

# KSCAA

Karnataka State Chartered Accountants Association ®

NEWS BULLETIN

July 2017 | Vol. 4 | Issue 11 | ₹ 25/-



[www.kscAA.com](http://www.kscAA.com)

English Monthly  
for Private Circulation only

Start ups | Financial Reporting | GST - ITC, Job Work & Transitional Issues | Presumptive Taxation



## Executive Committee Members - 2017-18

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

on Saturday, 5<sup>th</sup> August, 2017  
at Vasavi Vidyanikethan Trust,  
Basavanagudi, Bengaluru

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

on Friday, 11<sup>th</sup> August, 2017  
at Vasavi Vidyanikethan Trust,  
Basavanagudi, Bengaluru



## Dear Professional Friends,

It is my greatest delight for bestowing your trust and faith in me as the incoming President of this Association. I feel very humbled and blessed, that I have been elected to lead this brilliant Association in its 60<sup>th</sup> year.

Since becoming a member of the Association, I have watched my predecessors work tirelessly for the association and I know that I have very big shoes to fill. I fully embrace the opportunity and I am genuinely excited about the future of this great association.

Led so ably, by CA. Raghavendra Puranik, our outgoing President and supported by the Executive Committee have worked tirelessly for the Association. On behalf of you all, I wish to take this opportunity to thank CA. Raghavendra Puranik and his team for their work and commitment. I must say, you have set a new benchmark and new team will always look up to you for guidance and support.

Even in my rarest dreams, I would never have dreamt that I will be become 45<sup>th</sup> president of one of the oldest associations in India. It's all because of you and your trust in me. You all have boosted my morale and sense of responsibility too. I will be failing in my duty, if I do not remember our Past Presidents CA. Maddanaswamy B.V., CA. T.M. Dileep Kumar and CA Raveendra S. Kore, who brought me to the association and groomed me to take up this position. There are others who have contributed in my success story and I am grateful to all of you. I specially thank my previous three term executive committee members for their wholehearted support given to me in this successful journey.

With all the opportunities and challenges that come with my acceptance to serve you all, I am of the belief that this journey will not be a smooth one if I walk it alone without any support. However, we thank our leaders for drafting our bye laws that recognizes the importance of this 13-member's executive committee. Through this synergism, we are going to make sure that our goal is achieved.

As we move into another year, we have lot of challenges to face and goals to achieve. Few of them are:

- Focussing on increasing the membership base through outreach programs.
- Identifying a suitable office premises, either on rent or outright purchase basis to augment Association's growth plans.
- Expediting the execution of lease cum sale deed for Association's Harohalli property by KIADB.
- Revitalizing the committees and making the committees task oriented.

### Activities for the year:

- Shifting focus also to business community, finance professionals, accountants and general public.
- Conducting programs which will add value to the practitioners and members in Industry

- Conducting joint programs with Trade-bodies, Government Departments, Government agencies etc., to discharge our social responsibility and to improve visibility.
- Adding thrust to mofussil programs
- Community building and skill development
- Identifying and encouraging talented professionals to excel in extracurricular activities
- Organizing endowment lectures
- Making timely representations on matters concerning profession.

These are the broad plans for the coming year. I request you all to suggest more and more options which will strengthen association and take it to newer heights.

Let me take this opportunity to acknowledge the tremendous and adorable initiatives that were undertaken by the previous crop of leaders. Indeed, you are an inspiration, a challenge and an avenue for us to continue doing these great works that you began, I am certain though, that with this team that we have, we shall even do much better because I have faith in this team.

This journey we cannot make alone as leaders, but it is through your support, critics and encouragements that we shall have something to do together because together we shall continue to make it. I am also aware of the fact that leadership is about taking responsibility, not making excuses. Also, I remember the saying "You must take personal responsibility. You cannot change the circumstances, the seasons, or the wind, but you can change yourself."

'Nothing is for free, nothing happens overnight. It takes tons and tons and tons of hard work. Success is a marathon not a sprint'. In this journey, we need your active support to reach our goals faster. I firmly believe none of us is stronger than all of us.

Thank you all for this wonderful opportunity. I look forward to the challenges ahead.

### Upcoming events:

To educate trade and industry about the impact of GST, we are organizing workshops on 'Impact of GST on Hotels, Restaurants & Hospitality and Jewellery Sectors' on Saturday 5<sup>th</sup> August 2017 and 'Impact of GST on Real Estate Sector & RERA' on Friday 11<sup>th</sup> August 2017 at Bengaluru. For online registrations, you may please login to [www.kscaa.com](http://www.kscaa.com). The details of the above workshops are published elsewhere in this News Bulletin.

At the end, I would like to conclude with thought for the month:

***'Don't judge each day by the harvest you reap  
but by the seeds that you plant'***

***- Robert Louis Stevenson.***

Sincerely,

**CA Raghavendra T.N.**  
President

# KSCAA

## News Bulletin

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### Workshop on

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

By CA R.S. Pavan Kumar  
CA Annapurna Kabra

On Saturday, 5<sup>th</sup> August, 2017 | Time: 4:30 PM to 7:30 PM

Venue : Vasavi Vidyanikethan Trust (VVN)

No.3, Vani Vilas Road, V.V. Puram, Basavanagudi, Bengaluru – 560 004

Fee: **Rs.500/-**

Online Registration available at [www.kscaa.com](http://www.kscaa.com)

Contact: CA Chandrashekara Shetty, Secretary, KSCAA, +91 98807 22807 / [secretary@kscaa.com](mailto:secretary@kscaa.com)

CA Sateesha Kalkur, Chairman - Taxation Committee, KSCAA, +91 98456 91705

CA Raghavendra T N  
President

CA Raghavendra Shetty  
Vice President

For details visit: [www.kscaa.com](http://www.kscaa.com)

Karnataka State Chartered Accountants Association ®  
organizes

### Discussion on

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

By CA Hanish S  
CA Sandeep Jhunjhunwala

On Friday, 11<sup>th</sup> August, 2017 | Time: 4:00 PM to 8:00 PM

Venue : Vasavi Vidyanikethan Trust (VVN)

No.3, Vani Vilas Road, V.V. Puram, Basavanagudi, Bengaluru – 560 004

Fee: **Rs.500/-**

Online Registration available at [www.kscaa.com](http://www.kscaa.com)

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## INCUBATORS – START UPS

CA S. Krishnaswamy

**An invasion of armies can be resisted, but not an idea whose time has come – Victor Hugo**

**D**efinition: “Facility established to nurture young (startup) firms during their early months or years. It usually provides affordable space, shared offices and services, hand-on management training, marketing support and, often, access to some form of financing.”

"Business incubation is a unique and highly flexible combination of business development processes, infrastructure and people designed to nurture new and small businesses by helping them to survive and grow through the difficult and vulnerable early stages of development."

Difference between an incubator and a business accelerator

These are not interchangeable words, there is a clear demarcation and stage when an incubator steps in and an accelerator is approached by a start up. However, both prepare companies for growth and both incubator and accelerator help firms grow providing guidance and mentorship in different ways and more importantly in the different stages of start ups.

Bangalore is the startup capital of India, Bangalore is the top Indian city for start ups and is globally ranked at 15<sup>th</sup> spot.

