

# KSCAA

Karnataka State Chartered Accountants Association ®

NEWS BULLETIN

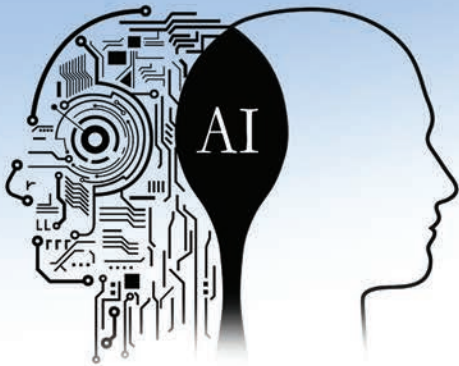
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Company Law | GST | Financial Reporting | US Tax Law Reforms | Technology Disruptions



ACCOUNTING

DISRUPTION

AUTOMATION

AUDIT



GROW, SHARE  
& TRANSFORM

30<sup>th</sup> **kscaa** | 2018  
annual conference

on 9<sup>th</sup> & 10<sup>th</sup> March 2018

at Jnana Jyothi Convention Centre  
Palace Road, Bengaluru



**Dear Professional Friends,**

**E**very end is just a new beginning. Keep your spirits and determination unshaken and you shall always walk the glory road. With courage, faith and efforts you shall conquer everything you desire. I wish you a very happy new year 2018!!

# From the President

**W**e took over the baton to lead our adored and esteemed professional body, with a dream to continue bringing more optimism and are consistently moving towards being a vibrant association proactively catering to the members' needs. We are chasing this dream together with our heart and soul and are highly committed in our efforts and determined to go all out in this New Year to work steadfastly towards realizing this dream.

**B**eing true to the saying, 'Change is the only constant', technology, regulatory and other disruptions are making our profession more dynamic than ever before. Newer challenges keep coming all the time which make it ever-changing and evolving. I am sure we will meet each such challenges with renewed vigor and positivity, we all must work coherently to shape our own future.

**A**s a part of this endeavor and KSCAA tradition, it is indeed my pleasure in welcoming you all to the 30<sup>th</sup> KSCAA Annual Conference which is scheduled on Friday, 9<sup>th</sup> and Saturday, 10<sup>th</sup> of March 2018 at Jnana Jyothi Convention Center, Bengaluru. The conference will witness contemporary topics from renowned domain experts, knowledge take-aways and topped with invigorating panel discussions. We have endeavored to schedule various topics of interest to keep you abreast with the latest on-goings and needs of profession specifically while designing the sessions. We shall go all out in our efforts to make this a memorable event in Bengaluru. All that we look forward to is your active support by your attendance and request you all do spread a word on this to your friends in practice and Industry.

## **News Roundup:**

**T**wo weeks to go before the Finance Minister presents the Union Budget 2018-2019, the last regular Budget under the Narendra Modi government. Public expectation, therefore, is quite high that the coming Budget will be populist in nature, trying to appease as many as possible and the middle class is waiting with bated breath. Rationalization of personal income tax slabs and hiking of investment in tax saving schemes are expected. In the wake of the effects of demonetization persisting, GST transition and a tad bit less growing economy will call for radical measures on job creation, focus on skill development, increase in minimum wages and affordable housing schemes front on the cards. The activism on the NCLT front has done its best to duly boost debt collection along with recapitalization efforts

and more purposefully sending warning signs to intentional offenders that they have to forego their business stakes for non-adherence.

**T**he apex decision making body on the Goods and Services Tax, GST Council in its meeting on 18<sup>th</sup> January 2018 revised rates on 29 items and 53 categories of services. The new rates will take effect from 25<sup>th</sup> January 2018. The simplification of the return filing process was taken up for discussion and it was felt that the filing of form 3B should be continued. Along with that, the sellers or suppliers to load their invoices. The new simplified return filing process would be finalized in the next meeting of the GST Council after a written formulation is circulated to the states. The council also took note of the fact that the trial run of the e-way bill system took off on 15<sup>th</sup> January and was committed to the 1<sup>st</sup> February rollout across the country. GST collections were reviewed, and the opinion so far was that more reliance is being placed on unilateral declarations by traders and there is an urgent need to build in anti-evasion measures to plug under declaration. The e-way bill will be one such measure. The issue of bringing real estate and petroleum products may be taken up in the next meeting for discussion.

**W**e appreciate your patronage and support till now; but we need more support and participation, commitment, direction and loyalty from your side in this year more than ever before. Must emphasize that the participation of members and guidance and support from senior members will always lead an association in the right direction and upscale towards the vision and mission envisaged.

**I** wish to conclude this message with a provoking thought:

“Once you choose hope, anything's possible.”

- Christopher Reeve

**T**he opposite of this quote is also true, once you give up hope or choose hopelessness, nothing is possible. Hope is the feeling that things will somehow get better, that they will somehow work out. You don't even have to know how it will happen, but it is the belief or even the wish that it will. That's why it is never a good idea to give up hope because you just don't know how things will pan out. When going about your day it's better to feel hopeful about the things you're working on, or the task at hand. If you have hope, it's quite possible that it can all turn out for the best.

With warm regards,

**CA. Raghavendra T.N.**  
President

# KSCAA

## News Bulletin

January 2018

Vol. 5 Issue 5

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KSCAA welcomes articles & views from members for publication in the news bulletin / website.

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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

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15% rebate if booked for minimum of 3 issues.



# SHELL COMPANIES

CA S. Krishnaswamy

*'Breaking the shell of tax evaders'*

***"The names of 2,09,032 companies have been struck off from the register of companies under Section 248 (5) of the Companies Act."***

In the Independence Day address to the Nation from the ramparts of Red Fort, Prime Minister Narendra Modi declared that the government has identified 300,000 shell companies, out of which the registration of 175,000 companies has been cancelled. The Prime Minister also highlighted that some 400 companies were being run from the same address. These numbers give a broad sense of the scale of the problem of tax evasion through shell companies. With the advent of demonetisation several dormant companies, so called shell companies turned out to be useful vehicles for laundering ill gotten money. Though there is no precise definition of shell companies it can be assumed that the companies which do not have any business activity, act as pass through for laundering money in a manner ultimately destination of the money becomes opaque. Regulating agencies like Minister of Company Law Affairs, Income Tax Department, Enforcement Directorate, tracking and tracing and initiating actions where unlawful money laundering activities take place. The shell companies of different classifications, some genuine dormant without any assets or liabilities deserving to be struck off, the others are vehicles for money laundering. I will discuss in this article the various steps initiated by the regulatory agencies.

## **Shell companies – Definition:**

A shell com is a company which serves as a vehicle for business transactions without itself having any significant assets or operations. Sometimes, shell companies are used for tax evasion or tax avoidance, or to achieve a specific goal such as anonymity.

Some companies may have had operations, but those may have shrunk due to unfavourable market conditions or company mismanagement. A shell corporation may also arise when a company's operations have been wound up, for example following a takeover, but the "shell" of the original company continues to exist. It's important to understand that the term "shell companies" does not

describe the purpose of a corporate entity. In general, it's more informative to classify an entity according to its role in a particular corporate structure; e.g. holding company, general partner, or a limited partner.

Shell companies are not in themselves illegal, and they do have legitimate business purposes. However, they are a main component of the underground economy, especially those based in tax havens.

