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Co-Operative Society | Financial Reporting | GST - SEZ & Transitional Issues

HAPPY INDEPENDENCE DAY

Discussion on

Tax Audit Issues & Changes in Form 3 CD

on **Wednesday, 30th August 2017**

Workshop on

Income Computation & Disclosure Standards (ICDS) (I to X)

on **Monday & Tuesday, 4th & 5th September 2017**

at **Vasavi Vidyanikethan Trust**,
Basavanagudi, Bengaluru

Theme Logo 2017-18

GROW, SHARE & TRANSFORM

From the President

Dear Professional Friends,

The midnight of August 15, 1947 is memorable for every Indian on earth, the culmination of efforts of our freedom fighters starting from 1857 gained fruition and India gained independence from the stranglehold of the – East India Rule of British. The tri-colored flag of India with Ashoka Chakra replacing pre-independence charaka, symbolic of self- reliance was given its due, when it was hoisted at midnight of the Independence Day.

Hoisting the flag is the symbolic representation of attainment of liberation. The stick of the flag represents Brahmadanda - brain and spine. The chakra with 24 stripes represents the 24 elements which constitutes our body. The circle around the 24 stripes represents realization of perfectness *(Poornataa)*. Each point of the circle is the beginning and the end of the circle. The circle represents no distance between beginning and end which is the state of "Yoga". Yoga is the highest state of realization where one realizes distanceless (spaceless), timeless existence. The three stripes in the flag represent the three universes- physical, astral and causal. By channelizing prana through spine to the sahasrara chakra we get control over the 24 elements by which we realize our perfectness. True Independence is attaining oneness with Absolute Spirit.

This Independence Day let us all join hands to remember the innumerable sacrifices of our ancestors against the cause of liberation from the colonial rule and pay tribute to our battery of national heroes. True independence and freedom can only exist in doing what's right in daily walk of life and one must raise above plain treating it as an event. Let's pledge ourselves on this Independence Day towards nation building by doing right things. Being a proud Indian, I wish all my professional colleagues a Happy Independence Day.

The Lok Sabha on 27th July 2017 passed the Companies Act (Amendment) Bill, 2016 that seeks to make significant changes to the 2013 law to remove complexities and improve ease of doing business, strengthen corporate governance standards and prescribe strict action against defaulting companies. The bill will now be presented before the Rajya Sabha. The amendments raise the threshold for the easy compliance scheme to Rs 100 crore from Rs 20 crore, making more companies eligible for the simple compliance regime. The bill also seeks to ease rules for private placement of securities and fix an eight-year limit on reopening of past accounts against no limit in the earlier regime.

India completed the first month of implementing the Goods and Services Tax (GST) with the entire globe closely monitoring its developments. As expected, the 360-degree shift ushered in various queries and concerns; equally for the underprepared as well as the geared-up stakeholders from trade and industry. While legislative provisions were framed much before 1st July, various enabling and implementation procedures and clarifications are being introduced along with the onset of GST. This has kept various stakeholders on their toes for tracking regular updates on various aspects with respect to GST. One cannot deny that an unimaginable number of initiatives have been taken by government offices for supporting assessees through this transition to the GST regime. These include sectoral FAQs, Twitter support, educational fliers, training, seminars, etc. However, despite these initiatives, the coming couple of months will require great efforts from the assessee's end to be updated and compliant under this new tax law.

Representations

We have represented on the various issues faced in the linking of Aadhar with PAN before Revenue Secretary and the same is available on our website under the resources tab. We wish to call upon members to proactively participate and raise topics for representation and we shall endeavour to live up to your expectations.

Theme for the term

Grow, Share & Transform- **'SA VIDYA YA VIMUKTAYE'**- That is knowledge which liberates. In the context of the tax metamorphosis which we are amidst in a country which has states counting more than countries in a continent with such diverse cultural exhibits and business mannerisms, to culminate such a unification can be said to be an effort akin to the one of Sardar Vallabhbhai Patel, Iron Man of India. Such an exercise of tax unification calls upon us to

a. Possess knowledge beyond realms of ordinary, nurture and G***row*** such knowledge;

b. ***Share*** knowledge and nitty gritties with people and administrators through manthan of the enormous domain knowledge and experience and expertise;

c. ***Transform*** such arduous effort and daunting stuff in a manner smooth and efficient though imparting of knowledge towards realization of the goals envisaged.

Upcoming programs

KSCAA is organizing a workshop on 'Practical Issues in filing GST returns' at Tumkur on 28th August 2017 in association with Karnataka State Tax Practitioners Association. Eminent speakers, CA. Annapurna Kabra, CA. S.N. Prasad and CA. S.R. Ainapur will be addressing tax practitioners on the topic.

KSCAA is organizing an intensive workshop on 'Income Computation and Disclosure Standards (ICDS) (I to X)' in Bengaluru on 4th & 5th September 2017. Eminent speakers, CA. Sandeep Jhunjhunwala and CA. Shailesh Makwana will be addressing members in this workshop.

Basavanagudi CPE Study Circle is arranging a Discussion on 'Tax Audit Issues and Changes in Form 3CD' by CA. Naveen Khariwal and CA. Veeral A. Jain on 30th August 2017 at Vasavi Vidyaniketan Trust, Bengaluru.

Program details are published elsewhere in this news bulletin. You may also visit www.kscaa.com for details. Members are requested to make use of these programs.

I wish to end my message with a brilliant quote by Lou Holtz:

"ABILITY is what you are capable of doing.
MOTIVATION determines what you do.
ATTITUDE determines how well you do it"

Sincerely,

CA Raghavendra T.N.
President

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KARNATAKA STATE CHARTERED ACCOUNTANTS ASSOCIATION ®

VISION

- KSCAA shall be the trusted and value based knowledge organisation providing leadership and timely influence to support the functional breadth and technical depth of every member of CA profession;
- KSCAA shall be the nucleus of activity, amity and unity among members aimed at enhancing the CA profession's social relevance, attractiveness and pre-eminence;
- KSCAA shall in the public interest, be a proactive catalyst, offering a reliable and respected source of public statement and comments to induce effective laws and good governance;
- KSCAA shall be the source of empowerment for leadership and excellence; disseminating knowledge to members, public and students; building a framework for new opportunities and partnerships that enhance life in the community and beyond; encouraging highest ethical standards and professional integrity, in realization of India global leadership vision.

