most conservative method because it ensures the balance sheet reflects the true recoverable amount of every individual asset held. The High Court in the case of Chamber of Tax Consultants v. Union of India,[12] held that "for those entities not governed by the RBI to whom Part A of ICDS VIII is applicable, the accounting prescribed by the AS has to be followed. This is different from the ICDS. In effect, such entities will be required to maintain separate records for income tax purposes for every year since the closing value of the securities would be valued separately for income tax purposes and for accounting purposes." In line with the above ruling, allowing Ind AS-aligned measurement would be consistent with the jurisprudence.

[12] [2017] 87 taxmann.com 92 (Delhi)

Sr. No.	Topic	ICDS IX (Borrowing costs)	Ind AS 23 (Borrowing costs)	Gap and impact	Adoption of Ind AS principles for tax purposes
1.	Exception in scope	No exclusion provided for assets measured at the fair value of inventories manufactured/ produced in large quantities on a repetitive basis ('mass produced inventories')	Provides an exclusion to assets measured at fair value inventories that are manufactured/ produced in large quantities on a repetitive basis ('mass-produced inventories').	Under Ind AS 23, interest on loans for assets measured at fair value / mass-produced inventories is expensed immediately (P&L). Under ICDS IX, that same interest must be capitalised (added to the asset's cost). This creates a deferred tax timing difference • Lower book profits and a higher taxable income in the earlier period • Difference in the value of inventory	Tax treatment to be aligned with Ind AS. While section 32(b)(i) of 2025 Act (corresponding to section 36(1)(iii) of 1961) provides that interest paid in respect of capital borrowed for the purposes of the business or profession is an allowable deduction, the proviso to this clause prohibits deduction only in respect of capital borrowed for acquisition of an asset till the date the asset is first put to use. The term "asset" used in this proviso may be construed as "capital asset", given similar usage of the term in section 42 of the 2025 Act (corresponding to section 43(1) of the 1961 Act), as well as section 43 of the 2025 Act (corresponding to section 43A of the 1961 Act). The proviso, therefore, may be said to be applicable only to capital assets acquired, and not to stock-in-trade. The High Court of Calcutta in the case of Cellice Developers (P.) Ltd[13] held that where payment of advance was not for acquisition of fixed assets but only for acquiring stock-in-trade, assessee was entitled to a deduction in respect of interest on borrowed capital under section 36(1)(iii) of the 1961 Act. It is recommended that this point also be clarified by way of a CBDT circular, notification or as an amendment to the Act. Alignment of tax treatment with Ind AS will avoid the above interpretation issue.
	Example: A real-estate developer borrows INR5 crore at 10 percent p.a. to construct a residential tower. Construction period: 18 months Units are held as stock-in-trade (inventory) Interest incurred: INR50,00,000	All inventories requiring >12 months to bring to saleable condition are qualifying assets. Therefore, the entire INR50,00,000 interest must be capitalised to the cost of inventory.	Inventories that take a substantial period to get ready can be qualifying assets. But Ind AS excludes mass-produced inventories, and many builders argue that residential stock is "regular inventory". Where inventories are not treated as qualifying assets, the entire INR50,00,000 is expensed to P&L.		

[13] [2015] 57 taxmann.com 119 (Calcutta)