Companies that are not in operation are commonly put in this category. However, in the US, shell company is defined as "a registrant with no or nominal operations and either no or nominal assets, assets consisting solely of cash and cash equivalents, or assets consisting of any amount of cash and cash equivalents and nominal other assets". But there is nothing illegal if a company is not engaged in any economic activity at a given point in time.

There could be multiple reasons for that. It is possible that it had operations in the past and has gone out of business owing to purely economic reasons. It is also possible that companies were registered but could not start operations because of some economic reason—or that companies are created for the purpose of layering. It could be done for legitimate corporate purposes, but it could also be done to evade taxes by showing bogus transactions. There could be other reasons as well, such as distancing the identity of owners.

Shell companies are characterised by nominal paid-up capital, high reserves and surplus on account of receipt of high share premium, investment in unlisted companies, no dividend income, high cash in hand, private companies as majority shareholders, low turnover and operating income, nominal expenses, nominal statutory payments and stock in trade, minimum fixed asset.

The government has taken several steps over the years to check tax evasion through shell companies. For instance, in 2012, it amended the law to tax share premium in excess of fair market value. In 2017, the government amended the law to account for other than a quoted share sold at less than fair market value. While these changes have made tax avoidance difficult through the sale and purchase of shares in unlisted companies, it can still be done through listed companies as the long-term capital

gain tax is nil and the short-term capital gain tax is just 15%, provided the securities transaction tax is paid. So it is likely that some operators push prices of smaller companies in the market and help their clients show capital gain and get compensated in unaccounted cash. This could be done through transactions from multiple accounts to make tracking difficult. The government would need to use information technology more effectively to track such transactions.

The recent leaking of offshore financial records from a Panama-based law firm again brings into focus the labyrinth of global network of shell companies operating from tax havens, used purportedly to illegally shift assets and cash from one country to another and using structured transactions to evade tax.

The crackdown on shell companies is part of a bigger process to contain the menace of black money. The government is on the right track here.

The ministry is probing deposits of over \$1 billion made by around 20,000 companies during the cash ban last year, while its Serious Fraud Investigation Office is investigating 1,505 companies for allegedly violating the Companies Act. It is examining another 809 listed companies, found untraceable by SEBI, to check their status, existence of their offices and directors, the minister said.

The ministry is conducting massive data mining exercise to trail ultimate beneficiaries of these companies. Using data analytics and artificial intelligence, the information gathered will be used to take action against the offenders.

It's also developing a state-of-the-art early warning system using artificial intelligence that will throw up red flags and provide information in case a company's financial health deteriorates or if its transactions are suspect.

#### **Shell Companies moved large sums via banks accounts:**

In May 2016, internal investigators of a leading public sector bank uncovered a fraud, wherein some individuals, along with their cohorts, cheated the government and banks of several crores of rupees using a maze of 24 ghost companies operating from a single branch of the bank in Delhi.

In December 2015, in another branch of another bank, CBI began investigating fake foreign exchange remittances aggregating Rs.6,000 crore from non-existent imports through various accounts of 60 companies, all of them operating from a single branch of the bank and controlled by a group of individuals masterminding the fraud.

13 banks have now directly shared the information with the Ministry. However, data received from them pertain

to only 13,140 accounts of about 5,800 of the 2.09 lakh de-registered firms. After being struck off, the operation of the bank accounts of these 2,09,032 suspicious companies were restricted to discharge of their liabilities. The data revealed that a few of the companies have more than a hundred accounts in their names. The list topper had 2,134 accounts, followed by others with hundreds of accounts.

Data pertaining to pre-demonetisation account balances and transactions conducted via the accounts of these companies during the note ban period are even more startling. It was found that after considering the loan accounts, these companies had a balance of ₹22.05 crore to their credit on November 8, 2016. However, from November 9, 2016 — the day after demonetisation was announced — till the day they were struck off, these companies deposited a total of ₹4,574 crore in their accounts, and withdrew ₹4,552 crore. With loan accounts, there was a negative opening balance of ₹81 crore. Thereafter, the accounts remained dormant, with paltry balances.

In one of the banks, 429 companies, each having zero-balance on November 8, 2016, deposited and withdrew over ₹11 crore, and were left with a cumulative balance of ₹42,000 on the date their accounts were frozen. Similarly, in the case of another bank, more than 3,000 companies were detected with most having multiple accounts. From having a cumulative balance of about ₹13 crore as on November 8, 2016, these companies deposited and withdrew about ₹3,800 crore, leaving a cumulative negative balance of almost ₹200 crore at the time of the freezing of their accounts

#### **Income Tax:**

The latest action against shell companies - which have no active business operations or assets - comes months after authorities ordered nearly two lakh such firms to be shut down.

Tax officials say the owners of shell companies create elaborate smokescreens, including naming personal servants and chauffeurs as board directors, to obscure the ultimate beneficiaries, conceal political investment, evade tax, commit fraud or manipulate tenders.

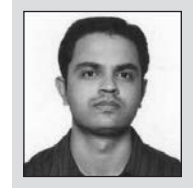
#### **Task Force – Companies Act 2013:**

In the latest move to curb tax evasion, the government has set up a task force to monitor actions of deviant shell companies. The setting up of the task force to review the functioning of shell companies to prevent their misuse for money laundering and tax-evasion, especially post-demonetisation.

*(Contd. on page 7)*



# GST ON EMPLOYEE RECOVERIES



CA Madhukar N Hiregange & CA Mahadev.R

In GST law, there are few activities which would be treated as supply liable for GST even in the absence of consideration. These activities are listed in Schedule I to CGST Act 2017 with few entries finding place in Schedule II as well. One such activity listed in Schedule I is supply of goods or services between employee and employer when such supply is made in course or furtherance of business. There would be various payment transactions between employee and employer having impact in GST law. In this article, we have analysed few types of payments having GST impact.

## GST on employment services

Services by an employee to the employer in the course of or in relation to his employment would not be treated as either supply of goods or supply of services in terms of Schedule III to CGST Act 2017. Therefore, any payments made by an employer to employee in terms of employment contract should not suffer GST. The issue would arise when any supplies are made to employees outside the terms of employment.

Supply of goods or services between employer and employee in the course or furtherance of business is liable for GST. It is important to note that services by an employee to employer is exempted and not vice versa. Any services provided by employer to employee would be liable for GST. However, gifts not exceeding Rs.50,000/- in a financial year by an employer to an employee would not be treated as supply of goods or services or both. The word 'gift' has not been defined in GST law. According to oxford dictionary, a gift is 'a thing given willingly to someone without payment' or 'an act of giving something as present'. CBEC press release dated 10<sup>th</sup> July 2017 has stated that gift is made without consideration which is voluntary in nature and made occasionally. Any supply made willingly to employees outside the terms of employment without any payment could be treated as gift to claim the benefit of Rs.50,000/-. However, if the value is crossing Rs.50,000/-, then the entire value would have GST impact.

## Recovery from employees

Any supplies made by employer to employee in terms of contractual agreement would not be subject to GST as discussed earlier. CBEC press release dated 10<sup>th</sup> July 2017 further goes on to clarify that if services are provided free of charge to all the employees by the employer then the same would not be subjected to GST. Therefore, common facilities

such as telephone, canteen and travelling etc. provided commonly to employees would not be subject to GST when there is no separate consideration.

It may so happen that for some of the facilities provided, employers recover amounts from the employees. Such recoveries could be concessional. For example, Rs.5 recovered from employee for a meal actually costing Rs.50. Question which arises here is if Rs.5 recovered is subject to GST or not. Transportation and housing facilities provided at concessional rates could be other examples.