MISSION

- The KSCAA serves the interests of the members of CA profession by providing new generation skills, amity, unity, networking and leadership to strengthen the professional capabilities, integrity, objectivity, social relevance, standards and pre-eminence of India's Chartered Accountants nationally and internationally through; becoming gateway of knowledge for Chartered Accountants, students and public; helping members add value to their customers/employers by enhancing their professional excellence and services; offering a reliable and respected source of public policy advice and comments to bring about more effective laws and policies and transparent administration and governance.

MOTTO: KNOWLEDGE IS STRENGTH

Co-Operative Society - Interst Income from Investments

CA S. Krishnaswamy

1. Interest from members - Exempt
2. Interest from investment in a co-operative society - Exempt u/s 80P (2) (d)
3. Co-operative society without any business or non-co-operative income interest from investments in scheduled banks etc., - Exempt
4. Co-operative society with any business or non-cooperative income interest from investments in scheduled banks -Taxable *[TOTGAR'S CO-OPERATIVE SALE SOCIETY LTD., V. ITO [2010] 322 ITR 283]*
5. Interest from investment from co-operative banks, not exempt says Karnataka High Court (Judicial controversy- subject of this article as co-operative bank is not a co-operative society u/s 80P (2) (d)) – subject to 3 above, if para 3 applies - exempt.

PRINCIPAL COMMISSIONER OF INCOME-TAX AND ANOTHER V. TOTAGARS CO-OPERATIVE SALE SOCIETY [2017] 395 ITR 611 (Karn)

The Karnataka High Court has taken a contrarian view on the question whether or not a co-operative bank is included in the term "co-operative society" for the purpose of exemption u/s80P (2) (d) in the context of provision of Sec.80P. In doing so it overturned the decision of co-ordinate bench of the Court in CIT V Totagar's co-operative Sale Society Ltd. It distinguishing on facts.

Having said that it also held that interest on investment in co-operative bank did not qualify for exemption as co-operative interest under the provisions of Sec.80P as source of such income is non-cooperative activities of marketing of agricultural produce, a kirana store etc.,

CO-OPERATIVE BANK NOT A CO-OPERATIVE SOCIETY

The High Court said –

"What section 80P (2) (d) of the Act, which was though not specifically, argued and canvassed before the Hon'ble Supreme Court, envisages is that such interest or divided earned by an assessee-co-operative society should be out of the investments with any other co-operative society. The words "co-operative banks" are missing in clause (d) of sub-section (2) of section 80P of the Act. Even though a co-operative bank may have the corporate body or skeleton of a co-operative society but its business is entirely different and that is the banking business, which is governed and regulated by the provisions of the Banking Regulation Act, 1949. Only the Primary Agricultural Credit Societies with their limited work of providing credit facility to its members continued to be governed by the ambit and scope of deduction u/s 80P if the Act.

The banking business, even though run by a co-operative bank is sought to be excluded from the beneficial provision of exemption or deduction u/s 80P of the Act. The purpose of bringing on the statute book sub-section (4) in section 80P of the Act was to exclude the applicability of section 80P of the Act altogether to any co-operative bank and to exclude the normal banking business income from such exemption/ deduction category. The words used in section 80P (4) are significant. They are: "The provisions of this section shall not apply in relation to any co-operative bank other than a primary agricultural credit society…" The words "in relation to" can include within its ambit and scope even the interest income earned by the respondent-assesse, a co-operative society from a co-operative bank. This exclusion by section 80P (4) of the act even though without any amendment in section 80P (2) (d) of the Act is sufficient to deny the claim of the respondent-assessee for deduction u/s80P (2) (d) of the Act. The only exception is that of a primary agricultural credit society. The depository Kanara District Central Bank Limited in the present case is admittedly not such a primary agricultural credit society.

The amendment of section 194A (3) (v) of the Act excluding the co-operative banks from the definition of "co-operative society" by the Finance Act, 2015 and requiring them to deduct income-tax at source u/s 194A of the Act also makes the legislative intent clear that **the co-operative banks are not that specie of genus co-operative society**, which would be entitled to exemption or deduction under the special provisions of Chapter VI-A in the form of section 80P of the Act."

This decision in effect overrules earlier decision repealed in (2017) 392 ITR 74(Karn) – **PRINICPAL COMMISSIONER OF INCOME-TAX AND ANOTHER V TOTAGARS CO-OPERATIVE SALE SOCIETY**.

The Court distinguished the earlier decision in **PRINICPAL COMMISSIONER OF INCOME-TAX AND ANOTHER V TOTAGARS CO-OPERATIVE SALE SOCIETY.**

"It was also urged that one of the appeals against this respondent-assessee, namely ITA No.100069 of 2016 for the

AY 2012-2013 in the case of CIT V Totagar's Co-operative Sale Limited has already been dismissed by a Co-ordinate Bench of this Court on January 5, 2017 holding that the aforesaid Supreme Court's decision relied upon by the Revenue is not applicable to the AY 2012-2013 in question, because the said decision dealt with the interpretation of the deduction u/s 80P (2)(a)(i) of the Act and not u/s 80P(2)(d) of the Act and the court has held that the co-operative bank is a specie of the genus term co-operative society and therefore, the present appeals filed by the Revenue also deserves to be similarly dismissed"

Also overturned decisions of ITAT,

- Shri Marikamba Mahila Co-operative Credit Society Ltd - ITA No.617/Bang/2014
- Menasi Seemeya Group Gramagala Seva Sahakari Sangha Niyamitha.