India's top startup incubators are in Bangalore like –

1. Oracle
2. K-Start
3. T-Labs
4. 91 Springboard
5. NUMA

NASSCOM in its 2017 report - Incubators and Accelerators (I & A) driving growth of Indian start – up ecosystem comprehensively analyses the critical role that I & A play in the start ups landscape, it broadly classifies into 4 categories – Corporate, Independent, Academic and Government – Supported. Corporate and Independent mostly work on accelerator model, whereas Academic and Government – Supported have an incubator – like model.

10000 startups is an incubation program funded by NASSCOM, it operates through a large start up warehouse in diamond district off HAL airport road. Start ups will have to apply for this program and are screened before being admitted.

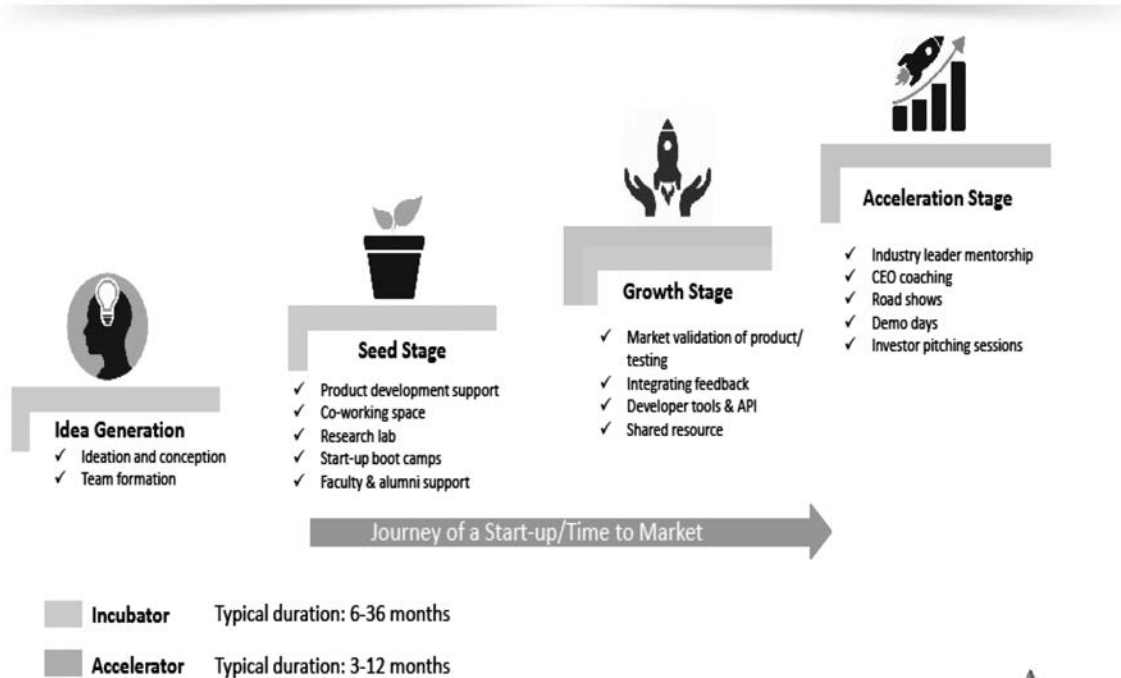
There are about 140 plus I/A, the report graphically brings out the distinction between the two pointing out that incubators deal with Idea Generation and seed stage and then both take over the growth stage and finally the accelerator takes on -Industry Leader mentorship-CEO coaching-Road Shows-Demo Days – Investor Pitching Sessions. It also indicates the time line. In another matrix it deals with the key attributes of Incubators and Accelerators – 50% of I & As are established by academic institutions, In the third matrix it deals with distinction between incubator and accelerator – focus areas – physical support – networking support – mentorship support. At the end of the report it mentions the challenges.

The two most important trends in the Indian incubator and accelerator ecosystem are partnership-driven and sector-specific incubators and accelerators. Academia, Industries and Government are coming together to set up sector specific accelerators and incubators, for example, GE's global healthcare accelerator - Five. Eight, Pfizer and IIT-D's incubation accelerator for healthcare start-ups, SBI and IIT-B's incubator for Fin-tech start-ups. Such partnerships will provide a mature mentorship to start-ups which could further drive the growth of quality products – NASSCOM

An example of an incubator providing funding, mentorship and networking opportunities in addition to business support is SINE - Society for Innovation and Entrepreneurship.

From NASSCOM Report -

## START-UP LIFECYCLE - While incubators provide support across the life cycle, accelerators are more focussed on 'Growth & Acceleration' stage



Source: Zinnov Research and Analysis  
Note: Research based on conversation with 304 accelerators and incubators

## TYPES OF INCUBATORS & ACCELERATORS (I/AS) - 50% of I/As are established by academic institutions

Incubators and Accelerators are the crucial support centres of the start-up ecosystem

**Incubators (I)** = idea development

Incubate ideas, help in product development, and provide seed funding

**Accelerators (A)** = start-up growth

Provide mentorship to companies with atleast a ready version of the product, helping them scale-up

I/As can be classified into 4 categories\*

	Corporate By Large Corporates	Independent Independent Private Centres	Academic <sup>1</sup> By Academic Institutes	Govt. Supported Started/ Supported by Govt.
<b>Incubators</b> ~100	3+ 	17+ 	68+ 	10+ 
<b>Accelerators</b> 40+	12+ 	25+ 	2+ 	2+ 

Global accelerators like Y Combinator run cohorts of global start-ups. Recently, Y Combinator and Launchpad by Google inducted 7 Indian start-ups each as a part of their ongoing cohort

\*A very broad classification - there can be overlaps/other niche categories

Source: Zinnov Start-up Database, YourStory, Crunchbase

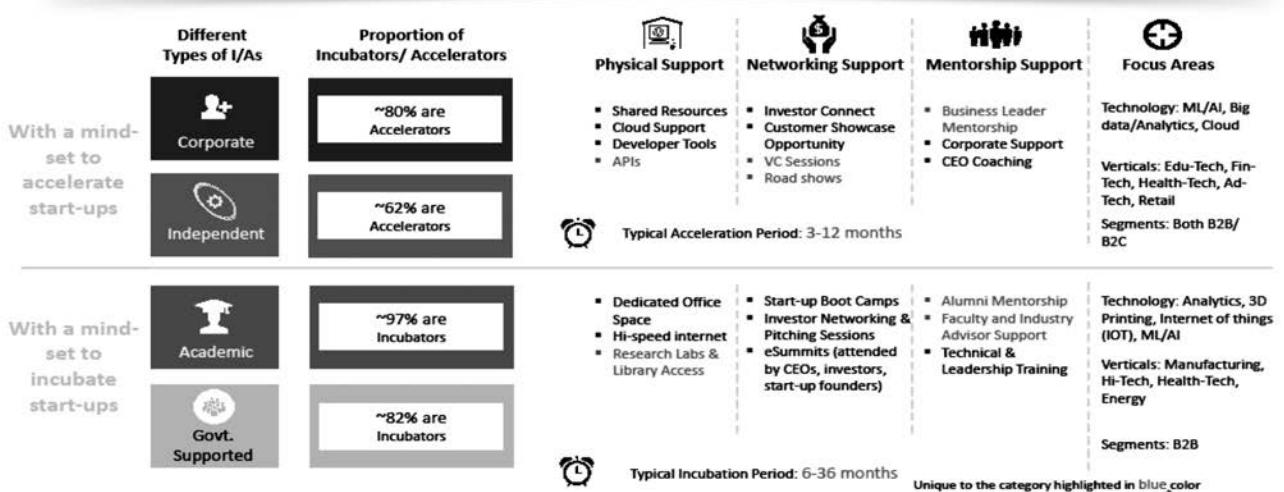
Notes: 1. Academic incubators may or may not receive grants from the government; 2. Standalone co-working spaces not a part of the report