Sr. No.	Topic	ICDS IX (Borrowing costs)	Ind AS 23 (Borrowing costs)	Gap and impact	Adoption of Ind AS principles for tax purposes
2.	Capitalisation of general borrowing cost	Allocation is based on the average cost of the qualifying asset to the average total assets. A*B/C A: general interest; B: average qualifying assets; C: average total assets. CBDT FAQ requires asset-by-asset attribution.	The weighted average cost of borrowing is applied to funds that are borrowed generally and used for obtaining qualifying assets.	This leads to a timing difference as the book cost of an asset will not match its tax cost due to the different allocation formulas. • As seen from the example, ICDS uses "Total Assets" (entire balance sheet) while Ind AS uses "Expenditure Incurred" (actual project cost), the amount capitalised can be significantly different from the actual interest "consumed" by the project's expenditure. • The CBDT requirement for asset-by-asset attribution for general borrowings is practically impossible for large companies with thousands of assets and a single treasury pool.	Align the tax law to match Ind AS 23 by basing allocation on actual expenditure incurred on the qualifying asset rather than a ratio of total assets. Replace the "asset-by-asset" requirement with a "pool-based" approach. If the company uses a general treasury pool, a single weighted average rate (as per Ind AS) may be accepted for tax purposes without requiring specific attribution to every individual machine or tool. • While there is no precedent on the method to be used for allocation of interest on borrowed funds for the capitalisation of the same, aligning the same to Ind AS 23 will be a welcome move, considering: – Eliminates the gap in asset value on account of allocation due to a difference in the formula – Reduces overall compliance burden – No need to create DTA on account of taxes paid on interest income. – No dual tracking of borrowing cost – No revenue loss as only a timing difference
	Example: General Loan = INR100 crore Interest (10 percent) = INR10 crore Average Total Assets = INR1,000 crore Factory = INR50 crore, construction all year	As per the formula, INR0.50 crore to be capitalised (i.e., 10 *50/1000)	As per Ind AS, INR50 crore *10 percent, i.e., INR5 crore, is the cost which will be capitalised		



Sr. No.	Topic	ICDS IX (Borrowing costs)	Ind AS 23 (Borrowing costs)	Gap and impact	Adoption of Ind AS principles for tax purposes
3.	Income on temporary investment from borrowed funds	Not to be reduced from the borrowing costs eligible for capitalisation.	Reduced from the borrowing costs eligible for capitalisation	Book profit will be higher as the income is not recognised in P&L, but tax is payable on the income, and a higher tax depreciation will create a deferred tax asset (DTA) • Higher taxable income on account of other sources • Difference in the value of depreciation as the cost of the asset is different	Tax rules to align with Ind AS 23, allowing the "netting" of interest income against the cost of the asset. • The 'tax value' and 'book value' of the asset will match. • Treatment will be in line with the decision of SC in the case of Bokaro Steel Ltd. and Delhi HC in International Coal Ventures Pvt. Ltd. (2024), where receipts are inextricably linked with a construction project • Not in line with Tuticorin Alkali Chemicals and Fertilisers Limited v. CIT (1997) 227 ITR 172 (SC), but will be a welcome change for the following reasons: – No need to create DTA on account of taxes paid on interest income. – No dual tracking of borrowing cost – No additional disclosure in Form 3CD – No revenue loss as only a timing difference – Reduces overall compliance burden
	Example: Interest expense on borrowed funds – INR100,000 Interest income on temporary investment – INR60,000	INR100,000 will be capitalised to the cost of the asset INR60,000 will be considered as other income	The difference of INR40,000 will be capitalised in the cost of the asset.		

Sr. No.	Topic	ICDS X ('Provisions, contingent liabilities and contingent assets')	Ind AS 37 (Provisions, contingent liabilities and contingent assets)	Gap and impact	Adoption of Ind AS principles for tax purposes
1.	Recognition of provisions	Provision is recognised when it is 'reasonably certain' that outflow will occur, and the amount can be reliably estimated.	Provision is recognised when it is 'probable' (more likely than not) that outflow will occur.	There could be a mismatch in tax profit vis-à-vis book profit to the extent of provisions provided in the books and not allowed as per ICDS, leading to delayed recognition of provisions under tax and higher taxable income in early years.	In line with the discussions made under ICDS III and IV v. Ind AS 115 in relation to revenue recognition, ICDS may be aligned with Ind AS, and hence provisions may be recognised as per the criteria laid down in Ind AS, i.e., when it is 'probable' that outflow will occur. Though the TAS committee suggested applying 'reasonable certainty' instead of 'probable' for recognition of provision considering the method prescribed for revenue recognition, due to divergence in book and tax, the taxpayers' compliance burden has increased. Aligning ICDS with Ind AS would reduce compliance burden and interpretational issues, thereby reducing litigation.