GST law being new in India, there are many issues for which finding actual solution may not be an easy task. Referring to European VAT laws which was also referred while framing Indian GST law could give us some idea on interpreting few provisions. The judgment of European Court of Justice (ECJ) delivered its judgment in *Astra Zeneca UK Limited v HMRC (Case C-40/09)* could be of relevance here. In this case, the court held that partial salary sacrifices by employee towards the vouchers issued by employer is consideration giving rise to VAT.

When there is recovery of any amount from employees towards any supplies which are liable for GST, then revenue could treat the same as supply for levy of GST. The transaction between employee and employer are treated as related party transaction, transaction value would not be applicable for levy of GST. Rule 28 of CGST Rules 2017 would be applied for valuation of supply when the transaction is between related parties. According to Rule 27, the value of supply which should be considered by employer should be as below:

- a) open market value
- b) if open market value not available, value of like kind or quality

- c) if value is not determinable according to a) or b) above, then cost of services + 10% or residual method should be adopted.

Open market value could be adopted which could be value paid to the original supplier. Considering earlier example, the value on which GST payable by employer would be Rs.50 though only Rs.5 being recovered from employees. Section 17(5) of CGST Act 2017 has restriction on claim of input tax credit on food and beverages, outdoor catering. However, such restriction is not applicable when such services are used for making an outward supply of same category of services. Similar restriction and eligibility is there even for rent-a-cab services. It would be prudent for the employer to claim credit on total value of expenses and pay GST according to valuation rules to avoid any complications or litigations in future.

## SHELL COMPANIES

*(Contd. from page 5)*

The Serious Fraud Investigation Office (SFIO) has filed cases against 49 shell companies after it was found that Rs. 3,900 crore was laundered by 559 persons with the help of 54 professionals. Also, Rs. 1,238 crore cash has been deposited in shell or dormant firms, post demonetisation.

There are about 15 lakh registered companies in India and only 6 lakh companies file their annual return. This means a large number of these companies may be indulging in financial irregularities. The concerned regulatory ministry has to take disciplinary actions against professionals indulging in malpractices and abetting the entry operators of the shell companies.

Information about the deviant shell companies has been shared with SIT, Income Tax Department, Enforcement Directorate, SEBI and The Institute of Chartered Accountants of India. Income Tax Department has reopened completed assessment in these cases and Enforcement Directorate has initiated action under Prevention of Money Laundering Act (PMLA), 2002. ICAI has also initiated disciplinary proceedings against its members, while winding up process has been initiated in respect of 49 shell companies.

It was also decided that appropriate “red flag” indicators will be used for identifying shell companies, and a database of such companies and their directors will be built by pulling in information from various agencies. The database will

## Conclusion

With introduction of GST, there is a need to review all employment contracts, benefits given such as reimbursement of expenses, concessional facilities. Professionals could highlight these aspects to clients and help them in GST compliance. A GST compliance review could be taken up for the clients which could throw out these issues. This could help the clients in avoiding additional costs in future in form of interest and penalties in addition to tax.

A clarification from CBEC on GST impact when partial recovery of amount from employees exist, gifts upto (Rs.50K) by amending the law would help large section of tax payers and ease doing business in India.

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also capture Aadhaar numbers of individual directors in the companies.

MCA21, the portal on which all corporate filings reside, is a wonderful starting point for tracking and mining data for companies sharing characteristics like common directors, same registered address, little or no business, occasional large transaction, etc., to create early warnings against shell companies. A central KYC registry to track multiple transactions by one individual or entity will help create transaction histories of individuals and entities.

## Examples:

- A couple of the flats — numbered 12 and 16 — are the registered addresses for at least 15 companies.
- The two houses a large number of shell companies that are inter-related in a complex maze. They sport unfamiliar names.
- Companies have an auditor, who is registered as having an office in flat no. 16. The residents of the flat swear there is no one by that name who lives in the apartment block.
- Flat No. 12, locked for years. Every month, someone comes to pay the maintenance and leaves.

Auditors have special responsibility to ensure shell companies do not indulge in fraudulent practices.

## Source:

- Business Line newspaper etc.,

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## UPDATES ON GST

CA B.G. Srikanth Acharaya and CA Annapurna Kabra



- With reference to Notification(22/2017) No FD 47 CSL 2017 Bengaluru dated 15/11/2017 notifies the registered person other than composition supplier as the class of persons who shall pay GST on outward supply of goods at the time of supply as specified in section 12(2)(a) of KGST Act 2017. Therefore all tax payers are exempted from payment of tax on advances received in case of supply of goods (Section 12(2)(b)).
- With reference to Notification(21/2017) No FD 47 CSL 2017 Bengaluru dated 15/11/2017 notifies the person making supplies of services other than supplies specified in section 9(5) of CGST/KGST Act 2017 through an electronic commerce operator who is required to collect tax at source under section 52 of the Act and having an aggregate turnover to be computed on all India basis not exceeding an amount of twenty lakh rupees in a financial year as the category of persons exempted from obtaining registration under the Act.
- With reference to Notification No. 01/2018 dated 01/01/2018 – Central tax provides for the revised rate of tax under composition scheme for manufacturers and other suppliers. The effective rate of tax for manufacturers is “**half percent of the turnover in State**” and in case of other suppliers it is “**half percent of the turnover of taxable supplies of goods**”.
- **Refund in case of zero rated supplies without payment of tax under bond or letter of undertaking:**  
With reference to Notification No. 75/2017 dated 29/12/2017- Central Tax provides for amendment of Central Tax Rules. Under Rule 89(4) the following will be substituted for zero rated supply of goods or services or both without payment of tax under bond or letter of undertaking;  
**Refund amount = (Turnover of zero rated supply of goods + Turnover of zero rated supply of services) \* Net ITC / Adjusted Total Turnover**
- With reference to Notification 73/2017 – Central Tax dated 29/12/2017 wherein with reference to power conferred in section 128 of CGST Act, the Central Government waives the amount of late fee payable by the composition supplier for non-filing of GSTR-4 within due date in excess of rupees twenty five for every day during which such failure continues. Where the tax payable is nil by composition supplier then the amount of late fee in excess of rupees ten for every day is waived off till which the failure continues.
- With reference to Notification 74/2017 – Central Tax dated 29/12/2017 wherein the Central Government shall appoints 1<sup>st</sup> day of February 2018 as the notified date from which the E-ways bills shall come into force
- With reference to Notification 73/2017 – Central Tax dated 29/12/2017 waives the late fee payable for failure to furnish the return on FORM GSTR- 4 by the due date, which is in excess of an amount of twenty five rupees for every day during which such failure continues. However, in case the said return is a NIL return, failure by any registered person, then late fee shall be waived in excess of an amount of ten rupees for every day during which such failure continues.
- With reference to Notification 71/2017- Central Tax and 72/2017 – Central Tax dated 29/12/2017 the time limit for filing GSTR-1 is extended for the suppliers whose aggregate turnover is **less and more** than 1.5 Crore person making supplies of services other than supplies specified in section 9(5) of CGST/KGST Act.
- With reference to Notification No FD CSL 2017 Bengaluru dated 24/10/2017 the Government of Karnataka on the recommendation of the council hereby waives the late fee payable under section 47 of the Act for all registered persons who failed to furnish the return in Form GSTR-3B for the month of August and September 2017 by the due date.
- With reference to Notification No FD 65 CSL 2017 Bengaluru dated 26/10/2017 wherein the Government



of Karnataka hereby reduces with effect from 26<sup>th</sup> day of October 2017 till 25<sup>th</sup> day of October 2027 the tax payable by a dealer under section 5 of the KST Act to 1% on the sale of Aviation Turbine Fuel at RCS (Regional Connectivity scheme) Airports and for RCS Flights from other airports located within the state of Karnataka.