● Represents Number of Incubators/ Accelerators

**Key Takeaways**

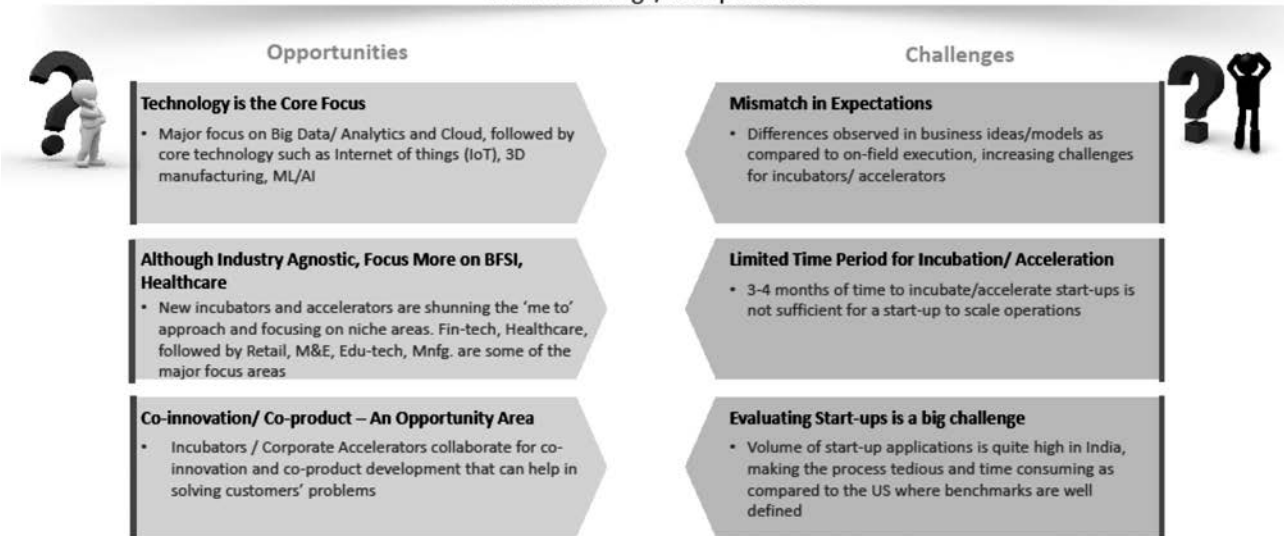
- 50%+ Incubators and Accelerators are located in Tier 2/3 cities
- Startup Oasis (Jaipur)
- The Hatch (Chandigarh)
- 60%+ Incubators and Accelerators focussing on deeper technologies

## KEY ATTRIBUTES OF VARIOUS TYPES OF INCUBATORS/ACCELERATORS IN INDIA – Average incubation duration is 2-3X that of acceleration



Source: Zinnov Start-up Database, Company Websites, Media Releases, YourStory

## CHALLENGES AND OPPORTUNITIES – Experts highlight the need for a common platform to connect and share learnings/best practices



“ A common platform is required through which incubators and accelerators can connect, share synergies, and best practices not only within India but also outside India.

Source: News Articles, Company Websites, Expert Discussions

### About SINE

Society for Innovation and Entrepreneurship (SINE) manages a technology business incubator at Indian Institute of Technology (IIT Bombay). Set up in 2004, SINE was formalization of an IT incubator pilot started in 2000 with the support of its alumni. The incubator is a platform to support technology startups founded by IIT Bombay community or are based on IIT Bombay technologies. Thus, SINE extends role of IIT Bombay by facilitating conversion of R&D into entrepreneurial ventures.

SINE has an infrastructure spread over 10,000 sq.ft., and can incubate 15-17 companies at a time. SINE is supported by several government departments such as Department of Science and Technology, Department of Information Technology, & Technology Development Board.

### Main Activities at SINE are to:

- Pre-incubate, incubate and virtually incubate early stage entrepreneurial technology based ventures.
- Create physical infrastructure and support systems necessary for business incubation activities.

- Facilitate networking with professional resources, including mentors, experts, investors, industry professionals, consultants and advisors.
- Identify technologies/innovations which have potential for commercial ventures.
- Promote and foster the spirit of entrepreneurship, and generally to carry out activities that facilitate knowledge creation, innovation and entrepreneurship activities.

#### **Facilities:**

Our incubatees get physical infrastructure at a very nominal cost. We also provide business support. Companies benefit from the ecosystem at SINE and in IIT Bombay. The resource centre at SINE provides the companies an access to data resources, experts and mentor pool. It also facilitates issue based talks and programmes.

#### **PHYSICAL INFRASTRUCTURE**

- Fully furnished offices
- Personal computers, Printers
- Telecom facilities
- Internet connectivity

#### **BUSINESS SUPPORT**

- Business plan assistance
- Mentoring support
- Access to professionals with legal, financial, accounting, IP, and industry expertise
- Showcasing events for exhibition of products and solutions
- Networking events to facilitate interaction with investors and industries
- Training programmes and seminars relevant to entrepreneurs
- Seed fund support on case-to-case basis

#### **ADVANTAGES OF ECOSYSTEM**

- Proximity of technical and management expertise at IIT Bombay
- Advantage of student talents of IIT Bombay
- IASCEND
- Ecell IITB
- IITB Innovate
- Library resources

#### **SHARED RESOURCES**

- Meeting and conference rooms equipped with projectors & audio/video conferencing facilities
  - High-end photocopying, fax, scanning machines
  - Pantry facilities
  - Lab facilities: SINE lab, Tinkers lab, access to institute labs
- They have detailed processes for considering applications.

#### **Intel-backed hardware incubator Plug-in seeks to invest in 20 startups:**

Chipmaker Intel India, IIT Bombay's Society for Innovation and Entrepreneurship (SINE) and the central government's

Department of Science and Technology (DST) have come together to start a hardware incubator programme.

Called Plug-in, the programme intends to take ideas at a proof-of-concept stage to the market. It will provide funding, mentoring and hardware support and physical infrastructure to manufacturers and designers. It will also refine the startups' go-to-market strategies.

The incubator seeks to back intellectual property-driven hardware and system startups. It aims to incubate at least 20 startups in the first year.

"Intel will bring in the corporate, technical and on-the-field strength," said Poyani Bhatt, COO, SINE. "We will focus on venture creation, venture support and connections. The DST will act as a government adviser, policy maker and funder," she added.

#### **America's Top Unicorn (market valuation of over \$1 billion) Investor, Idea lab's Bill Gross:**

**Question:** In the last 20 years, you've started 150 businesses, and had ideas for hundreds of others. Few people anywhere at any time have done that much business creation. What you have you learned about the reasons why start-ups succeed and fail?