The SC decision had been distinguished in a number of subsequent High Court judgements that the SC was dealing with a case of Co-operative society having non-cooperative business like marketing of produce.

HIGH COURT ON INTEREST INCOME – NOT EXEMPT IF SUCH INCOME IS FROM NON-COPERATIVE INCOME

Totgar's co-operative Sale Society Ltd V ITO [2010] 322 ITR 283 (SC) followed…

" Thus, in the light of the principles enunciated by the Supreme Court in Totgar's Co-operative Sale Society (supra), in case of a society engaged in providing credit facilities to its members, income from investments made in banks does not fall within any of the categories mentioned in section 80P (2) (a) of the Act. However, section 80P (2) (d) of the Act specifically exempts interest earned from funds invested in co-operative societies. Therefore, to the extent of the interest earned from investments made by it with any co-operative society, a co-operative society is entitled to deduction of the whole of such income u/s 80P (2) (d) of the Act. However, **interest earned from investments made in any bank, not being a co-operative society, is not deductible u/s 80P (2) (d) of the Act.**"

CO-ORDINATE BENCH ON PRINCIPAL COMMISSIONER OF INCOME-TAX AND ANOTHER V TOTAGARS CO-OPERATIVE SALE SOCIETY [2017] 392 ITR 74 (Karn)

had held -

"The word 'co-operative society' is a word of a large extent, and denotes a genus, whereas the word 'co-operative bank' is a word of limited extent, which merely demarcates and identifies a particular species of the genus co-operative societies. Co-operative society can be of different nature, and can be involved in different activities; the co-operative society/bank is merely a variety of co-operative societies. Thus the co-operative bank which is a species of the genus would necessarily be covered by the word "co-operative". Furthermore, section 56(i) (ccv) of the Banking Regulations Act, 1949, defines a primary co-operative society/bank as the meaning of co-operative words "co-operative society". Therefore u/s 80P (2) (d) of the Income-tax Act, 1961 the amount of interest earned from a co-operative society/bank would be deductible"

In effect the High Court had earlier held that the interest from investments in a co-operative bank is exempt irrespective of whether or not the society had also a commercial activity, it said co-operative bank is included in the term 'co-operative society'.

Interest on investment of a co-operative society not having any non-cooperative activities - Exempt

THE KARNATAKA HIGH COURT IN TUMKUR MERCHANTS SOUHARDA CREDIT CO-OPERATIVE LTD V. ITO [2015] 55 TAXMANN.COM 447 (KARN).

"In that case, the assesse co-operative society provided credit facilities to its members and earned interest from short-term deposits with banks and from savings bank accounts. The interest income earned by the assesee by providing credit facilities to its members was deposited in banks for a short duration which earned interest. The question was whether this interest was attributable to the business of providing credit facilities to the members. The Division Bench held as follows:

'8. Therefore, the word "attributable to" is certainly wider in import than the expression "derived from". Whenever the Legislature wanted to give a restricted meaning, they have used the expression "derived from". The expression "attributable to" being of wider import, the said expression is used by the Legislature whenever they intended to gather receipts from sources other than the actual conduct of the business. A co-operative society which is carrying on the business of providing credit facilities to its members, earns profits and gains of business by providing credit facilities to its members. The interest income so derived or the capital, if not immediately required to be lent to the members, they cannot keep the said amount idle. If they deposit this amount in bank so as to earn interest, the said interest income is attributable to the profits and gains of the business of providing credit facilities to its members only. **The society is not carrying on any separate business for earning such interest income.** The income so derived is the amount of profits and gains of business attributable to the activity of carrying on the business of banking or providing credit facilities to its members by a co-operative society and is **liable to be deducted** from the gross total income u/s 80P of the Act."

(Contd. on page 13)

GST Impact on SEZ Transactions

CA Madhukar N.Hiregange and **CA Mahadev.R**

Among most of the export benefits which exist today in indirect taxation, probably, SEZ (Special Economic Zone or unit) is the only scheme which enjoys ab-initio exemption. Other schemes such as EOU had refund option for few types of taxes such as central sales tax. With introduction of GST, the number of exemptions have seen further cut for schemes like EOU. On other hand, SEZs continue to get ab-initio exemption from all indirect taxes even after introduction of GST. The suppliers in DTA can supply the goods and services to SEZs without charging any GST. In this article, we have analyzed the exemptions available along with few issues with respect to such exemption.

SEZ schemes are being promoted with an intention to create competitive environment for goods / services exported thereby to increase the foreign exchange inflow into India. The objectives of governments for SEZs include tax free procurement of goods and services with support in basic essential infrastructure facility for production of goods or services. Such facilities have led to increase in foreign entities participation in India. Section 7 of SEZ Act 2005 provides for exemption to all goods or services procured from a DTA or foreign suppliers.

According to Section 51 of the SEZ Act 2005, the provisions of SEZ Act would have overriding effect on provisions of any other act including taxation laws. Therefore, tax exemptions were needed to be provided for SEZ transactions in all tax laws. However, this may not be the case in case of GST. The central government has powers relating to SEZ in article 246 of the constitution whereas GST is levied with article 246A. GST may prevail over SEZ provisions as article 246A provide powers to central / state governments for taxing goods or services notwithstanding anything contained in article 246.

Importation of goods or services by SEZs

Goods imported by SEZs were exempted from basic customs duty, CVD (levied in lieu of central excise duty) and SAD (levied in lieu of VAT). After introduction of GST, SEZ transactions are liable for IGST. Customs notification no.64/2017 has been issued to exempt import of goods from levy of IGST for SEZ operations. IGST notification no.18/2017 exempts levy of IGST on import of services by SEZs for authorized operations.

Supplies to SEZ from DTA

Supply of goods or services by or to an SEZ is deemed to be an inter-state supply according to Section 7 of IGST Act 2017. Therefore, the transactions can be subject to IGST even if location of supplier and place of supply are in same state.