- Due dates to be noted:

Sl No.	Particulars	Due date
1	FORM GSTR- 5A- online information and database access or retrieval services July'17- December'17	31 <sup>st</sup> January 2018
2	FORM GSTR- 5- non-resident taxable person July'17- December'17	31 <sup>st</sup> January 2018
3	FORM GST ITC-01 July'17- November'17	31 <sup>st</sup> January 2018
4	FORM GST CMP- 03	31 <sup>st</sup> January 2018

- With reference to Circular No. 28/2018- GST dated 08/01/2018, a clarification regarding GST on College Hostel Mess Fees is provided. It is states as "Supply of food or drink provided by a mess or canteen is taxable at 5% without Input Tax Credit [Serial No. 7(i) of notification No. 11/2017-CT (Rate) as amended vide notification No. 46/2017-CT (Rate) dated 14.11.2017]. It is immaterial whether the service is provided by the educational institution itself or the institution outsources the activity to an outside contractor.
- With reference to Circular No. 25/2017- GST dated 21/12/2017, provides for the procedure for manual

For the registered having aggregate turnover up to Rs. 1.5 Crore in the preceding financial year or the current financial year.		
Serial No.	Quarter for which the details in FORM GSTR-1 are furnished	Time for furnishing the details in FORM GSTR-1
1	July-September, 2017	January 10, 2018
2	October-December, 2017	February 15, 2018
3	January-March, 2018	April 30, 2018
For the registered person having aggregate turnover more than Rs. 1.5 Crore in the preceding financial year or the current financial year		
Serial No.	Month for which the details in FORM GSTR-1 are furnished	Time for furnishing the details in FORM GSTR-1
1	July-November, 2017	January 10, 2018
2	December, 2017	February 10, 2018
3	January, 2018	March 10, 2018
4	February, 2018	April 10, 2018
5	March, 2018	May 10, 2018

- filing of applications for Advance Ruling and Appeals before the Appellate Authority for Advance Ruling
- With reference to Circular No. 24/2017- GST dated 21/12/2017, provides for the procedure for manual filing and processing of refund claims on account of inverted duty structure, deemed exports and excess balance in electronic cash ledger.
- Press Release dated 21/12/2017- Increase of import duty on Chana (Chickpeas) and Masoor (Lentils) to 30%.

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## OBITUARY

We deeply regret to inform sad demise of  
**CA. C M M Sharma**  
on 3rd January 2018

*May his soul rest in peace.*



# FINANCIAL REPORTING AND ASSURANCE

CA Vinayak Pai V

## 1. Heads Up – Few Upcoming Literature Changes

IFRS	
1	Amendments to IAS 8 – “Accounting Policy” Changes
2	Amendments to IAS 1 and IAS 8 – Definition of “Material”
3	Amendments to IFRS 3 - Definition of “Business”
IND-AS	
1	IND-AS 115 – Revenue from Contract With Customers
Assurance	
1	Preface to the Framework and Standards on Internal Audit
2	Framework Governing Internal Audits
3	Guidance Note on Audit of Banks
Companies Amendment Bill, 2017	
A	Appointment of auditors, managerial remunerations, board report and annual report

## 2. IND-AS Transition Impact: A Case Study

The following case study of an IND-AS first-time adopter is based on published financial statements available in public domain.

Impact of IND-AS Transition		
	On Equity at Transition Date	On Net Profits for the comparative period
Impact in comparison with reported numbers as per AS	Increase of 5.6%	Decrease of 8.4%

### Key Contributing Factors:

- Fair valuation of investments in quoted mutual funds.
- Investments in equity instruments now fair valued through other comprehensive income.
- Differential treatment of accounting for actuarial gains and losses under IND-AS pertaining to defined employee benefit plans.
- Notional interest income and expenses recognized under IND-AS on deferred payment/receipt arrangements.
- GAAP difference with respect to accounting for government grants.

## 3. Financial Reporting And Assurance Updates

### a) “Commitments” Disclosures In IND-AS Financial Statements

IND-AS Schedule III requires disclosures pertaining to various commitments in the notes to the financial statements such as capital commitments not provided for and uncalled liability on shares. It also requires disclosures pertaining to ‘Other commitments’, with specification of nature thereof.

Our Institute’s *Guidance Note On Division II- IND-AS SCHEDULE III to The Companies Act 2013* provides implementation guidance on the new accounting framework. The disclosure aspects of the line item “Commitments” are detailed herein below.

- The ICAI Guidance Note on Terms Used in Financial Statements defines ‘Capital Commitment’ as future liability for capital expenditure in respect of which contracts have been made. The term ‘commitment’ implies future liability for contractual expenditure.
- ‘Other commitments’ would include all expenditure related contractual commitments apart from capital commitments such as commitments arising from long-term contracts for purchase of raw material, employee contracts, lease commitments, etc.
- The scope of such terminology is very wide and may include contractual commitments for purchase of inventory, services, investments, employee contracts, etc.
- Disclosures required for ‘other commitments’ should include only those non-cancellable contractual commitments (i.e. cancellation of which will result in a penalty disproportionate to the benefits involved) based on the professional judgment of the management that are material and relevant. It may be noted that disclosures relating to lease commitments for non-cancellable leases are required to be disclosed by IND-AS 17- Leases.

### b) Technical Guide on Income Computation and Disclosure Standards – ICDS VI: Effects of Changes in Foreign Exchange Rates

Our Institute released a Technical Guide on ICDS to gear members and stakeholders for its implementation. The

salient aspects of the Technical Guide with respect to **ICDS VI- Effects of Changes in Foreign Exchange Rates** are summarized herein below.

- The term **foreign operation** is **restricted to a branch**. Under AS 11 and IND-AS 21, the extended meaning of foreign operation is necessary for the purpose of preparation of consolidated financial statements.
- AS 11 requires foreign exchange difference in respect of **monetary items of non-integral foreign operations** to be accumulated in a foreign currency translation reserve until disposal of the investment and upon disposal, is required to be recognized as income/ expense. Accordingly, the differential treatment of recognition of exchange difference under ICDS VI and under AS 11 needs to be factored in computing income under the Income Tax Act.
- **Section 43A** of the Income Tax Act is applicable for a foreign currency liability in respect of an **asset acquired from a country outside India**. Therefore, in the case of a foreign currency liability for purchase of an asset in India, Section 43A will not be applicable and it shall be recognized as per ICDS VI.
- Since provisions of section 43A mandate **adjustment to the cost of asset** only in the **year of payment**, the related difference with respect to the year in which such exchange differences are adjusted to cost of asset will need to be eliminated in the computation of income.
- Mark to Market loss/gain in respect of foreign exchange contract shall be **recognized to profit and loss account** and would be deductible that are covered under Para 8(1) of ICDS. On the other hand the gain/loss including the Marked to Market in respect of forward exchange contract covered under Para 8(2) and 8(3) will be **eligible for deduction in the year of settlement**.
  - With the introduction of this ICDS, marked-to-market gain/loss on forward exchange contract **intended for trading or speculation** cannot be recognized as income/expense till such time they are eventually settled.

c) **Clarifications On Transition Amounts in 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 on transition amounts as relevant to a wide array of companies are provided herein below.