**Answer:** I believe that the startup organization is one of the greatest forms to make the world a better place. If you take a group of people with the right equity incentives and organize them in a startup, **you can unlock human potential in a way never before possible. You get them to achieve unbelievable things.** But if the startup organization is so great, why do so many fail?

This matters to me as an investor and entrepreneur. I've started more failed companies than probably just about anyone else. They all looked promising at the beginning, had money and people in place, but ended up dying. Each time a company fails it's heartbreaking for the entrepreneur. So, trying to get some usable analysis on this process may end up reducing the failure rate for me and I hope many others too.

I tried to look across what factors accounted the most for company success and failure. So I looked at the five key factors - **the idea, the team, the execution, the business model and the timing.** It accounted for 42 percent of the difference between success and failure. Team and execution came in second, and the idea, the differentiability of the idea, the uniqueness of the idea, actually came in third.

There is awareness and assistance across government and various institutions in India to help start ups incubate their new ideas and accelerate their growth.

*Author can be reached on e-mail:  
skcoca2011@yahoo.in*



# INPUT TAX CREDITS – GST VERSUS CENVAT / KVAT

CA Madhukar N. Hiregange and CA Mahadev.R



Long pending GST law has been implemented in India from 1st July 2017. Though it was introduced in hurry with lot of confusions and lack of clarity in many areas, we have to get used to it and move on. GST may not be actually 'Good and Simple Tax' as described by honorable prime minister Narendra Modi ji. However, this new law has lot of advantages for a businessman especially the manufacturer or trader located in multiple States. One such advantage is seamless credit of tax paid on procurement of goods and services. Simple example is credit of taxes paid on input services by a trader would bring good pricing advantage in GST regime. In this article, we have made effort to analyze the additional credit advantage in GST as compared to Cenvat as per Cenvat credit provisions or ITC under Karnataka VAT law.

In terms of Cenvat credit rules, a manufacturer of excisable goods or provider of taxable services including exporter was eligible for taking the credit of excise duty paid on inputs or capital goods in addition to credit of service tax paid on input services. However, there were lot of restrictions for taking credit. K-VAT provisions allowed for credit of VAT paid on inputs and capital goods used in relation to business with few restricted credits as per the list provided in Schedule V to the K-VAT Act 2003. In GST, even though 'seamless credit' is being publicized, it is actually not so. Following are few restrictions in Cenvat credit and K-VAT which would continue in GST regime as well:

- a) Credit of taxes paid on petrol, diesel
- b) Credit of taxes paid on food items
- c) Credit of taxes paid on motor vehicles except for specified suppliers
- d) Credit of tax paid under VAT composition scheme
- e) Credit of tax paid on personal consumption services such as beauty treatment, health services, membership of a club, health and fitness center
- f) Credit of taxes paid on construction services
- g) Credit not allowed if tax amount included in value of goods for income tax depreciation

"Input Tax" in relation to a taxable person means the Goods and Services Tax charged on any supply of goods and/or services to him which are used or are intended to be used, during furtherance of his business. Following are few of the important conditions to be fulfilled:

1. Possession of a tax invoice or debit note or document evidencing payment
2. Receipt of goods and/or services
3. Furnishing of a return
4. Payment to supplier within 180 days from date of invoice

## 5. Payment of tax by supplier to Government

One of the major difference between GST and Cenvat credit is requirement of matching the credits. This is not a new concept for Karnataka VAT registered dealers as similar concept was already there though not as stringent as GST. In GST, procurements are to be matched with sales of vendors in order to be eligible for credit. Any non-compliance from vendors such non-payment of taxes, non-filing of return, not making entry of sale transactions could lead to denial of credits. In a way, now the tax payers are forced to take credits in GST regime which otherwise could have been ignored by them due to reasons such as defective invoice, tax amount not disclosed, ignorance etc.

Due to paradigm shift in taxation system in indirect taxes and credit concept, following credits would be eligible for tax payers which was earlier restricted:

**Credit on motor vehicles** – The excise duty or VAT paid on motor vehicle was allowed only for few specified services providers. Those were engaged in providing services were eligible to take credit of excise duty paid on motor vehicles which are designed for transportation of goods. If goods are transported in vehicles designed to carry passengers, credit was not allowed. However, in GST, credit would be allowed on vehicles which are used for transportation of goods. There is no condition that such vehicles should be meant for transport of goods. As a result of this, even if a passenger vehicle is used for transport of goods, GST credit cannot be restricted.

Manufacturers, construction industry, traders, mining can avail the GST paid on vehicles. Those who rent out motor vehicles or use courier agency would also be eligible.

**Vehicle insurance / Vehicle maintenance services** – Service tax paid on vehicle insurance or repair/maintenance of vehicle was specifically restricted for credit under Cenvat credit provisions. No such restriction provided in GST regime.



Therefore, tax payer would be eligible to claim credit of GST paid on vehicle insurance / repair even on passenger vehicles used for business purpose.

**Credit on other capital goods used in office** - Excise duty paid on capital goods used in office was not allowed as credit for a manufacturer. As a result of this duties paid on computers, furniture, photocopiers, fax machines, lightings etc was becoming cost to a manufacturer. Karnataka VAT provisions also had restriction on taking credit of VAT paid on air conditioners, coolers, fax machines, photocopiers etc. GST law do not restricts credit on such capital goods used in office as the definition of input is wide enough to cover any goods used for furtherance of business. This would be beneficial for companies who spend in crores for beautification of office premises with furniture, air conditioners.

**Taxes paid on inter-state procurement of goods** - Central sales tax paid on interstate procurement of goods was not eligible as credit for sales tax / VAT payers. As a result of this, cost of interstate procurement of goods was high in Pre-GST regime. Now, GST paid even on inter-state procurement of goods would be eligible as credit thereby reducing the cost of inters-state purchases.

**Credit in installments on capital goods** - Cenvat credit provisions allowed only 50% of excise duty / CVD credit on capital goods in the first financial year. Balance 50% credit was being allowed in subsequent financial year. On introduction of VAT in many states, input tax credit was being allowed in installment. GST law allows full credit of taxes paid on purchase of capital goods and thereby resulting in no blockage of funds in form of credit for one year. However, in Cenvat credit