Supplies to SEZ are treated as zero rated supply in terms of Section 16 of IGST Act 2017. Therefore, any supplier supplying goods or services cannot charge GST to SEZ. The credit in respect of inputs / input services used in respect of such SEZ supplies would also be eligible for the supplier which can be utilized for other GST payments. Other option for supplier would be to claim refund of accumulated credits subject to conditions. The pre-requisite for claiming the refund of input tax credits for supplier is execution of letter of undertaking (LUT) or bond with bank guarantee which can be upto 15% of tax payable on goods / services expected to be cleared (Please note that the mechanism of computing 15% amount is not provided in GST law). Supplier is eligible to execute LUT if he is status holder as per foreign trade policy or if export realization in foreign currency is Rs.1 crore or 10% of total export proceeds.

Now the issue arises for a supplier who does not fulfill the criteria for LUT. He needs to execute bond with bank guarantee which could block cash for him. If one were to analyze, Section 16(3) of IGST law requires LUT / bond when supplier opts for refund. However, according to Rule 96A of CGST Rules 2017, LUT/ bond is required for supply of goods or services without payment of GST whether or not refund opted.

In terms of Section 16(3) of IGST Act, small suppliers who would not be able to execute bond with bank guarantee could explore option of charging IGST. Such IGST charged needs to be claimed as refund by the suppliers. Supplier may also charge IGST and ask the SEZ unit to claim refund instead if claim of refund is cumbersome for supplier. This option is not clearly envisaged anywhere in law and at the same time, there is no bar either.

Exemption only for authorized operations

For claim of refund towards supplies to SEZ, the supplier has the obligation to prove that the supplies made without GST or with refund option are for SEZ authorized operations. In service tax, there was a readymade list of approved services. In GST such list is not available. There is no prescribed mechanism to understand what constitutes authorized operations. The department could always question the suppliers for this. Therefore, on a precautionary note, suppliers could request SEZ units to share the list of authorized operations which is issued by Board of Approval at inception of SEZ units. A simple declaration stating that goods / services supplied are for authorized operations could be very useful in case of litigations. Whenever in doubt, suppliers could take the option of charging GST asking customer to claim refund / credit.

Registration issues

There may be a situation wherein an entity would have both DTA and SEZ units in the same state. Registration rule warrants separate registration for DTA and SEZ units in such cases. This would increase compliance for both the units as supplies between these distinct persons would be subject to GST even without consideration in terms of Section 7 of CGST / SGST law. Requirement of LUT / bond could arise for supply of services by DTA unit to own SEZ unit because of separate registration requirement. Then there could be reverse charge compliance on services procured from unregistered suppliers by SEZ. Some relaxation could be provided by the government in such cases to make it business friendly.

Conclusion: GST law being new, lot of practical issues could crop up in initial days as discussed in earlier paragraphs. Assesse should be careful in handling the transactions for which professionals like chartered accountants, advocates or cost accountants could be consulted. Otherwise, even inadvertent errors could make assesse land up with heavy penalty in GST provisions. Issues like registration requirement, bond with bank guarantee requirement needs to be addressed by government.

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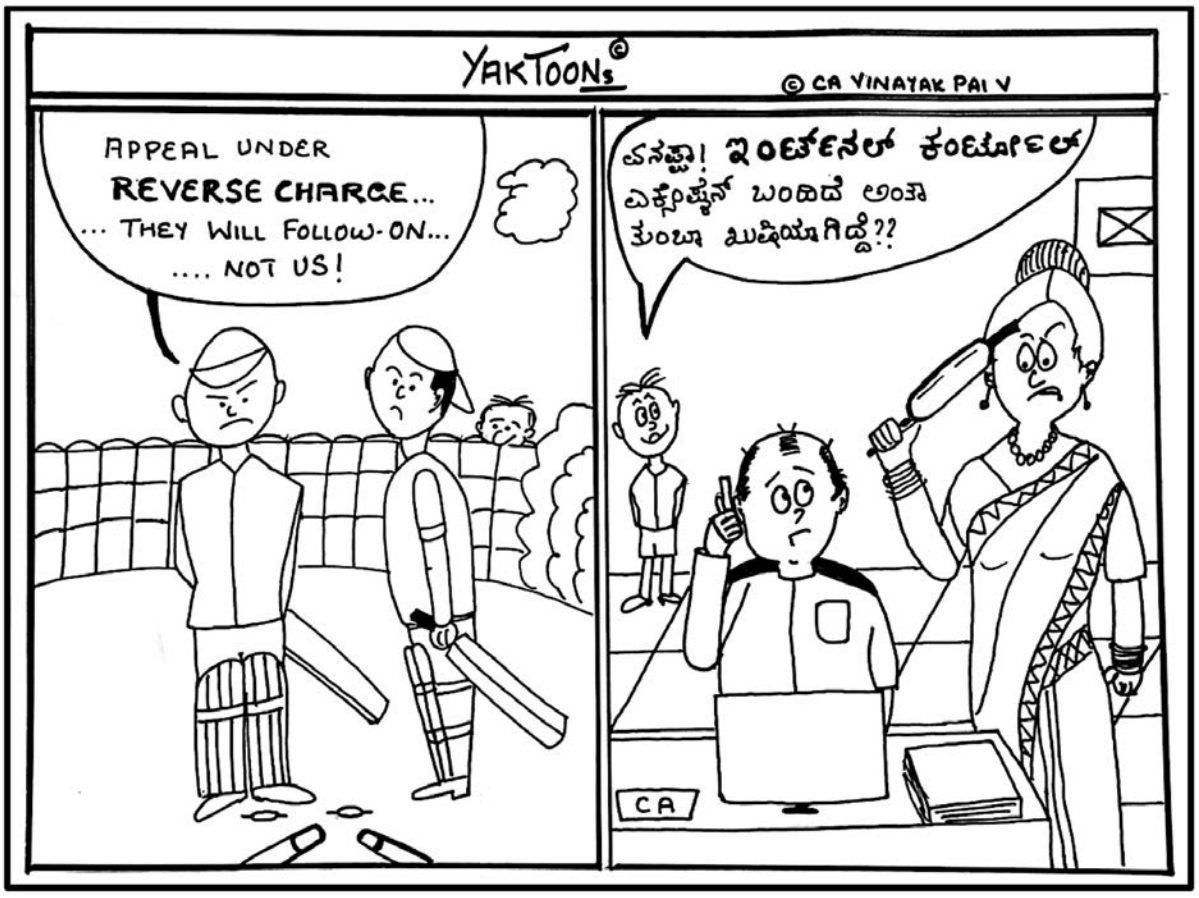