• **Capital Reserve/Securities Premium existing at IND-AS Convergence**

- Capital Reserves/ Securities Premium existing as on the convergence date as per previous GAAP which are reclassified to Retained Earnings/ Other Reserves under IND-AS and vice versa, shall **not be considered** for the purposes of **Transition Amount**.
- It is further clarified, that even after such reclassifications, the amount of revaluation reserve shall continue to be considered as revaluation reserve for the purposes of computation of book profit and shall also include transfer to any other reserves.

• **Companies Following Accounting Year other than March end for Companies Act Purposes**

- Companies will be required to follow **Indian GAAP for the pre-convergence period** and **IND-AS for the balance period**.
- For example, a Company following December ending will be required to prepare, accounts for MAT purposes under Indian GAAP for 9 months up to December 2016 and under IND-AS for 3 months thereafter. The transition amount will be calculated with reference to January 1, 2017.

d) **Share-based payment transactions under IND-AS**

**IND-AS102** guides share-based payments accounting under IND-AS. The approach required thereunder with specific reference to equity settled share based payment transactions is summarized herein below.

- The cost of equity-settled transactions with grantees is required to be measured with reference to the **fair value at the grant date** and the fair value could be determined by using the **Black Scholes Merton model**,
- In valuing equity-settled transactions, no account should be taken of any conditions **other than market conditions** and the cost of equity-settled transactions are required to be recognized together with a corresponding increase in equity, **over the period** in which the related service conditions are fulfilled.
- It may be noted that the **cumulative expense** recognized for such transactions at each reporting date, until the vesting date should reflect the extent to which the vesting period has expired and the **company's best estimate** of the number of equity instruments that will ultimately vest,
- The charge or credit in the Statement of Profit or Loss for a period **should represent the movement in cumulative expense** recognized at the beginning and end of that period.

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# US TAX LAW REFORMS – WHAT INDIA INC SHOULD WATCH OUT FOR

CA Sandeep Jhunjhunwala



Amidst the evolving sensation of GST, GAAR, POEM, BEPS, CBCR, ICDS and FTC in India, the H.R.1 (formerly known as the Tax Cuts and Jobs Act - TCJA) is the new ellipsis hovering over the minds of tax professionals. Base Erosion Anti- Abuse Tax (BEAT), an anti-base erosion focused measure, Global intangible low-taxed income (GILTI), Foreign-derived intangible income (FDII) are another set of acronyms that the international tax practitioners would need to quickly get acquainted with. While the current tax reforms in the US include a bouquet of significant changes, the headline-grabbing move is the cut in the headline corporate tax rate from 35 percent to 21 percent, with effect from January 1, 2018, doing away with the prevailing graduated corporate structure in the US. With this reform, the US MNCs operating in India would start to relook at the profits earned in India as a higher tax rate here (with ~14 percent delta) would add to their overall tax burden. From transfer pricing perspective, the Indian MNCs might want to consider the option of converting to a full risk distributor in the US or reconsider the role and authority of the US subsidiary acting as an agent in the US. At the same time, as there could be an increased scrutiny by the Indian Revenue authorities on transactions with US group entities due to such tax rate arbitrage, there is a need to review POEM risks in respect of control and management over the US group entities. The effect of tax rate cut could also include increased outbound investments into the US and increased momentum in the acquisition of US businesses. A tax rate cut in the US could also translate into a stronger dollar, thereby, boosting realisations of Indian exporting houses.

Reduction in the US corporate tax rates may prompt other emerging economies, including India, to look at their domestic corporate tax rates to retain competitive positions in the world, understandably balancing this with the need to noose the fiscal deficit. Press articles suggest that the Indian Finance Ministry, ahead of the Union Budget 2018, has been actively seeking inputs through various industry bodies on ways to deal with the impact of sweeping US tax reforms and other suggestions to rev up the economic growth in

India. Perhaps, from a tax dynamics angle, this is the right time to implement the corporate tax rate cut announced in the earlier budget, across the board.

The US proposal to move to a territorial (or destination based) system of taxation from the current system of worldwide taxation, is another imminent concern to India from inflow of capital or FDI viewpoint. To accomplish the change in tax system in line with the US inward approach, the new law includes several features including 100 percent deduction for dividends received from 10 percent owned foreign corporations and a minimum tax on Global intangible low-taxed income (GILTI). As a transition to the new regime, for deemed repatriation of previously untaxed old earnings, 15.5 percent transition tax would apply to earnings attributable to liquid assets and 8 percent for earnings attributable to illiquid assets - depending on the form in which the overseas profits are presently retained. This is similar to the way that India currently taxes foreign dividends from 26 percent owned foreign corporations at a concessional rate of 15 percent under Section 115BBD, though the US protectionist policy has enabled them taking a step further to offer an option to the taxpayers to pay this tax in equal installments over an eight-year period. The deemed profit repatriation tax could see a substantial move of capital from overseas entities back to the US soil, as tax reasons for retaining profits overseas no longer look balanced. However, the prevailing Dividend Distribution Tax in India of over 20 percent is likely to be a deterrent, as the same would not be creditable in the US in view of exemption of foreign dividends.

Among others, the new tax law also lowers the 80 percent dividends received deduction (for dividends from 20 percent owned corporations) to 65 percent and the 70 percent dividends received deduction (for dividends from less than 20 percent owned corporations) to 50 percent, effective for tax year 2018. The corporate Alternate Minimum Tax (AMT) has been eliminated, with an expanded utilization and potential refundability of existing AMT credits for years beginning before 2021. The new law changes the limitation on interest deductibility for taxpayers, limiting

the deduction to business interest income plus 30 percent of the taxpayer's EBITDA through 2021 and 30 percent of EBIT thereafter. Until now, pushing debt leverage down into US operations and getting the deduction for those has been a significant strategy for investors in the US. With the interest limitation rule, it is set to get impacted. BEAT, a significant new provision and revenue raiser, will operate in tandem with the new interest deduction limitation and disallowance for payments involving hybrid transactions and hybrid entities, to significantly curtail the tax benefit of deductible payments made by US groups to their foreign affiliates. Similar to India's Equalization levy, BEAT also raises concerns regarding the non-discrimination clauses contained in tax treaties as it effectively denies a portion of the deductions for payments made to foreign entities, whereas payments made to similarly-placed domestic entities remain fully deductible. US MNCs may now need to review the level of economic activity carried offshore in countries such as India and cautiously monitor payments towards back-office operations, pharma and other R&D, software development, financial services etc to offshore group companies due BEAT exposure. Group cost recharges may also require BEAT evaluation.

Several other changes are worth mentioning - The new law extends and modifies the additional first-year depreciation deduction (commonly known as bonus depreciation). Under the new law, generally, the bonus depreciation percentage has been increased from 50 percent to 100 percent for property acquired and placed in service after September 27, 2017, and before 2023. Specified research or experimental expenditures paid or incurred in tax years beginning after December 31, 2021 needs to be capitalized and amortized ratably over a five-year period. Specified R&E expenditures which are attributable to a research that

is conducted outside of the US would be capitalized and amortized ratably over a period of 15 years, beginning with the midpoint of the tax year in which such expenditures are paid or incurred. This is a significant departure from the long-standing rule of administrative convenience adopted by the IRS to treat the costs of developing software as deductible expenses. The new law amends the definition of intangible property to include workforce in place, goodwill, going-concern value, and "any other item" the value or potential value of which is not attributable to tangible property or the services of an individual. This provision should resolve long-standing uncertainties regarding tax on outbound transfers of goodwill, going concern value etc - a position that IRS had not explicitly expressed in the past.