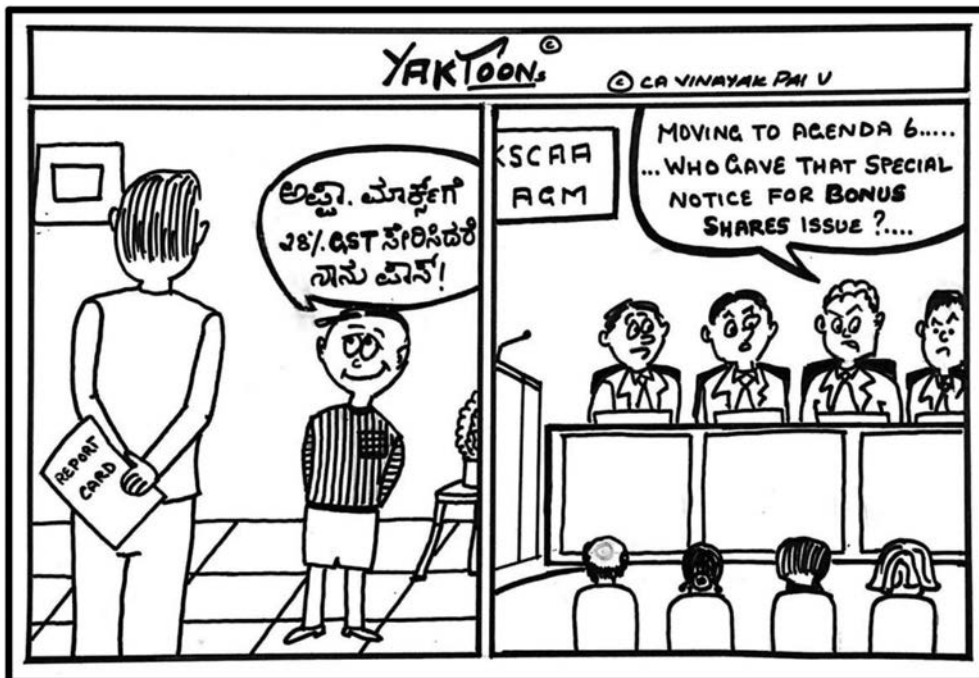
provisions, excise duty / CVD paid on capital goods was full allowed even if goods are partially used for exempted activities. In GST, the credit would be allowed based on turnover ratio of taxable activities which is similar to practice which existed in VAT provisions.

**VAT credit restriction on inputs stock transferred and fuel** - Karnataka VAT provisions did not allow input tax credit to an extent of 2% of VAT paid on goods used as fuel in production such as furnace oil, LPG and other petroleum products. Similarly, credit of 2% was restricted on inputs which are stock transferred to other states other than as a result of sale. This was because the state government was not getting CST revenue on such stock transfers.

In GST all stock transfers for further supply to branches, warehouses or depots would be liable for full GST. There is no concept of credit reversals on account of stock transfers. No restriction placed even on goods like furnace oil, LPG which would be beneficial to tax payers.

**Conclusion:** If we set aside the fact that there was lack of preparation in introduction of GST, the concept of GST as such would have huge (mostly positive) impact on business entities. There are still few lacunas in the credit provisions which defeats concept of 'seamless' credit. For example, credit restriction of taxes paid on construction services, life and health insurance of employees, outdoor catering services which are very essential in business. Tax professionals need to play a major role in spreading awareness on input tax credits among the tax payers.

Authors can be reached on e-mail:  
madhukar@hiregange.com or mahadev@hiregange.com





# FINANCIAL REPORTING – KEY UPDATES

CA Vinayak Pai V

## 1. Introduction

New definitions for assets and liabilities, the related downstream impact on all elements of financial statements and the ripple effect on an entire accounting framework are shortly expected in the international accounting landscape.

The IASB, the IFRS standard-setter is **close to finalising** an update to the *Conceptual Framework for Financial Reporting*. The Exposure Draft that is now in public domain for some time proposes changes to the definitions of an asset and a liability. It proposes to replace the notion of ‘**expected**’ economic benefits with a notion of the ‘**potential to produce**’ economic benefits and to define an **economic resource as a ‘right’** and to **align** the asset and liability definitions more closely with each other. Consequent changes to IND-AS have to follow!

## 2. Financial Reporting Updates

### a) *Exemption From Providing Cash Flow Statement For Start-Up Private Companies*

Inclusion of a **cash flow statement** as part of the complete set of financial statements was made mandatory under the Companies Act 2013. An **exemption from including a Cash Flow Statement** was provided to the following categories of companies viz.

- One person companies,
- Small companies, and
- Dormant companies.

The MCA vide Notification No. GSR 583(E) dated June 13, 2017 has **extended this exemption to a private company that is a start-up company**. A “start-up company” has been defined as a **private company** incorporated under the Companies Act and **recognized as start-up** in accordance with the **notification** issued by the Department of Industrial Policy and Promotion (DIPP).

It may be noted that per **DIPP Notification**, a company needs to undergo the recognition process to qualify as

a start-up. Upon recognition, a company ceases to be a start-up on completion of seven years from the date of its incorporation/ registration or if its turnover for any previous year exceeds Rs. 25 crores. In respect of start-ups in the biotechnology sector, an entity shall cease to be a start-up on completion of ten years from the date of its incorporation/ registration or if its turnover for any previous year exceeds Rs. 25 crores.

### b) *Availing Opinion Of Expert Advisory Committee – Revised Fee Structure*

The Expert Advisory Committee (EAC) of our Institute provides expert opinion on a plethora of accounting and auditing complexities faced by members.

The EAC replies to queries on accounting, auditing and allied matters, received from members as per the rules framed by the institute’s council and also publishes each year a Compendium of Opinions, containing opinions given by the Committee during the year.

There is an **amendment to the fee structure** for availing **expert opinions** with effect **from July 2017**. The **table herein below** summarizes the fee structure for queries that relate to enterprises whose equity or debt securities are **not listed on a recognized stock exchange**.

Annual turnover	Fee (excl. taxes) per query
Exceeding Rs. 500 crores	Rs. 2,00,000
Between Rs.100 to Rs. 500 crores	Rs. 1,00,000
Less than Rs. 100 crores	Rs. 50,000

### c) *Accounting For Loan Processing Fees Under IND-AS*

Phase 2 companies in the IND-AS convergence road map prepare their first set of IND-AS financial statements from the current fiscal 2017-18. Unlisted companies with a net worth in the range of Rs. 250- 500 crores as of March 31, 2014 are part of Phase 2 in addition to the remainder of listed companies.

The Indian variant of IFRS viz. Indian Accounting Standards (IND-AS) requires term loans availed from banks to be accounted using the standard on financial instruments viz. IND-AS 109. **IND-AS** requires **term loans** availed (financial liabilities) to be **accounted at amortized cost**. Loan processing fees would accordingly get unwound to the Statement of Profit and Loss using the **Effective Interest Method**. Loan processing fees being a transaction fee related to a recognized financial liability needs to be netted off against the loan liability at recognition.

The Transition Facilitation Group constituted by our Institute recently reiterated this accounting position as part of a clarificatory bulletin. The clarification was in response to the accounting issue of how loan processing fees need to be accounted when such fees are payable upfront and the term loan is drawn at subsequent intervals of time. The salient points of the clarification are summarized herein below.

- Per IND-AS 109, **Effective Interest** is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortized cost of a financial liability.
- The calculation **includes all fees** paid or received between parties to the contract **that are an integral part of the effective interest rate, transaction costs**, and all other premiums or discounts.
- Fees (**including loan processing fees**) that are an integral part of the effective interest rate of a financial instrument are **treated as an adjustment to the effective interest rate**,
- To the extent there is evidence that it is **probable that the undisbursed term loan will be drawn down in the future** the processing fee is accounted for as a transaction cost i.e., **the fee is deferred and deducted from the carrying value of the financial liabilities when the draw down occurs** and considered in the effective interest rate calculations.
- However, if it is **not probable** that the undisbursed term loan will be drawn down in the future then the **fees is recognized as an expense on a straight-line basis over the term of the loan**.

d) **Accounting for tax positions taken while preparing financial statements**

The recent release of IFRIC 23 needs to be noted by Phase 1/Phase 2 IND-AS companies as it provides guidance on accounting for uncertain tax positions (UTPs). It may be noted that the **use of IFRIC 23 is permissible** under the **IND-AS** rules.