Financial Reporting and Assurance – Key Updates

CA Vinayak Pai V

1. Introduction

Financial Reporting for lease agreements have undergone a transformation globally both under IFRS and USGAAP. The concepts of an operating lease and a finance lease are passé internationally. The Indian corporate accounting system too would embrace the control model of accounting for leases from the lessee's perspective shortly. While the final date for implementation is still awaited, our Institute has set the ball rolling with the recent release of an exposure draft under the IND-AS framework proposing alignment of lease standard with its IFRS counterpart viz. IFRS 16- *Leases*.

The implication is all leases including leases of buildings would be accounted as lease assets and lease obligations in the IND-AS balance sheets despite them not finding a place in the balance sheet under the current dispensation (operating leases are at present out of the balance sheet). Every lease would be on the balance sheet as a Right of Use Asset and a corresponding lease liability. Changes to lease accounting would fundamentally alter the measurement and presentation of lease agreements.

Representational faithfulness is the mantra!

1. Financial Reporting Updates

a) ***Internal Financial Controls Systems Reporting Exemption For Private Companies (Auditors Report)***

Section **143(3)(i)** of the Companies Act provides for inclusion of the following in the statutory auditors report viz. ***"Whether the Company has adequate internal financial controls systems in place and the operating effectiveness of such controls"*** (Read with Rule 10A of Companies (Audit & Auditors) Rules 2014.

Our Institute had also released an ***Implementation Guide*** *on Audit of Internal Financial Controls over Financial Reporting with* ***Specific Reference to Smaller, Less Complex Companies*** to supplement its ***Guidance Note on Audit of Internal Financial Controls*** *over Financial Reporting.*

This regulaory reporting requirement has now been relaxed for specified private companies vide **MCA Notification No. GSR 583(E).** Accordingly, Section 143(3)(i) will **not apply to a private company** which is a:

1	**One Person Company** (OPC)
2	A **Small Company** (Section 2(85))
3	• A private company which has o **Turnover** less than **Rs 50 crores,** or o Has aggregate **Borrowings** from **banks/ financial institutions/ body corporate** at any point of time during the financial year less than **Rs 25 crore**.

b) ***Clarifications On Computation Of Book Profits For MAT (Section 115JB)***

The **CBDT** vide **Circular No. 24/2017** dated July 25, 2017 has issued clarifications on certain issues arising at **IND-AS** transition and on steady-state reporting with respect to **computation of Book Profits** under **section 115JB** of the Income Tax Act. The salient aspects of certain key clarifications as are relevant to a wide array of companies is provided herein below.

- **MTM gains** recognised **through profit or loss** on financial assets/liabilities are **included in book profits** for MAT computation and **MTM losses** on such instruments recognised through profit or loss **shall not require any adjustments** (clause (i) of Explanation 1 to section 115JB(2)).
- For **financial instruments** where gains and losses are recognised through **Other Comprehensive Income**, the amended provisions of MAT shall continue to apply.
- The **starting point** for computing Book profits for IND-AS compliant companies shall be **Profit before other comprehensive income**.

It may be noted that Indian companies migrate to the Indian version of IFRS in a phased manner with the first set of companies aligning with IND-AS for the year ended *March 31, 2017* and the second phase converge in the current fiscal year ending *March 31, 2018.*

c) ***Technical Guide on Income Computation and Disclosure Standards – ICDS 1: Accounting Policies***

Our Institute released a **Technical Guide** on **ICDS** on July 05, 2017 to gear members and stakeholders for its implementation. The salient aspects of the Technical Guide with respect to ***ICDS1- Accounting Policies*** are summarized herein below.

- **ICDS 1** is **not** a mere **Disclosure Standard** since it requires income computation to factor in the elements of the Standard viz. accrual, going concern and consistency.
- The term ***Accounting Policies*** in **ICDS1** should be **read as *Computation Policies.***
- The **Accounting Policies** required to be **disclosed** would mean the policies ***followed in the computation of income***, and **not** those followed for the purposes of **maintenance of books of account.**
- ICDS **applies only to "accrual"** basis of accounting.
- A **view** is possible that **recognition of MTM losses** (on certain financial statement elements) **relating to earlier years** should remain intact, and would **not result in a reversal of loss** during the **transitional year** to ICDS on account of transitional provisions.

d) ***IND-AS: Clarification On Accounting For Custom Duty Exemption On Capital Goods Under EPCG Scheme***

The financial accounting and reporting of government grants under the Indian variant of International Financial Reporting Standards (IFRS) has certain key marked differences with the corresponding AS version. It may be noted that **IND-AS does not permit** *grants related to assets* **to be deducted from the cost** of the related asset.

Indian companies in the **second phase of convergence** with Indian Accounting Standards **(IND-AS)** are required to prepare their first IND-AS financials for the current fiscal 2017-18 along with a **transition balance sheet** as at **April 1, 2016.**

The Transition Facilitation Group of our Institute has recently released clarifications on IND-AS that include the financial reporting for grants in the nature of exemption of customs duty on capital goods under the Government's **Export Promotion Capital Goods *(EPCG)* scheme**. The salient aspects of the clarification are summarized herein below.