Sr. No.	Topic	ICDS X ('Provisions, contingent liabilities and contingent assets')	Ind AS 37 (Provisions, contingent liabilities and contingent assets)	Gap and impact	Adoption of Ind AS principles for tax purposes
				The term 'reasonably certain' is not defined in ICDS. This is likely to result in subjective interpretation, leading to increased litigation. Creation of deferred tax liability (DTL) or deferred tax asset (DTA).	In this connection, reliance is also placed on Rotork Controls India (P) Ltd. v. CIT [2009] 314 ITR 62 (SC), wherein the Hon'ble Supreme Court laid down the principles on recognition of provisions: • A provision can be recognised only when there is a present obligation arising from past events. • It must be probable that an outflow of economic resources will be required to settle the obligation. • The amount of the obligation should be capable of being reliably estimated, preferably using a scientific and consistent method based on historical data. A mere contingent or possible liability does not qualify as a provision and is not allowable as a deduction. Transition provisions to be introduced in the tax laws to allow deduction for provisions which could not be claimed in earlier years.
2.	Recognition of contingent assets (for example, disputed legal compensation)	Contingent assets are not recognised. However, when the inflow becomes 'reasonably certain', the asset and related income shall be recognised.	Contingent assets are not recognised. However, when the inflow becomes 'virtually certain', the asset and related income shall be recognised.	There may be a mismatch in tax profit vis-à-vis book profit to the extent inflow is reasonably certain but not virtually certain. Also, the terms 'reasonable certainty' and 'virtual certainty' are not defined, leading to differences in interpretation and application.	In order to reduce interpretational issues, the condition of 'reasonably certain' may be replaced with 'virtually certain' for recognition of contingent assets, even for tax purposes. Transition provisions to be introduced in the tax laws to exclude any income with respect to contingent assets that have already been offered to tax in earlier years.
3.	Reimbursement recognition	Reimbursement asset recognised when reasonably certain to be received.	Recognised when reimbursement is 'virtually certain'.	There may be a mismatch in tax profit vis-à-vis book profit to the extent that reimbursement is reasonably certain but not virtually certain.	In order to reduce interpretational issues, the condition of 'reasonably certain' may be replaced with 'virtually certain' for recognition of reimbursement, even for tax purposes. Transition provisions to be introduced in the tax laws to exclude any income with respect to reimbursement which has already been taxed in earlier years.

Annexure C – Tax principles to be followed without any alignment between ICDS and Ind AS