While some states automatically adopt federal tax law changes, other states in the US align their laws with federal law on specific dates. States may also choose to decouple from new federal tax provisions and continue to apply current laws. This means that a company may need to follow one set of rules when determining taxable income for US income tax purposes and multiple sets of rules when determining state and local taxable income. Companies should understand the conformity rules in the states in which they operate, so that they can appropriately account for the impact on their state income taxes.

While the sweeping overhaul of the US tax code gave permanent tax breaks for US corporations, India Inc waits for Union Budget 2018, hopefully to hear strategies to counter the negative impact of a tax war on business taxation in India.

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**KSCAA WELCOMES  
NEW MEMBERS - DECEMBER 2017**

S.No.	Name	Place
1	CA. Swathi K. Holla	Bengaluru
2	CA. Arihant Daga	Bengaluru
3	CA. Suraj S	Bengaluru

*Congratulations*



**CA Ramananda Prabhu,**  
has been nominated as  
Business Head, representing  
Karnataka Wing of Indian Social  
Club, Sultanate of Oman for  
Oman India Business Forum  
on 13 December 2017.



# ANALYSIS OF EXEMPTION FROM GST ON SUPPLY OF SERVICES: NOTIFICATION NO. 12/2017 CENTRAL TAX(RATE) DATED 28.06.2017 – SERVICES BY CHARITABLE INSTITUTIONS



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

### Legislative background:

In terms of section 11 of CGST, in the interest of the public, Government may on recommendation of the GST Council, exempt goods or services from tax. In terms of the provisions of the section 11 supra, Notification No. 12/2017 Central Tax (Rate) date 28.06.2017 has been issued granting exemption to certain from intra state supply of the said taxable services. Similar exemptions are contained in Notification No. 9/2017-Integrated Tax (Rate), dated 28-6-2017] which grants exemption to interstate supplies.

It is interesting to note that the Supreme Court in the case of Associated Cement Company vs. State of Bihar and others, (2004) 7 SCC 642 observed that the exemption from tax would arise only where there is a liability to pay tax which presupposes levy of tax. The Court observed that the levy would be governed by the charging section, where as the liability to pay tax would be arrived after considering the exemptions. One must look at the levy of tax on transaction or on a particular person before analysing the exemption(s).

It is to be noted that the guiding factor for grant of exemption is public interest. Further, where an exemption is withdrawn, the Government, if challenged, has to demonstrate as, for what public interest involved in removal or withdrawal of exemption.

### Analysis of the entry No. 1 of the exemption notification:

The exemption entry reads as below:

Sl. No.	Chapter, Section, Heading, Group or Service Code (Tariff)	Description of Services	Rate (per cent.)	Con- dition
1	Chapter 99	Services by an entity registered under section 12AA of the Income-tax Act, 1961 (43 of 1961) by way of charitable activities.	Nil	Nil

Note: Similar exemption entry was there under Chapter V of Finance Act, 1994 [Service Tax law] which granted exemption

from service tax on the charitable activities. The definition of the phrase ‘charitable activities’ is also more or less remains same.

Entry 1 of the notification would be applicable where following is satisfied:

- a) Services shall be by an entity registered under section 12AA of the Income-tax Act, 1961 (43 of 1961)
- b) The services eligible for exemption are charitable activities.
- i) **Services shall be by an entity registered under section 12AA of the Income-tax Act, 1961 (43 of 1961)**

Sec. 12AA of the Income Tax Act, 1961 provides for procedure of registration of the trust or charitable institutions which claim exemption from income tax on the contributions and income earned from property. Therefore, this exemption would be eligible to an entity which enjoys the exemption from payment of income tax in terms of sections 11, 12 and 12A and is registered in terms of provisions of section 12AA of the Income Tax Act, 1961.

- ii) **Such services must be by way of charitable activities only:**

Exemption from GST is restricted to services by way of charitable activities provided by the entities registered under section 12AA of Income Tax Act, 1961. The phrase ‘charitable activities’ has been defined in para 2(r) of the notification as under:

“charitable activities” means activities relating to –

- (i) public health by way of, -
  - (A) care or counselling of:
    - (I) terminally ill persons or persons with severe physical or mental disability;
    - (II) persons afflicted with HIV or AIDS;
    - (III) persons addicted to a dependence-forming substance such as narcotics drugs or alcohol; or
  - (B) public awareness of preventive health, family planning or prevention of HIV infection;

- (ii) advancement of religion, spirituality or yoga;
- (iii) advancement of educational programmes or skill development relating to,-
  - (A) abandoned, orphaned or homeless children;
  - (B) physically or mentally abused and traumatized persons;
  - (C) prisoners; or
  - (D) persons over the age of 65 years residing in a rural area;
- (iv) preservation of environment including watershed, forests and wildlife.

From the definition of the phrase 'charitable activities' it appears that the Clauses (i) and (iii) which refer to public health and educational & skill development activities, are specific in nature. The exemption is limited to certain types of services or provided to certain section of the society relating to public health or education would be eligible for exemption.

However, clause (ii) which relates to advancement of religion, spirituality or yoga and clause (iv) which refers to 'preservation of environment including watershed, forests and wildlife', are more general in nature and leaves scope for interpretation as the words.

Let us analyse the provisions in clause (ii) – advancement of religion, spirituality and yoga in detail.

It would be interesting to know how the religion and spirituality has been defined in the dictionaries. The extracts are as below:

#### Religion:

*Religion is certainly a matter of faith with individuals or communities and it is not necessarily theistic. There are well known religions in India like Bhuddhism and Jainism which do not believe in God or in any Intelligent First Cause. A religion undoubtedly has its basis in a system of beliefs or doctrines which are regarded by those who propose that religion as conducive to their spiritual well-being, but it would not be correct to say that religion is nothing else but a doctrine of belief. Commissioner H.R.E v. Sti Lakshmindra Thirtha Swamiar, Sri Shrirur Mutt., AIR 1954 SC 282, 290.*

*'Religion' is not necessarily theistic. A 'religion' has its basis in a system of beliefs and doctrines which are regarded by those who profess that religion to be conducive to their spiritual well being, but it is not correct to say that matters of religion are nothing but matters of religions faith and belief. A 'religion' in not merely an opinion, doctrine or belief but it has its outward expression in acts as well. (Ratilal Panachand Gandhi V. State of Bombay, AIR 1954 SC*

*388) (Constitution of India Article 25) see also Durgah Committee, Ajmer V. Syed Hussain Ali, AIR 1961 SC 1402 : (1962) 1 SCR 383, 410-11.*

#### Spirituality:

*Ramanath Aiyar's Advanced Law Lexicon*

*Spiritualities: the revenues of a bishop as a bishop; his ecclesiastical receipts:*

*Spiritualities of a bishop, spiritualia episcopi are those profits which he receives as a Bishop not as a baron of parliament. Such are the duties of his visitation, his benefit growing from ordaining and instituting priests, presentation, money which upon reasonable cause he may require of his clergy and the benefit of his jurisdiction. Chambers English Dictionary*

*Spiritual of the nature of, relating to, spirit, spirits, the mind, the higher faculties, the soul: highly refined in thought and feeling, habitually or naturally looking to things of spirit*

*Relating to the spirit or soul and not to physical nature or matter; intangible; of, relating to, or characteristic of sacred things, the Church, religion, etc.; standing in a relationship based on communication between the souls or persons minds of the involved: a spiritual father; having a mind or emotions of a high and delicately refined quality.*

*"The highest meaning of true spirituality is to discover what it is already, not to create, not to develop."*

#### Yoga:

The term 'Yoga' is defined as under:

*Yoga is a discipline to improve or develop one's inherent power in a balanced manner. It offers the means to attain complete self-realization. The literal meaning of the Sanskrit word Yoga is 'Yoke'. Yoga can therefore be defined as a means of uniting the individual spirit with the universal spirit of God. According to Maharishi Patanjali, Yoga is the suppression of modifications of the mind.*

Source: Website of Ministry of AYUSH: <http://ayush.gov.in/about-the-systems/yoga/definition-yoga>.