- **Exemption of Customs Duty under EPCG** scheme **is a government grant** and therefore needs to be dealt with as per the provisions of IND-AS 20.
- If based on the terms and conditions of the scheme, the grant received is to compensate the import cost of assets **subject to an export obligation**, the **recognition** of the grant in the statement of profit and loss should be **linked to fulfillment** of associated **export obligations.**
- If the grant received is to **compensate the import cost of the asset** and based on the examination of the terms and conditions of the grant, if it can be reasonably concluded that **conditions relating to export of goods are subsidiary conditions**, then it is appropriate to **recognize** such grant in profit or loss **over the life of the underlying asset**.

e) ***Presentation of Excise Duty And GST In IND-AS Profit And Loss Statement***

Our Institute has released a ***Guidance Note On Division II- IND AS SCHEDULE III TO THE COMPANIES ACT 2013*** in July. The presentation of indirect taxes has come into focus in the Guidance Note.

The salient aspects related to presentation of excise duty and GST is provided herein below.

- The recovery of excise duty is an inflow that the entity receives on its own account. For the manufacturer it is a part of the cost of production, irrespective of whether the goods are sold or not.
  - The manufacturer acts as a principal in collecting excise duty and therefore, **revenue should be grossed up to include excise duty**.
  - **Excise duty paid** should be **presented** as a **separate line item under the 'Expenses' head** on the **face** of Statement of **Profit and Loss**.
- The **collection of GST** by an entity would not be an inflow on its own account but it shall be made on behalf of the government authorities.
  - The **revenue** should be **presented net of GST**.

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GST Highpoints

CA G.B. Srikanth Acharya and **CA Annapurna D Kabra**

- Under the GST law, the supplier should claim the transitional credit through transitional form (Trans-1 and Trans-2) and not through monthly returns.
- Aggregate turnover does not include reverse charge inward supplies and GST element.
- Taxpayers who have not filled Part- B of the enrolment application and would like to seek for cancellation of registration can do through GST portal. Taxpayers should log in through GST ID and opt for cancellation.
- Exporters are advised to register the bank account with customs for IGST refunds before filing shipping bills.
- No reverse charge on employee reimbursements towards diem, food, accommodation and travel.
- IGST on high sea sales transaction applicable once, during customs clearance.
- Compensation cess/ input tax credit available on zero rated supplies.
- Cess cap for motor vehicles hike to 25%
- GST not includible in recognized revenue under IND AS reporting.
- Karnataka mandates E- way bill for 41 commodities and provides M- way bill where no internet connection available.
- No TDS under Income Tax Law on the GST component.
- GST portal open for creation and saving of GSTR- 1and data visible in GSTR- 2A.
- Composition dealers have to file quarterly return and hence no requirement for filing FORM- 3B.
- No compensation cess for intra state purchases by second hand goods dealers from unregistered person.
- Karnataka Government clarifies that deduction of tax at source in respect of works contract executed upto June 30, for which payments are required to be made from July 1 onwards, since sale of goods shall be deemed to have taken place at the time of transfer of title or possession or incorporation thereof in the course of execution of any works contract, tax is liable to be deducted at 4%.
- GST rate on hotels determinable basis is the declared tariff, 'star rating' is irrelevant factor.
- GST payable on difference amount between purchase price and selling price on supply of second hand goods and where the value is negative the same shall be ignored. Further, cannot avail input tax credit
- Government clarifies no GST levy on ornament sale from individual (customer) to jeweler
- Services of lodging/boarding in hostels provided by such educational institutions which are providing pre-school education and education up to higher secondary school or equivalent or education leading to a qualification recognized by law, are fully exempt from GST (i.e. services provided by an educational institution to students, faculty and staff are fully exempt).
- Free food by religious institutions is not taxable.
- Customs duty and IGST exemption on aircrafts, engines/ parts imported on lease.
- Perquisites to employees as part of CTC, not liable to GST.
- Ministry of Finance clarifies that CGST rate of 2.5% will not apply on supply of goods such as chena or paneer, natural honey, wheat, rice and other cereals and pulses unless the brand name or trade name is actually on the Register of Trade Marks and is in force under the Trade Marks Act 1999.
- Registrations for Tax deductor and collectors to commence form July 25th.
- No IGST on import of goods and services by SEZ's.
- Abolition of check post.
- Extension for filing of GSTR- 1, 2 and 3 for July 2017 and August 2017. GSTR- 3B to be filed within the prescribed time (within 20th of the following month).
- Rate of interest notified is 18% for late payment of tax.
- The HSN code of 2 digits for turnover between Rs. 1.5 to 5 crores has to be mentioned in the invoice, 4 digits code if the turnover is above Rs. 5 crores and 8 digits code for exports and imports. The same is applicable for SAC codes (i.e. service providers).

- Exemption on intra- State supplies of second hand goods by a supplier, who is not registered, to a registered person, dealing in buying and selling of second hand goods and who pays the State tax on the value of outward supply of such second hand goods.
- Exemption on intra- State supplies of goods received by a deductor under section 51 of the said Act, from any supplier, who is not registered, from the whole of the State tax leviable thereon.
- Karnataka Government prescribes Authority for export bond/ LUT submission till the administration administrative mechanism implementation.