Sr. No.	Topic	ICDS VI (Effects of changes in foreign exchange rates)	Ind AS 21 (The effects of changes in foreign exchange rates)	Gap and impact	Adoption of tax principles without any alignment with Ind AS
1.	Exchange differences –liabilities in respect of assets acquired (being monetary items)	The exchange differences on liabilities in respect of assets acquired (being monetary items) are recognised as income or expense for tax computation unless specifically falling under Section 42 of the 2025 Act (43A of the 1961 Act) or Rule 206 of the Income Rules, 2026 (Rule 115 of the Income Tax Rules, 1962). Provisions of the Income Tax Act override accounting standards. Where Forex differences relate to the acquisition of a fixed asset from a foreign country, adjustments must be made to the asset cost and cannot be treated as revenue items. Judicial precedents have held that exchange differences linked to capital assets can be capitalised.	Under Ind AS 21, exchange differences on monetary items are recognised in P&L, except where capitalisation is permitted by Ind AS 23 (Borrowing Costs). There is an exception for long-term foreign currency monetary items for which an entity has opted for the exemption given in paragraph D13AA of Appendix D to Ind AS 101. Paragraph D13AA of Appendix D to Ind AS 101 provides an optional exemption that allows a first-time adopter of Indian Accounting Standards to continue the accounting policy adopted under previous GAAP (AS 11) for certain foreign currency items. If an entity opts for this exemption, Ind AS 21 does not apply to those specific long-term foreign currency monetary items wherein the entity was permitted to defer and amortise exchange differences through a Foreign Currency Monetary Item Translation Difference Account (FCMITDA) for other long-term monetary items.	In general, all exchange differences on monetary items, including foreign currency borrowings, are to be recognised as income or expense for tax purposes as per ICDS read with section 43AA of the 1961 Act and in the P&L for Ind-AS frameworks. However, there are exceptions in both frameworks. • For ICDS, any transaction falling under section 42 of the 2025 Act needs to be capitalised. Example - Foreign currency loan taken to acquire a capital asset at US$100,000. The exchange rate on the acquisition date is 90, and as of 31 March, it is 95. As per Ind AS, the exchange difference of INR500,000 will be expensed in P&L and as per section 42, it will be considered as a capital receipt, and the cost of the asset will increase by INR500,000. • For Ind-AS, foreign currency differences can be capitalised if they qualify as borrowing costs under Ind AS 23. • Certain long-term items may follow AS-11 treatment if D13AA is elected. Example: - if the company elects D13AA exemption and takes a loan of US$100,000 for 5 years (general loan for revenue purposes). Exchange loss on such a loan is INR300000. As per old AS 11 provisions, only INR 60,000 may be expensed in P&L, and the balance INR 240,000 may be deferred and amortised through FCMITDA. As per ICDS, the entire amount may be expensed in the first year, being revenue in nature. Hence, the gap is where Ind AS allows capitalisation and deferral (via D13AA), while ICDS mandates immediate P&L recognition, except where overridden by tax law. • Creates timing differences between Ind AS (continuation of earlier GAAP capitalisation/ amortisation) and ICDS (considering the difference as income/expense) or differences where capitalised as per ICDS but as per Ind AS, it is considered as income/expense) • Additional DTA/DTL and year-on-year reconciliation complexity. • Potential tax disputes where accounting differs from tax treatment.	Without altering the accounting treatment followed under Ind AS in the financial statements, Forex differences on monetary items may be treated as per the Act and as per judicial precedents, which means: • All Forex differences on revenue monetary items to be considered as revenue expense/ receipt • Forex difference on capital assets from outside India to be considered as capital receipt/capital expense (in accordance with Section 42 of the 2025 Act) The same would be in line with the below-mentioned judicial precedents: • Sutlej Cotton Mills Ltd v. CIT (Supreme Court):[14] Established that exchange gains or losses on revenue account are taxable/ deductible, whereas those on capital account (such as loans for capital assets) are capital in nature. • Similar judgements were made in cases of: – CIT versus Woodward Governor India (P) Ltd.[15] (Supreme Court) – CIT versus Windsor Foods Ltd (Gujarat HC)[16]

[14] Sutlej Cotton Mills Ltd v. CIT (1979) 116 ITR 1 (SC)

[15] CIT v. Woodward Governor India Pvt. Ltd (2009) 312 ITR 254 (SC)

[16] CIT vs. Windsor Foods Ltd (1999) 235 ITR 249 (Guj) - Held "if a taxpayer incurs obligations and before such obligations have been satisfied by payment, there is a variation in the rate of exchange which involves him in a loss on exchange, that loss would be an allowable deduction in the year of payment if, and to the extent, to which it is referable to liabilities on revenue account but not if, and to the extent to which it is referable to liabilities of capital nature."