In circumstances where companies face lack of clarity on whether income tax authorities (applicable in-scope jurisdictions) will ultimately accept the tax treatment/tax position taken by the company as well as in transactions/ arrangements where there is an element uncertainty on how tax laws and rules will apply, current income tax accounting standards be it AS or IND-AS provide little guidance on the accounting of any associated tax payment that is required by tax laws (and that could be appealed by the reporting company).

The International Accounting Standards Board recently issued an interpretation that forms part of the authoritative IFRS literature viz. IFRIC 23- **Uncertainty Over Income Tax Treatments** providing guidance on how to **reflect uncertainty in accounting for taxes on income**.

A summary of the approach required by IFRIC 23 follows herein below.

- If an entity concludes it is **probable** that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit/tax loss, tax bases, unused tax losses et al **consistently with the tax treatment used** or planned to be used **in its income tax filings**.
- If an entity concludes it is **not probable** that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit/tax loss, tax bases and unused tax losses.
  - An entity shall **reflect the effect of uncertainty** for each uncertain tax treatment by using **either of the following methods**, depending on which method the entity expects to better predict the resolution of the uncertainty: a) **the most likely amount** or b) **an expected value amount**.

Author can be reached on e-mail:  
vinayakpaiv@hotmail.com



## RELEVANT ASPECTS OF TRANSITIONAL FORMS UNDER GST LAW

CA B.G. Srikanth Acharya and CA Annapurna Kabra



The introduction of GST with effect from 01/07/2017 is one of the most significant tax reforms in the fiscal history of India. The GST law has changed the tax incidence, tax computation, tax structure, credit utilization, Input tax credit mechanism, filing of Returns, claim of Transitional credit etc. which has completely transformed the earlier indirect taxation system. We have to transit from the earlier to the new law i.e. GST law by applying the transitional provisions. Basically the transition provisions under the CGST law and SGST law is similar except few changes. The transitional credit application forms (Trans-1) are to be filed after verification of supporting documents and subject to fulfillment of conditions. There is no provision for revision of transitional credit application Forms. Therefore it has to be filed correctly and accurately.

### Carry forward in a Return filed under erstwhile law.

- Every registered person entitled to take credit of input tax under section 140(1) shall within ninety days from 1<sup>st</sup> July 2017 submit a declaration electronically in FORM GST TRAN-1.
- It should be duly signed and submitted on the common portal.
- It should specify the amount of input tax credit of eligible duties and taxes.
- The eligible duties and taxes can be excise duty, service tax, VAT, CVD, SAD as may be specified.

### Unavailed credit on Capital goods

- Every registered person entitled to take credit of capital goods under section 140(2) shall within ninety days from 1<sup>st</sup> July 2017 submit a declaration electronically in FORM GST TRAN-1 and should specify the amount of tax or duty **availed or utilized** by way of input tax credit under each of the earlier laws till 1<sup>st</sup> July 2017 and the amount of tax or duty **yet to be availed or utilized** by way of input tax credit under each of the earlier laws till 1<sup>st</sup> July 2017 separately the following particulars in respect of every item of capital goods as on 1<sup>st</sup> July 2017

### Specified Persons should declare Stock held on 1<sup>st</sup> July 2017

Every registered person entitled to take credit of input tax under section 140(3) towards exempted goods/

services, Section 140(4) pertains to the registered person who is providing both taxable and exempted goods and services, Section 140(6) for composition dealer and 140(8) for centralized registration under Service tax law shall within ninety days from 1<sup>st</sup> July 2017 submit a declaration electronically in FORM GST TRAN-1. They should declare the details of stock held on 1<sup>st</sup> July 2017

### Goods and Services in Transit:

The credit in respect of goods and services in transit as per section 140(5) furnish the following details:

- (i) the name of the supplier, serial number and date of issue of the invoice by the supplier or any document on the basis of which credit of input tax was admissible under the earlier law
- (ii) the description and value of the goods or services
- (iii) the quantity in case of goods and the unit or unit quantity code thereof
- (iv) the amount of eligible taxes and duties or, as the case may be, the value added tax [or entry tax] charged by the supplier in respect of the goods or services and
- (v) the date on which the receipt of goods or services is entered in the books of account of the recipient.

### • Credit specified in Trans-1 will be credited to Electronic Credit ledger

The amount of credit specified in the application in FORM GST TRAN-1 shall be **credited to the electronic credit ledger** of the applicant maintained in FORM GST PMT-2 on the common portal.

### • Not in possession of any document evidencing payment of central excise duty

A registered person u/s 140(3), will be allowed to avail of input tax credit on goods held in stock on the appointed day in respect of which he is not in possession of any document evidencing payment of central excise duty.

The Input tax shall be allowed at the rate of sixty per cent on such goods which attract central tax at the rate of nine per cent or more and forty percent for other goods of the central tax applicable on supply of such goods after the appointed date and shall be credited

after the central tax payable on such supply has been paid. Provided that where integrated tax is paid on such goods, the amount of credit shall be allowed at the rate of thirty per cent and twenty per cent respectively of the said tax. The scheme shall be available for six tax periods from 1<sup>st</sup> July 2017.

The credit of **Central tax** shall be availed subject to satisfying the following conditions namely:-

- (i) Such goods were not unconditionally exempt from the whole of the duty of excise specified in the First Schedule to the Central Excise Tariff Act, 1985 or were not nil rated in the said Schedule.
- (ii) The document for procurement of such goods is available with the registered person.
- (iii) The Registered person availing of this scheme and having furnished the details of stock held submits a statement in FORM GST TRAN 2 at the end of each of the six tax periods during which the scheme is in operation indicating therein the details of supplies of such goods effected during the tax period.
- (iv) the amount of credit allowed shall be credited to the electronic credit ledger of the applicant maintained in FORM GST PMT-2 on the common portal and
- (v) the stock of goods on which the credit is availed is so stored that it can be easily identified by the registered person.

**Where VAT and Service tax is paid in earlier law and supply is made in GST law**

- o Every person shall within a period of ninety days of the appointed day submit a declaration electronically in FORM GST TRAN-1
- o He should furnish the proportion of supply on which value Added Tax or service tax has been paid before 1<sup>st</sup> July 2017 but the supply is made after the 1<sup>st</sup> July 2017 and
- o The admissible Input Tax Credit of VAT and Service Tax.

**Declaration of Stock held by a Principal and Job-Worker**

- o Every person to whom the provisions of section 141 apply shall, within ninety days of 1<sup>st</sup> July 2017 submit a declaration electronically in FORM GST TRAN-1.
- o Specifying therein the stock of the inputs, semi-finished goods or finished goods held by him on the appointed day.