Section 16(3) provides that a Registered person making zero rated supply shall be eligible for refund under either of the options as supply goods under bond/ LUT without payment of tax and claim refund of the unutilized input tax credit or supply goods with payment of tax and claim refund of such tax paid on goods or services or both. Rule 96A of Karnataka GST Rules, 2017, provides that refund of IGST paid on export can be availed by submission of bond/ LUT in 'FORM GST RFD-11. Any registered person availing the option to supply goods or services for export without payment of integrated tax is required to furnish, prior to export, a bond or a Letter of Undertaking in FORM GST RFD-11 to the Jurisdictional Commissioner binding himself to pay the tax due along with the interest specified under sub-section (1) of section 50 within a period of fifteen days after the expiry of 3 months from the date of issue of the invoice for export, if goods are not exported out of India or fifteen days after the expiry of one year from the date of issue of the invoice for export, if the payment of such services is not received by the exporter in convertible foreign exchange. As per the Rule 96A of CGST Rules, 2017, every person exporting goods under a letter of undertaking, is required to furnish **'FORM GST RFD – 11' before the Jurisdictional Commissioner**. Since, large numbers of exporters are located at a distance from the office of the Jurisdictional Commissioner, it causes hardships to the exporters to file the form before the Jurisdictional Commissioner. Therefore, vide Circular No. 2/2/2017-GST dated July 4th, 2017, the authority to accept FORM GST RFD – 11 has been delegated to Jurisdictional Deputy / Assistant Commissioner having jurisdiction over the principal place of business of the exporter. The exporter is at the liberty to furnish bond/ LUT before Central Authority/ State Tax Authority till the administration mechanism for assigning taxpayers to respective authority is implemented. However, if in a State, the Commissioner of State Tax by general instruction to exporter can accept the bond/ LUT and this responsibility is provided to Central Tax Officer. In reference to notification 16/2017-18, the Karnataka Government **in its circular** has provided the Authority with whom the bond/ LUT to be submitted. This circular is clarificatory in nature and cannot be used for interpretation of provisions of law. In order to mitigate the issues involved in relation to fulfill the mandate of Sec 16 of the IGST Act, 2017 and Rule 96A of the Karnataka GST Rules, 2017 has informed the exporters in this State to submit the bond/ letter of undertaking to the following Authorities till the administrative mechanism for assignment of tax payers to Respective Authority is implemented.

- Jurisdictional Assistant Commissioner of Commercial Taxes
- Local Goods and Services Tax office/ Commercial Tax Officer of Local Goods and Service Tax Office in the absence of Assistant Commissioner of Commercial Taxes, and
- Commercial Tax Officer, Sub GST Office

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KSCAA WELCOMES NEW MEMBERS - AUGUST 2017

S.No.	Name	Place
1	Suresh Karnik Sulse	Bengaluru
2	Nithin K	Bengaluru
3	Shiv Shankar T.R.	Bengaluru
4	Ramakant Yatiraj Marda	Bagalkot
5	Laxmikant Purushottam	Guledgudd
6	Allan Lenard Gonsalves	Bengaluru
7	Sathish K.V.	Bengaluru
8	Mahantesh Prakash Kurapi	Bengaluru

Transitional Issues under GST

CA Raghavendra C R, B.com, FCA ,LLB, Advocate and
CA Bhanu Murthy J S, B.com, FCA ,LLB, Advocate

Issue under discussion in this paper is keeping in mind those assesses who hadopted for payment of Service Tax on the basis receipt of consideration for services in terms of the proviso to Rule 6 (1) of Service Tax Rules, 1994. The issue that would arise is whether an assesses who had opted to pay service tax on receipt basis would be liable to pay Service Tax on receipt of consideration on or after 1.7.2012 for the services which had been provided prior to 1.7.2012.

Background

It is to be noted that levy of service is governed by Section 66B of Finance Act, 1994 which provides that the levy of service tax would get attracted on provisions service in the taxable territory. However, the collection mechanism is prescribed through rules. It is relevant to note that in terms of section 67A the rate of service tax, value of a taxable service shall be rate in force or as applicable at the time when the taxable service has been provided or agreed to be provided. Further, section 67A(2) provides that the time or the point in time with respect to the rate of service tax shall be such in terms of the rules as may be prescribed. In terms of the said provisions, Point of Taxation Rules, 2011 prescribes point at which a service shall be considered to be provided. In terms of the said rules, earliest of the following events shall be considered to be the point of taxation:

a) Date of invoice for the service
b) Date of provision of service where invoice is not issued within 30days from the date of completion of service.
c) Date of receipt of consideration.

Under the service tax provisions (Finance Act, 1994) section 68 provides that every person providing taxable services shall pay the service tax within the time limits as prescribed. In terms of the said provisions, Rule 6 of the Service Tax Rules, 1994 provides that service tax shall be paid by 5th of next month (or quarter) of the month in which the services are deemed to be provided.(in terms of the Point of Taxation Rules,2012)

However, it is to be noted that fourthproviso to Rule 6(1) of ST Rules, 1994 provides an option to an assesse, who is an individual or a partnership firm or one person companies whose aggregate value of taxable services is Rs.50 Lakhs or less in the previous financial year, could pay service tax on the basis of receipt of consideration.

Discussion on issue

With this background and GST provisions having been notified w.e.f 1.7.2017, we shall have to examine as to where an assesse has opted to pay service tax on collection basis in terms of fourth proviso to Rule 6(1)(supra), whether he shall be liable to pay service tax or GST on the collections (of consideration towards services already provided) made by him on or after 1.7.2017?

At this stage, it would be relevant to understand the meaning and scope of the phrases 'levy' and 'collection'. It is to be noted that Supreme Court in the case of Asst. Collector of Central Excise, Vs. National Tobacco Co. of India Ltd.1978 (2) E.L.T. (J 416) (S.C.) observed that the terms 'levy' and 'collection' are different and levy is more broader than collection. Further, in the case of Union of India Vs. Bombay Tyre International 1983 (14) E.L.T. 1896 (S.C.) it is observed that levy creates incidence of tax whereas collection is measure of tax.

Further, in the case of Assistant Director of Mines & Geology Vs. Deccan Cements Ltd. 2008 (9) S.T.R. 449 (S.C.) the Supreme Court observed as below:

There are different stages in the matter of imposition of tax or cess. First is the source of power for levying tax or cess as the case may be. The second is the actual levy by an adjudication or assessment order. Sometimes, the quantification of the amount payable is done in the adjudication/assessment order. Finally, comes the question of collection. That being so, collection is a natural corollary of the levy. It is inconceivable that the levy is valid but collection can be held to be impermissible

Applying the above principles, the levy of service tax is on provision of taxable services and collection of such service tax from the service provider (from recipient in some specified cases) is prescribed through the rules. Therefore, the taxable event is provision of service and the payment is postponed to date on which the point of taxation would arise on such service. However, through the rules, the date of payment is further postponed in certain cases to date of receipt of consideration.