Sr. No.	Topic	ICDS VII (Government grants)	Ind AS 20 (Accounting for government grants and disclosure of government assistance)	Gap and impact	Adoption of tax principles without any alignment with Ind AS
1.	Government grants – general recognition principle	Government grants should not be recognised until there is reasonable assurance that (i) the entity shall comply with the conditions attached to them, and (ii) the grants shall be received. However, recognition of Government grant shall not be postponed beyond the date of actual receipt.	Government grants available to the enterprise are considered for inclusion in accounts: (i) where there is reasonable assurance that the enterprise will comply with the conditions attached to them; and (ii) where such benefits have been earned by the enterprise, and it is reasonably certain that the ultimate collection will be made. Mere receipt of a grant is not necessarily conclusive evidence that conditions attaching to the grant have been or will be fulfilled.	The core conflict lies in the timing of recognition of the government grant in case the grant is received but is not accrued. Businesses must maintain two sets of records (deferred income for Ind AS versus immediate income for Tax) and manage complex Deferred Tax Assets/Liabilities (DTA/DTL) arising from these timing differences in case the government grant is a revenue receipt. In case the same is a capital receipt and is reduced from the cost / WDV of the asset, there will be a gap in depreciation.	Ind AS provides that mere receipt of a grant is not necessarily conclusive evidence that the conditions attached to the grant have been or will be fulfilled. To reduce litigation and to provide certainty, ICDS VII provided that recognition of government grant shall not be postponed beyond the date of actual receipt, consistent with the TAS Committee's recommendations. Section 278 of the 2025 Act (corresponding to Section 145B of the 1961 Act) was also introduced in the Finance Act 2018 to provide the same. Section 278 of the 2025 Act takes care of differences in ICDS and Ind AS, and there is no need for alignment of Ind AS and ICDS, as the objectives of both frameworks are different.
2.	Treatment of grants relating to fixed assets	Where the government grant relates to a depreciable fixed asset or assets of a person, the grant shall be deducted from the actual cost of the asset or assets concerned, or from the written-down value of the block of assets to which the concerned asset or assets belonged. Such reduction of government grants from the 'actual cost' of the asset is in accordance with explanation 10 to section 39(1)(d) of the 2025 Act (corresponding to section 43(1) of the 1961 Act).	Ind AS 20 provides the entity with an option to choose between a deferred income approach or a reduced carrying amount approach. The grant is recognised as deferred income (a liability) on the balance sheet. This income is then recognised in the Statement of Profit and Loss on a systematic basis over the useful life of the asset. This ensures the income from the grant matches the related depreciation expense. The reduced Carrying Amount Approach is similar to ICDS, i.e., the grant is deducted from the carrying amount of the asset.	There is a gap in case the company chooses to opt for the deferred income approach as per Ind AS against the reduced carrying amount approach, due to which there is a timing difference in the amount charged to profit and loss. • There's a timing difference between book income recognition (systematic over useful life) and tax (via lower depreciation base), leading to DTA/DTL. • Asset base mismatch: There is a gap in the book carrying amount and tax WDV when the deferred income approach is used.	Without altering the provisions under Ind AS, the grant relating to a depreciable fixed asset may be directly reduced from the actual cost or written down value (WDV) of the asset based on section 39(1)(d) of 2025 Act (corresponding to Explanation 10 to section 43(1) of the 1961 Act) which supports the reduction in the asset's cost and results in depreciation being computed on the reduced asset base for both accounting and tax purposes. However, differences between the carrying value of assets for accounting purposes and their tax written-down value may continue to exist due to the broader differences between the Ind AS depreciation model and the block-of-assets-based depreciation framework under the Income-Tax Act.

Sr. No.	Topic	ICDS VII (Government grants)	Ind AS 20 (Accounting for government grants and disclosure of government assistance)	Gap and impact	Adoption of tax principles without any alignment with Ind AS
3.	Refund of the government grant in case of fixed assets	The amount refundable in respect of a government grant related to a depreciable fixed asset or assets shall be recorded by increasing the actual cost or written down value of the block of assets by the amount refundable. Where the actual cost of the asset is increased, depreciation on the revised actual cost or written down value shall be provided prospectively at the prescribed rate.	Repayment of a grant related to a fixed asset shall be recognised by reducing the deferred income balance by the amount repayable.	ICDS requires increasing the asset's actual cost/ WDV when a fixed asset grant is refunded and charges depreciation prospectively, whereas Ind AS reduces the deferred income balance by the repayable amount.	Without altering the provisions under Ind AS, it may be specifically provided in the tax law that any refund of a government grant relating to a depreciable asset would also be recorded by increasing the actual cost or WDV of the asset/block of assets by the refundable amount for tax purposes, with depreciation adjusted prospectively. This would substantially retain the treatment currently prescribed under ICDS VII in the event ICDS is discontinued or no longer applicable.
4.	Non-monetary government grants	It requires that non-monetary assets given at a concessional rate should be accounted for on the basis of their acquisition cost.	The asset and the grant should be accounted for at fair value.	Valuation gap arises because ICDS records such assets at acquisition cost, while Ind AS records both the asset and the grant at fair value. • Potential mismatch in depreciation base and timing differences between accounting profits and taxable income. However, since fair value uplift is ignored for tax, this often results in only accounting–tax differences, not cash tax differences.	A specific provision in the law could be brought in to reconcile the difference between ICDS and Ind AS. Section 2(49)(w) of the 2025 Act (corresponding to Section 2(24)(xviii) of the 1961 Act) includes government grants as income. Valuation mechanism may be provided by way of rules.