*Advancement: The advancement of religion means the promotion of the spiritual teaching of a religious body and the maintenance of the spirit of the doctrines and observances on which it rests or in which it finds expression. Oxford Group v. Inland Revenue Commissioner, (1949) 2 ALL ER 537, 539 (CA) (Income Tax Act, 1918, S. 37(a)(b))*

(Contd. on page 18)

# THE JOURNEY FROM SIMPLE AUTOMATION TO HYPER DISRUPTION IN THE ACCOUNTING PROFESSION



Gaurav Vasu

Way back in 1984, India's accounting and financial professionals got their first software tool **MUNIMJI** to fast track their accounting practices and move away from paper-based solutions. Four years later Tally made its entrance in the market with smart marketing tactics and the rest as we all know is history. Tally's strategy of partnering with the accounting community and not selling directly to traders/organizations/factories paid off well. The company realized early on that it must focus on three critical elements a) compliances and complex laws b) lack of time and c) financial acumen of the end user community.

Personally, I believe what Tally did in the 90's was simple automation, disrupting and adding value to accounting professionals. Let's think of their first customer who was a small accounting unit: managing 36 customers with 10 employees working 70 hours a week. While this may sound insane today, I am sure none of the professionals in that unit fully understood their customer or the depth of business that the customer ran to do what we call advisory. Late Shyam Sundar Goenka, founder of Tally made a statement to his son in 1987 which holds true even today, "There should be a programme to make the life of the user, and not the programmer, easier."

Wise words that ring true even today.

Let's fast forward to 2018. We live in an age of hyper disruption where finance students and accounting professionals are extremely worried because disrupting technologies are making the lives of end users simpler and easy to do. As a result, some even feel the future of accounting jobs look bleak. Now let's look at these below hyper disruptions which are making the end user smart or at least passing on scenario based intelligence, which otherwise was the core strength of accounting professionals.

- **High-Value Advisory Accounting Services** – Imagine you are an investor trying to find the hidden gem in the start-up world. Who would you turn to? It is a no brainer, the answer is Smart Chartered Accountant Firm who can Study India market, identify fast growing industry, draw up a list of startups and finally look at their numbers to give you top picks exactly like listed companies right. Well that was old era. Today firms like Google Ventures, Correlation Ventures

and Signalfire use neural network and Supervised Machine Learning algorithms to predict success of a start-up or at least various scenarios based on data.

For listed companies in India investors have a dozen algorithm driven tools like Squareoff, ARC (Angel broking) or simple data tools like Screener, but likes of MarketsMojo are creating true hyper disruption, this platform uses 500 algorithms across 4,000 listed companies in India on seven parameters – returns, risk, liquidity, diversification, quality valuation, and current financial trends along with impact of external environment to eventually sum up companies.

- **Transactional Accounting Services** – GST and Demonetization, two major reforms/disruptions have created a huge opportunity for accounting professionals in India. At the same advanced technologies like cognitive intelligence, machine learning and natural language processing have made massive inroads into Audit, Assurance, Compliance and Financial Reporting services.
- **Reporting and Audit** – Would you believe if I told you an annual report or 10K will be written by an algorithm? Fact is number of financial institutions/ investment banks have already deployed algorithm in the US and very soon firms in India will increasingly deploy algorithm to not only automate annual report writing but even audit documentation. Deloitte has designed and deployed Argus which is next generation Audit and Documentation software which interrogates electronic documents using machine learning and natural language to identify, analyse and extract information from a huge set of data into a report. Globally over 40 percent of stock market trading is algorithmic so why can't annual report writing, or financial analysis be automated based on historic data and imagine deploying Alexa as a front end with a flavor of local languages. It would easily do what Google is allowing users to do or Amazon with Alexa which is ask basic questions to get real time answers. KPMG is already using Watson for cognitive Audit and Assurance services.
- **Financial Analytics** – One of the areas where accounting professionals missed adding value in India was driving



insights/decision support from financial data to help CFO/CEOs of enterprises replace typical business consultants. Now with Big Data getting created with Government push to help track transactions, sales and compliance across Indian enterprises along with maturity of Artificial Intelligence and deep learning, firms like EY through its acquisition of C3 in India can replicate the success of a CB Insights in the US.

- **Operational Accounting Services** – For close to two decades, a lot of operational accounting and advisory support work (Non-Statutory) is getting automated in India. Firms like Cleartax or Scripbox or Valueresearchonline are helping both enterprises and end customers from filling of Income Tax Return to Tax Management planning to even Personal Wealth Management. Not only this, financial institutions are already using predictive algorithms combined with big data to model risk related to Value at Risk (VaR), credit ratings, economic capital, predicting borrower behaviour, portfolio tail risks, Know Your Customer (KYC) and anti-money laundering. Capital First was an early mover in customer credit risk and clearly with less than 5% NPAs they have proved algorithms are much more powerful and quicker at analyzing customer risk through financial hygiene of the customer.

My idea of sharing these insights with you and briefly describing the incredible work done by these interesting firms and start-ups is really two-fold. One is for you to enjoy a few great success stories - and the other is to sound a wakeup call to accounting professionals. It is time to quickly move up the value chain and become advocates of these advance technologies and start using them to expand the value zone of what you deliver to your end clients. If you don't, they will soon start asking Alexa to not just play their favorite songs but to help them with their accounting needs too!

We could soon see a time when voice based artificial intelligence enabled enterprise accounting software could start answering questions like what projected revenue looks like for the coming quarter; or what is the average debt days aided with an executive summary from an accounting advisor on how customer mix is positively or negatively impacting debtor days for them.

Well in such a disrupting time I can think of 4 to 5 directions / paths that accounting professionals or organizations can take which will not only help them move up the value chain but will also aide the technology players with immense wealth of tacit knowledge and know-how while building their solutions/products

- Independent or small size accounting units should look to develop career or offerings like product consultants or joint IP creation due to rich domain intelligence and knowledge specially around GST, Audit, Compliance and Tax Laws because technology firms cannot just read content from laws / books / search engines without putting scenarios into play. ICICI and Intuit have been early movers at tapping into domain intelligence of CA and accountant community however fear of becoming redundant has always plagued wholehearted attempts and to be fair larger players also need to tighten the working models and design a win win path.
- Mid-size traditional accounting firms will need to do the heavy lifting like any other sectors and invest in three directions
  1. **Tech Enabled Products** – Partner with or even acquire tech product players to pilot targeted solutions for set of clients followed by joint launch bridging gap of real vs assumed market size/potential. Not only will this help them retain existing clients but also add new age startups in India whose core is either these technologies to solve their end customer problems or use these technologies in their daily life.
  2. **Multi-Skilling** – Mid size firms will have to be innovative and quicker on reskilling existing employees to achieve point 1 because start-ups will be extremely nibble / agile and large firms will invest money or acquire to bridge gap. It would be good idea to replicate or borrowing innovative ideas from what retail did in US or Software product development in Israel / UK or even look at what IT services is trying to do in India which is simply collaborate with institutes to build core tech acumen or skills in Machine Learning, Deep Learning, Predictive Analytics and Advisory which needs to be added as a dedicated stream in curriculum for sure.
- Individual or One-Man Army – Only option for this segment I believe is either build or partner with Gig Economy to compete with automation driven solutions and beat them on price because personally advising and studying business models of digital technologies makes me strongly believe smart pricing through gig model delivered by high quality talent can any day beat price of technology. Pure play digital learning players are moving to brick and mortar along with e-learning because pure tech cash flow may not look lucrative and exactly similar story is playing out in foodtech and pure e-commerce firms, hence I strongly urge the community to upskill and re-skill which is the simplest suggestion or path.