Therefore, in the present case, the levy of service tax is already occurred on the date of provision of service but the due date for payment of service tax on such services is postponed to the date of receipt of consideration. Therefore, in such cases, the assesse is liable to pay service tax on the consideration received towards service already provided prior to 1.7.2017.

Attention is invited to the decision of the High Court of Delhi in the case of Delhi Chartered Accountants Society (Regd.) Vs. Union Of India, 2013 (29) S.T.R. 461 (Del .) wherein while dealing with the applicability of change in the rate of tax from 10% to 12% w.e.f. 1.4.2012, for an assesse who has opted to pay service tax on receipt basis, the Court held that where the services are already rendered prior to amendment of rate, the assesse is liable to pay at the old rate and not on the basis of new rate. However, this decision was rendered in the context of Point of Taxation Rules, 2011.

However, a question would arise as to how could service tax be demanded on the services which are provided prior to 1.7.2017, in the background of the fact that the Finance Act, 1994 (Chapter V) has been omitted w.e.f. 1.7.2017. In this connection, attention is invited to sections 173 & 174 of Central Goods and Service Tax Act, 2017 which provides that the Finance Act, 1994 (Chapter V) is omitted w.e.f. 1.7.2017 and omission of provisions would not affect the right / obligation / liability acquired or accrued or incurred under the provisions.

On the other hand, it is quite true that once the taxing event has been completed prior to introduction of the GST provisions, there cannot be levy again on the very same transaction. This is supported by decision of the Supreme Court in the case of CCE Vs. Vazir Sultan Tobacco Co. Ltd., 1996 (83) E.L.T. 3 (S.C.) wherein dealing with the issue of dutiability of goods manufactured prior to the levy was brought on such goods, the Supreme Court held that where there was no levy on the date of manufacture, no duty could be payable on the date of removal of such goods merely on the basis of the fact that the goods were dutiable on the date of such clearance. Further, section 142(11)(b) of Central Goods and Services Tax Act, 2017 categorically states that no tax shall be payable on services under CGST Act, 2017 to the extent the tax was leviable on the said services service tax provisions.

Therefore, the assesse would be liable to pay service tax, at the rates at which were applicable on the date of provision of services, as and when the consideration is received towards the taxable services already provided.

However, the question now would be as to how the service tax shall be remitted and how the same shall have to be reported. In this connection, view is possible that in terms of the provisions of section 142(8)(a) of CGST Act, 2017 the same may be paid as arrears of GST. It shall be noted that section 142(8)(a) provides that where on account of assessment or the proceedings initiated, either before or after 1.7.2017 under the existing laws(Service tax provisions/Central Excise/ VAT/CST), any amount (of tax, interest or penalty) becomes payable and remains unpaid, the same shall be recovered as arrears of GST. However, the said amount of tax would not be eligible as credit under the GST provisions.

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Co-Operative Society - Interst Income from Investments

(Contd. from page 5)

GUTTIGEDARARA CREDIT CO-OPERATIVE SOCIETY LTD V. INCOME TAX OFFIER [2015] 377 ITR 464 (Karn)

Under the provisions of Sec.80P of the Income Tax Act, 1961, in the case of a co-operative society engaged in carrying on the business of banking or providing credit facilities to its members, the whole of the amount of profits and gains attributable to the business is entitled to special deduction. The word "attributable to" is certainly wider in import than the expression "derived from". Whenever the Legislature wanted to give a restricted meaning, it used the expression "derived from". The expression "attributable to" being of wider import, it is used by the Legislature whenever it intended to gather receipts from sources other than the actual conduct of the business. A co-operative society which is carrying on the business of providing credit facilities to its members, earns profits and gains of business by providing credit facilities to its members. The society cannot keep idle the interest so derived or the capital, if not immediately required to be lent to the members. If it deposits this amount in a bank so as to earn interest, the interest is attributable to the profits and gains of the business of providing credit facilities to its members. The society is not carrying on any separate business for earning such interest. The income so derived is the amount of profits and gains of business attributable to the activity of carrying on the business of banking or providing credit facilities to its members by a co-operative society and is entitled to be deducted from the gross total income u/s 80P.

Conclusion:

1. The latest Karnataka High Court decision reported in [2017] 395 ITR 611 (Karn) holds that co-operative bank is not included in the term 'co-operative society' for the purposes of exemption of interest on investment.
2. The said High Court decision also held that when a co-operative society is involved in non-co-operative activity the interest from investment is non-cooperative income and hence taxable.

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Workshop on Impact of GST on Hotels, Restaurants, Hospitality & Jewellery Sectors

CA Annapurna Kabra

CA R.S. Pavan Kumar

Cross section of participants

Discussion on Impact of GST on Real Estate Sector & Real Estate Regulation Act

CA Hanish S

CA Sandeep Jhunjhunwala

Cross section of participants

ASSOCHAM National Conference on Insolvency and Bankruptcy Code

CA N. Nityananda, Past Secretary, KSCAA participating in a panel discussion

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CA N. Nityananda
on being nominated as Chairman, Banking, Finance & Capital Markets Committee, FKCCI for the year 2017-18

CA I.S. Prasad
on being nominated as Chairman, Central Taxes, Corporate Law & GST (Central) Comittee, FKCCI for the year 2017-18

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our newly Co-opted Executive Committee Members
for the term 2017-18

CA Deepabali Das
Tumkur

CA Ganesh V Shandage
Belagavi

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By **CA Sandeep Jhunjhunwala** & **CA Shailesh Makwana**

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BASAVANAGUDI CPE STUDY CIRCLE

Discussion on Tax Audit Issues & Changes in Form 3 CD

By **CA. Naveen Khariwal G** &

CA. Veeral A Jain

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