Sr. No.	Topic	ICDS VIII (Securities)	Ind AS 109 (Financial instruments)	Gap and impact	Adoption of tax principles without any alignment with Ind AS
1.	Initial measurement	A security held as stock in trade on acquisition shall be recognised at actual cost (i.e., its purchase price and acquisition charges such as brokerage, fees, tax, duty or cess.) Where a security is acquired in exchange for other securities or for another asset, the fair value of the security so acquired shall be its actual cost.	Financial assets and financial liabilities are initially recorded at their fair value (i.e., their actual value on the transaction date). In addition, any directly related transaction costs incurred to acquire the asset or issue the liability are also included in the initial measurement, unless the instrument is classified as fair value through profit or loss (FVTPL). However, trade receivables covered under Ind AS 109 are subject to a separate measurement requirement.	ICDS VIII recognises securities at actual cost, whereas Ind AS 109 requires fair value at initial recognition. Transaction costs are woven into costs under ICDS, whereas Ind AS treats them differently based on measurement category. **Example:** A company purchases a listed corporate bond at a discount. Purchase price: INR95 Brokerage: INR1 Fair value on trade date: INR98 **ICDS VIII treatment:** Recognised at actual cost = purchase price + brokerage = INR96. **Ind AS 109 treatment:** Measured at fair value + transaction costs = INR98 + INR1 = INR99. Divergence in initial measurement causes an immediate difference in the carrying value of the security especially for: • securities acquired at deep discount/ premium • instruments acquired in non-cash transactions (fair value vs cost) • financial assets designated at FVTPL under Ind AS This results in significant differences in taxable income v/s accounting income.	Section 277 of the 2025 Act (i.e., Section 145A of the 1961 Act) provides for the initial measurement of inventory at cost plus the amount of any tax, duty, cess or fee (by whatever name called) actually paid or incurred by the assessee to bring the goods or services to the place of its location and condition as on the date of valuation. In Ind AS, any fair value adjustments may be carried out through OCI as fair valuation leads to unrealised gains or losses. For tax, the starting point could be profit before OCI, where only realised gain or loss could be considered. Where such alignment through OCI is not feasible under Ind AS, an alternative approach could be to incorporate explicit disclosures within the Ind AS financial statements reflecting the corresponding tax treatment, to facilitate clarity and reduce reconciliation challenges.