Despite all the disruptions, I personally believe human intuition beats machines, hands-down. The new reality is AI augmenting but not replacing valuable human judgment. It will force accounting professionals to think creatively and enable their customers to engage in experimentation before taking decisions that technology supplements.

The author is an expert in helping businesses adopt advance disrupting technologies across Finance, HR, Supply Chain and Overall Operations to impact business metrics.

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## ANALYSIS OF EXEMPTION FROM GST ON SUPPLY OF SERVICES

(Contd. from page 15)

Further, it shall be noted that section 2(15) of the Income Tax Act, 1961 defines the phrase 'charitable purposes' as below:

*'charitable purpose includes relief of the poor, education, [yoga,] medical relief, preservation of environment (including watersheds, forests and wildlife) and preservation of monuments or places or objects of artistic or historic interest, and the advancement of any other object of general public utility:*

*Provided that the advancement of any other object of general public utility shall not be a charitable purpose, if it involves the carrying on of any activity in the nature of trade, commerce or business, or any activity of rendering any service in relation to any trade, commerce or business, for a cess or fee or any other consideration, irrespective of the nature of use or application, or retention, of the income from such activity, unless:*

*(i) such activity is undertaken in the course of actual carrying out of such advancement of any other object of general public utility; and*

*(ii) the aggregate receipts from such activity or activities during the previous year, do not exceed twenty per cent of the total receipts, of the trust or institution undertaking such activity or activities, of that previous year.*

In view of the foregoing discussion, it appears that all such entities engaged in advancement of religion, spirituality or yoga would be termed as engaged in charitable activities. Accordingly, any entity which is registered under section 12AA of the Income-tax Act, 1961 and engaged in aforesaid charitable activity would be eligible for exemption from tax.

Next, clause (iv) of the definition of 'charitable activities' is analysed below:

In the entry 'preservation of environment (including watersheds, forests and wildlife)' all such entities engaged in undertaking the preservation of environment including water sheds, forests and wildlife and being registered under Section 12AA of Income Tax Act, 1961 would also be eligible for exemption under this entry.

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# One Day Seminar on Direct and Indirect Taxes at Belagavi



Inauguration



CA Annapurna Kabra



CA Prashanth G S



Cross section of participants

# One Day Seminar on GST at Shivamogga



Inauguration



CA Annapurna Srikanth



CA Venugopal G



Cross section of participants

# Workshop on Recent Changes and Provisions & Issues in Exports under GST at Bengaluru



CA Siddeshwar Yelamali



Cross section of participants



# KARNATAKA STATE CHARTERED ACCOUNTANTS ASSOCIATION®



9<sup>th</sup> & 10<sup>th</sup> March 2018  
Friday & Saturday

# 30<sup>th</sup> kscaa annual conference 2018

**Jnana Jyothi Convention Centre**  
Central College Campus, Bangalore University  
Palace Road (Near SBM Circle), Bengaluru - 9

## PROGRAMME STRUCTURE

### Friday, 9<sup>th</sup> March, 2018

08:30 AM	Registration
<b>INAUGURAL SESSION</b>	
09:15 AM	Inaugural Address by Chief Guest Release of Souvenir
10:45 AM	Inauguration of Exhibition & Tea Break
<b>FIRST PLENARY SESSION</b>	
11:00 AM	Co-Operatives & NPOs - Panel Discussion on Reporting Requirements - Controversies & Conflicts in Income Tax - Impact of GST
12:45 PM	Recent Changes in Foreign Trade Policy
01:30 PM	Lunch Break
<b>SECOND PLENARY SESSION</b>	
02:30 PM	Panel Discussion on Insolvency & Bankruptcy Code - Role of Chartered Accountants - Capacity Building & Initiatives by ICAI
03:30 PM	Special Session
04:15 PM	Tea Break
<b>THIRD PLENARY SESSION</b>	
04:30 PM	Technology Disruptions Impacting Profession
06:30 PM	<b>FAMILY ENTERTAINMENT PROGRAMME</b> followed by Theme Dinner

### Saturday, 10<sup>th</sup> March, 2018

08:30 AM	Breakfast
<b>FOURTH PLENARY SESSION</b>	
10:00 AM	Health & Wellness Session by Padma Bhushan <b>Dr. B. M. Hegde</b>
11:15 AM	Tea Break
<b>FIFTH PLENARY SESSION</b>	
11:30 AM	Recent Amendments in the Companies Act, 2013
12:30 PM	Virtual Currencies - Understanding Nuances - Accounting & Taxation Aspects
01:30 PM	Lunch Break
<b>SIXTH PLENARY SESSION</b>	
02:30 PM	Panel Discussion on 'Profession - The Way Forward'
03:45 PM	Tea Break
<b>SEVENTH PLENARY SESSION</b>	
04:00 PM	A Talk on Economy & Public Policy Making <b>Dr. Subramanian Swamy*</b>
05:30 PM	<b>VALEDICTORY SESSION</b>

\* Confirmation awaited

### This Conference will immensely benefit

- Chartered Accountants • Company Secretaries
- Tax Practitioners • Advocates • Accounting Professionals
- Finance Consultants, Analysts, Advisors
- CEO's, CFO's & Executives of Industry
- CA Students • Others

**For Online Registrations visit: [www.kscaa.com](http://www.kscaa.com)**

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**For CA's :** ₹ 2,200/- Registrations *on or before 20.02.2018*,  
₹ 2,500/- Registrations *after 20.02.2018*,  
₹ 3,000/- Page Sponsor (*One Delegate Complimentary*)

**Others :** ₹ 3,000/-

**Students :** ₹ 1,200/- 100 seats only (*on first come first serve basis*)

**\* Above Fees exclusive of GST**

Cheques/DD's in favour of **KSCAA**, Payable at Bengaluru

The Fee covers Delegate Kit, Memento, Souvenir, Publications of KSCAA and Lunch (Day 1 & 2), Family Dinner on Day 1, Breakfast on Day 2 & Coffee/Tea, and Lucky Delegate & Lucky couple prizes

<b>CA. Raghavendra T.N.</b> President +91 98801 87870	<b>CA. Raghavendra Shetty</b> VP & Chairman, Conf. Committee +91 99002 14030	<b>CA. Chandrashekara Shetty</b> Secretary +91 98807 22807	<b>CA. Jigajinni Kumar S</b> Convenor +91 94803 11197	<b>CA. Chandan Kumar Hegde</b> Convenor 99800 25918	<b>CA. Subrahmanya Hegde</b> Convenor +91 96638 84377
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