**Details of goods Sent on Approval basis.-**

- o Every person having sent goods on approval under the earlier law and to whom sub-section (12) of section 142

applies shall, within ninety days of the appointed day, submit details of such goods sent on approval in FORM GST TRAN-1. ie of such goods effected during the tax period;

**Supporting Information and Documents to comply with the Transitional Provisions**

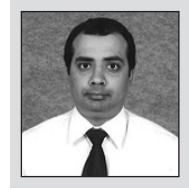
- Purchase Invoices-(last 12 months)
- Sales Invoices (last two years)
- Opening stock statement on 1/7/2016
- Statement of value of stock as on 30.06.2017
- Advances received under erstwhile law/Supply under GST law
- Excise Duty paid Invoices list
- Capital goods Invoices under Erstwhile law
- Import Invoices
- List of invoices where goods were in transit
- HSN classification for goods in stock
- Input tax credit in relation to statutory forms received and pending.
- Invoices issued with and without statutory forms under CST law
- Credit notes and debit notes issued in last twelve months
- Returns filed under Excise laws, VAT law and Service Tax law
- Statutory forms- list – issued and pending till 30<sup>th</sup> June 2017
- Copies of Esugam for last one year
- Delivery note/ non- commercial invoice in case of Principal/ Job Work /Agent and others
- Returns filed under the erstwhile law- 6 months preceding 1<sup>st</sup> of July to co relate sales return.
- Service Tax- RCM Payment Acknowledgement
- Registration Certificate under the erstwhile law and GST law
- Other relevant documents as required for claim of transitional credit.

And for the first two months i.e for the month of July 2017 and August 2017 the monthly return in Form 3B should be filed. There is no provision for set off of transitional credit against the tax liability for the month of July 2017 or August 2017 unless the transitional credit application form (Trans -1) is filed. Therefore it is suggested to comply with transitional credit Forms diligently.

*Authors can be reached on e-mail:  
query@dnsconsulting.net*



## PRESUMPTIVE TAXATION SCHEME FOR SPECIFIED PROFESSIONALS



CA Prakash Hegde and CA Raghavendra N.

The Income-tax laws, until Financial Year ('FY') 2015-16 (inclusive) provided for presumptive taxation schemes only for certain eligible persons engaged in certain eligible businesses [under sections 44AD and 44AE of the Income Tax Act, 1961 ('the Act')] and not for persons earning income from profession. The Income-tax Simplification Committee ('the Committee') chaired by Justice R. V. Easwar, in its report, recommended the introduction of a presumptive income scheme for professionals, whereby income from specified professions should be estimated to be 33 1/3 % of their receipts. Keeping in view of this recommendation, Finance Act 2016 introduced a new section 44ADA in the Act, in order to achieve the following objectives:

- Provide an option to the assessee carrying on specified professions to simplify the tax affairs by reducing the burden of maintenance of books of account;
- Bring in parity between small businessmen who currently enjoy the benefit of presumptive taxation and small professionals; and
- Facilitate ease of carrying on profession.

The Government decided to consider the income from specified professions to be 50% of gross receipts (instead of 33 1/3% as recommended by the Committee).

### Section 44ADA

Section 44ADA, which is effective from FY 2016-17 (i.e. from Assessment Year 2017 – 18), reads as under:

Quote:

***Special provision for computing profits and gains of profession on presumptive basis***

- (1) *Notwithstanding anything contained in sections 28 to 43C, in the case of an assessee, being a resident in India, who is engaged in a profession referred to in sub-section (1) of section 44AA and whose total gross receipts do not exceed fifty lakh rupees in a previous year, a sum equal to fifty per cent of the total gross receipts of the assessee in the previous year on account of such profession or, as the case may be, a sum higher than the aforesaid sum claimed to have been earned by the assessee, shall be deemed to be the profits and gains of such profession chargeable to tax under the head "Profits and gains of business or profession".*
- (2) *Any deduction allowable under the provisions of sections 30 to 38 shall, for the purposes of sub-section (1), be deemed to have been already given full effect to and no*

- further deduction under those sections shall be allowed.*
- (3) *The written down value of any asset used for the purposes of profession shall be deemed to have been calculated as if the assessee had claimed and had been actually allowed the deduction in respect of the depreciation for each of the relevant assessment years.*
  - (4) *Notwithstanding anything contained in the foregoing provisions of this section, an assessee who claims that his profits and gains from the profession are lower than the profits and gains specified in sub-section (1) and whose total income exceeds the maximum amount which is not chargeable to income-tax, shall be required to keep and maintain such books of account and other documents as required under sub-section (1) of section 44AA and get them audited and furnish a report of such audit as required under section 44AB.'*

Unquote

### Analysis

From an analysis of the above provisions, the following points emerge:

1. Assessee who are carrying on any of the following professions are eligible to avail the scheme if the 'gross receipts' from such profession does not exceed Rs 50 Lakh in the given financial year:
  - Legal
  - Medical
  - Engineering
  - Architecture
  - Accountancy
  - Technical consultancy
  - Interior decoration
  - Other notified professionals –
    - ✓ Authorized representatives
    - ✓ Film Artists
    - ✓ Company Secretaries and
    - ✓ Information Technology professionals
2. Income from profession should be the higher of
  - (a) 50% of the gross receipts from such profession; or
  - (b) income from profession claimed to have been earned by the assessee.

However, if the assessee claims that the income from profession is less than 50% of the gross receipts and if his total income is more than Rs 2.5 Lakh for the financial year, he is required to maintain books of account and other documents as stipulated in

section 44AA of the Act and Rule 6F of the Income Tax Rules, 1962 ('the Rules') and is also required to get the same audited. The major relief that an assessee gets under the above scheme is the relaxation from the requirement of maintenance of books of account if he offers income of at least 50% of his gross receipts. In this context, it is surprising to note that, contrary to the relaxation from maintenance of books of account, section 44AA(1) read with Rule 6F(1) of the Rules still require the specified professionals to maintain the prescribed books of accounts if the gross receipts exceed Rs 1.5 Lakh in any of the past 3 years!! Thought these two provisions (i.e. Section 44ADA and Section 44AA) contradict each other, the Memorandum to the Finance Bill 2016 clearly states that the assessee will not be required to maintain books of account unless he claims that the profits or gains are lower than 50% of gross receipts. Therefore, we can safely take a view that the relaxation from maintenance of books of account in section 44ADA prevails over the provisions of requirement to maintain books of account in section 44AA. However, even the professional opting for the presumptive taxation scheme is expected to maintain basic records which can help establish the nature of profession and his gross receipts etc. Therefore, it is necessary to maintain at least bank statements, bill books, receipt books etc.

3. Only resident assesseees are eligible to avail the above presumptive basis of taxation scheme for specified professions.
4. Individuals, partnership firms including Limited Liability Partnership Firms can avail the scheme. Since companies cannot practice profession, they cannot avail this scheme.
5. Where an assessee opts for the presumptive basis of taxation, all deductions from sections 30 to 38 shall be deemed to be allowed and the written down value of depreciable assets shall be recomputed, post deduction of depreciation, which shall be deemed as allowed.

Where either of the below mentioned conditions is satisfied, maintenance of accounts and audit would be warranted:

- Income from profession is offered at a rate lower than the 50% of gross receipts (except when the total income for the whole year is Rs 2.5 Lakh or less); or
- The gross receipts of the assessee exceeds Rs 50 lakh in the FY.