Sr. No.	Topic	ICDS VIII (Securities)	Ind AS 109 (Financial instruments)	Gap and impact	Adoption of tax principles without any alignment with Ind AS
2.	Subsequent measurement	At the end of the year, securities not listed on a recognised stock exchange, or listed but not quoted on a recognised stock exchange with regularity from time to time, shall be valued at initial cost. At the end of the year, securities other than those considered above shall be valued at the lower of initial cost or net realisable value (NRV).	All financial assets are classified as measured at amortised cost or measured at fair value. Where assets are measured at fair value, gains and losses are recognised either in profit or loss when the assets are classified as Fair Value Through Profit or Loss (FVTPL) or in other comprehensive income when they are classified as Fair Value Through Other Comprehensive Income (FVTOCI).	ICDS adopts the approach of lower of cost or NRV. Ind AS 109 measures the assets at fair value, wherein the gains or losses are recognised either through: • Amortised cost, • FVTPL, • FVTOCI. This causes significant timing differences due to Ind AS recognising unrealised fair value gains/ losses while ICDS restricting valuation to cost or NRV.	Section 277 of the 2025 Act (i.e., Section 145A of the 1961 Act) was amended to incorporate the text of ICDS as the Delhi HC had struck down ICDS VIII. Currently, Section 277 of the 2025 Act states: (iii) the inventory being securities not listed on a recognised stock exchange, or listed but not quoted on a recognised stock exchange with regularity from time to time, shall be valued at actual cost initially recognised as per the income computation and disclosure standards notified under section 276(2); (iv) the inventory being securities other than those referred to in clause (iii), shall be valued at the lower of actual cost or net realisable value as per the income computation and disclosure standards notified under section 276(2). As the tax treatment is already prescribed in law, it may be retained. The ICDS reference, however, may be removed. In Ind AS, any fair value adjustments may be carried out through OCI as fair valuation leads to unrealised gains or losses. For tax, the starting point could be profit before OCI, where only realised gain or loss could be considered. Also, in CIT v. British Paints India Ltd.[17] the Supreme Court established that stock-in-trade must be valued at cost or market price, whichever is lower. However, it must be ensured that NRV computations do not artificially depress taxable income in a manner inconsistent with judicial guidance on “real income”. The Supreme Court in the case of United Commercial Bank,[18] held that a bank can value its stock of shares and securities at cost or market value, whichever is lower, even if it maintains books at “cost” for statutory purposes. Where such alignment through OCI is not feasible under Ind AS, an alternative approach could be to incorporate explicit disclosures within the Ind AS financial statements reflecting the corresponding tax treatment, to facilitate clarity and reduce reconciliation challenges.

17. (1991) 188 ITR 44

18. United Commercial Bank vs. Commissioner of Income-tax [1999] 106 Taxman 601 (SC)/[1999] 240 ITR 355 (SC)/[1999] 156 CTR 380 (SC)[29-09-1999]

Sr. No.	Topic	ICDS IX (Borrowing costs)	Ind AS 23 (Borrowing costs)	Gap and impact	Adoption of tax principles without any alignment with Ind AS
1.	Suspension of capitalisation	Not covered by ICDS	Capitalisation of borrowing costs is suspended during an extended period in which active development is interrupted.	ICDS does not allow for a "break" in capitalisation, while Ind AS requires suspension of capitalisation ICDS results in an artificially high tax cost base (and lower interest expense) compared to book value.	Without any change in the accounting principles, borrowing costs may continue to be capitalised during temporary or extended interruptions in the development of a qualifying asset for tax purposes in line with Section 32(b)(i) of the 2025 Act. Section 32(b)(i) of the 2025 Act provides that the expense in relation to interest on capital borrowed for the acquisition of an asset till the date that the asset is first put to use should not be allowed as a deduction. It does not give any exception for the suspension period. Hence, capitalisation of borrowing costs during temporary or extended interruptions will be in line with the provisions of the Act.
2	Cessation of capitalisation	Capitalisation of borrowing costs shall cease: (a) In the case of inventory, when substantially all the activities necessary to prepare such inventory for its intended sale are complete; and (b) in case of other qualifying assets, when such an asset is first put to use.	Capitalisation of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.	ICDS ceases capitalisation when inventory is ready for sale or when other assets are first put to use, while Ind AS ceases capitalisation when substantially all activities to prepare the asset for use or sale are complete, regardless of actual use.	Without any change in the accounting principles, borrowing costs may continue to be capitalised for tax purposes in line with Section 32(b)(i) of the 2025 Act. Section 32(b)(i) of the 2025 Act provides that the expense in relation to interest on capital borrowed for the acquisition of an asset till the date that the asset is first put to use should not be allowed as a deduction. Hence, such capitalisation would be in line with the provisions of the Act.



Appendix: Illustrative financial statement disclosures

The following illustrations demonstrate one possible approach to presenting disclosures in the financial statements (by way of one consolidated note for all disclosures relating to ICDS / tax impact, which cannot be aligned with Ind AS), where accounting treatment under Ind AS differs from tax treatment under the Income-Tax Act and ICDS. These illustrations are intended solely as examples. Further, a consolidated ICDS / tax impact after factoring in all disclosures may be considered to give a holistic view.

1. Mark-to-Market (MTM) losses and gains

Note XX: Fair value changes on financial instruments/ derivatives

The Company measures certain financial instruments/ derivatives at fair value at each reporting date. During the year, unrealised mark-to-market gains /(losses) of INR XXX (Previous year: INR XXX) have been recognised in the Statement of Profit and Loss / OCI in accordance with the requirements of Ind AS.

For income-tax purposes (ICDS I), such unrealised gains or losses are not considered in computing taxable income unless specifically permitted under the provisions of the Income-Tax Act, 2025.

Particulars	Amount
MTM loss on financial instruments debited in P&L is not allowable as a deduction for tax purposes	XXX
Less: MTM gain on derivatives credited to P&L but not taxable	XXX
Net increase/(decrease) in tax profit	XXX

2. Major inspection costs

Note XX: Property, plant and equipment

During the year, the Company incurred expenditure of INR XXX towards major inspections relating to existing items of property, plant and equipment. In accordance with Ind AS 16, this inspection cost meets the asset recognition criteria and has been capitalised and is being depreciated over the estimated useful life of the related asset/component.

For income-tax purposes (ICDS V), inspection cost has been treated as revenue expenditure and claimed as a deduction in the year incurred, resulting in differences between the carrying value of assets in the financial statements and the tax base of such assets.

Particulars	Amount
Major inspection costs capitalised during the year (no impact on P&L)	XXX
Depreciation recognised on such amounts (A)	XXX
Less: Major inspection cost allowable as deduction for tax purposes (B)	XXX
Net increase/(decrease) in tax profits (A-B)	XXX

3. Onerous contracts

Note XX: Provision for onerous contracts

The Company periodically evaluates its contracts to identify obligations where the unavoidable costs of fulfilling contractual commitments exceed the economic benefits expected to be received. Based on such assessment, the Company has recognised a provision for onerous contracts amounting to INR XXX (Previous year: INR XXX) in accordance with Ind AS 37. The provision represents management's best estimate of the unavoidable costs associated with meeting contractual obligations.

For income-tax purposes (ICDS X), such provisions may not be deductible until the related liability crystallises.

Particulars	Amount
Provisions created during the year for onerous contracts are not allowable for tax purposes.	XXX
Net Increase in tax profits	XXX

Connect with us

Rohinton Sidhwa
Partner
Deloitte India
rsidhwa@deloitte.com

Contributor

Zalak Shah

Acknowledgements

Jenul Sanghani
Jitesh Jaiswal
Pinkesh Parmar
Vaishnavi Sarda
Neha Kumari
Saumya Prashar
Rishav Raj

Deloitte.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms, and their related entities (collectively, the "Deloitte organization"). DTTL (also referred to as "Deloitte Global") and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Deloitte Asia Pacific Limited is a company limited by guarantee and a member firm of DTTL. Members of Deloitte Asia Pacific Limited and their related entities, each of which is a separate and independent legal entity, provide services from more than 100 cities across the region, including Auckland, Bangkok, Beijing, Bengaluru, Hanoi, Hong Kong, Jakarta, Kuala Lumpur, Manila, Melbourne, Mumbai, New Delhi, Osaka, Seoul, Shanghai, Singapore, Sydney, Taipei and Tokyo.

This communication contains general information only, and none of DTTL, its global network of member firms or their related entities is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser.

No representations, warranties or undertakings (express or implied) are given as to the accuracy or completeness of the information in this communication, and none of DTTL, its member firms, related entities, employees or agents shall be liable or responsible for any loss or damage whatsoever arising directly or indirectly in connection with any person relying on this communication.

© 2026 Deloitte Touche Tohmatsu India LLP. Member of Deloitte Touche Tohmatsu Limited