### Gross Receipts

In terms of the provisions of section 44ADA, it becomes important to understand the meaning of the term "gross receipts", which is not defined in the Act. In this context, it is relevant to note the discussion in the Guidance Note on Tax Audit issued by the Institute of Chartered Accountants of India (Revised 2014 Edition).

Paragraph 5.17 of the Guidance Note provides that, a share of profit of a partner of a firm in the total income of the firm,

is excluded from his total income under section 10(2A) of the Act would not form part of gross receipts. Further, according to Paragraph 5.19 of the Guidance Note,

Quote:

*"In the case of a professional, the expression "gross receipts" in profession would include all receipts arising from carrying on of the profession. A question may, however, arise as to whether the out of pocket expenses received by him should form part of his gross receipts for purposes of this section. Normally, in the case of solicitors, advocates or chartered accountants, such out of pocket expenses received in advance are credited in a separate client's account and utilized for making payments for stamp duties, registration fees, counsel's fees, travelling expenses etc. on behalf of the clients. These amounts, if collected separately either in advance or otherwise, should not form part of the "gross receipts". If, however, such out of pocket expenses are not specifically collected but are included / collected by way of a consolidated fee, the whole amount so collected shall form part of gross receipts and no adjustment should be made in respect of actual expenses paid by the professional person for and/or on behalf of his clients out of the gross fees so collected. However, the amount received by way of advance for which services are yet to be rendered will not form part of receipts, as such advances are the liabilities of the assessee and cannot be treated as his receipts till the services are rendered".*

Unquote

Accordingly, from the above, it can be noted that, only such out of pocket expenses which are collected separately from clients and credited to a separate account and utilized for making payments on client's behalf, should not be included in "gross receipts".

### Deduction for salary and interest paid to partners

Under the provisions of the Act, in case of an assessee being a partnership firm, deduction with respect to salary and interest paid to partners would be available to be claimed as a deductible expenditure. However, the earlier provision of presumptive taxation scheme for business (i.e. section 44AD), which explicitly allowed deduction of salary and interest before arriving at the total income, has been removed with effect from FY 2016-17. Further, the provisions in relation to presumptive taxation scheme for professionals (i.e. section 44ADA) are silent on this aspect.

In this context, it may be noted that deduction for salary and interest paid to partners is an allowable expenditure subject to certain limits specified on the basis of the 'book profit' of the firm. In terms of Explanation 3 to section 40(b)(v), 'book profit' means the net profit as shown in the profit and loss account for the relevant year, computed in the manner laid

down in Chapter IV-D as increased by the aggregate amount of remuneration paid or payable to all the partners of the firm if such amount has been deducted while computing the net profit. Therefore, a view may be taken that deduction for salary under section 40(b) can be claimed only if books of account are maintained, as the limits in section 40(b) are based on 'book profit'. Further, the presumptive income determined under section 44ADA shall not be considered as 'book profit'. In addition, it is also important to note that, Schedule BP of ITR-4 Sugam indicates that deduction of salary and interest to partners will be available to presumptive business covered under section 44AE only and not to sections 44AD and 44ADA.

### Opting in and Opting out of the scheme

Presumptive taxation scheme for business (i.e. section 44AD) contains certain restrictions for the assessee from opting in and opting out of the presumptive scheme. However, presumptive taxation scheme for professionals (i.e. section 44ADA) does not contain any such restrictions. Therefore, assessee who is otherwise eligible for opting for the above scheme may choose to opt the scheme in a year and opt out of the scheme in the next year, so on and so forth.

### Digital Receipts

In order to encourage digital transactions and curb cash transactions, an amendment has been brought to presumptive taxation scheme for business (i.e. section 44AD) wherein presumptive income from receipts received digitally by businesses would be considered at 6% instead of the usual 8%. This amendment is applicable from FY 2016-17. The dichotomy is that such a relaxation is not given to professionals opting for presumptive taxation scheme under section 44ADA!

### Advance tax payment

Assessee who opts for presumptive taxation under section 44ADA is liable to pay advance tax in only one instalment on or before 15<sup>th</sup> March of the financial year.

### When actual income is more than 50% of gross receipts

What will happen if the actual income from profession is more than 50% of gross receipts but the assessee declares only 50% of his gross receipts as income?

Section 44ADA starts with a non-obstante clause curtailing the operations of many other sections and also states that 50% of gross receipts shall be deemed to be the profits and gains. The Allahabad High Court in *CIT Vs Nitin Soni [2012] 21 taxmann.com 447* in the context of section 44AE has held that:

Quote

*“The very purpose and idea of enactment of provision like section 44AE is to provide hassle free proceedings. Such provisions are made just to complete the assessment without further probing provided the conditions laid down in such enactments are fulfilled. The presumptive income, which may be less or more, is taxable. Such an assessee is not*

*required to maintain any account books. This being so, even if, its actual income in a given case, is more than income calculated as per sub-section (2) of section 44AE, cannot be taxed.”*

Unquote

Drawing support from the above precedent, a view can be taken that even where the actual income of an assessee is more than the 50% of gross receipts, the assessee can still offer only 50% of such gross receipts as income under the provisions of section 44ADA.

### Who is an assessee 'engaged in a profession'?

The provisions of presumptive taxation scheme are applicable to an assessee who is 'engaged in a profession' referred to in sub-section (1) of section 44AA of the Act. The list of professions covered under sub-section (1) of section 44AA have already been discussed *supra*. The provisions of the Act do not define the meaning of 'engage'. In this context, it may be noted that Black's Law Dictionary defines 'engage' as 'to employ or involve one's self', 'to take part in'.

An assessee who is carrying on the profession may have income from two kinds of services viz. services that require a Certificate of Practice ('CoP') / a practice license and services that do not require a CoP / practice license. On a plain reading of the definition of 'engage' mentioned above, though a view can be taken that all assessee who are involved in carrying on professional activities should be entitled for the benefit of the provisions of this presumptive taxation scheme irrespective of the fact whether they have the CoP / practice license or not, on a reading of the provisions of the law governing some of the professions, it appears that persons who do not hold valid CoP / practice license cannot claim themselves to be engaged in that profession. Therefore, in our view, a person without CoP / practice license from the body governing the profession, should not claim the benefit of presumptive taxation under this scheme even if he has received income by rendering professional services.

### Conclusion

The above provisions which are effective from FY 2016-17 have wide implications on the assessee carrying on specified professions with gross receipts of Rs 50 Lakh or less. While they are relieved of the burden of maintaining the books of account, audit etc. the benefit for receipt in digital mode should have been extended to them as well. Further, provisions of section 44AA of the Act read with Rule 6F of the Rules need suitable amendment to avoid the unwarranted disputes by the income-tax authorities for requirement of maintenance of books of account. Despite its shortcomings, the introduction of this Section in the interest of the small professionals is a welcome move by the Government.

Authors can be reached on e-mail:  
sirsiprakash@gmail.com and bengraghu30@gmail.com





## JOB WORK UNDER CGST ACT 2017

CA Ganesh V. Shandage, *Belagavi*

*(Contd. from previous issue)*

The inputs and/or capital goods can be sent to job worker either from the place of business of the Principal or can be sent directly from the place of the supplier of those inputs and/or capital goods without the necessity of first bringing them to the place of business of principal.

The Principal may also send the inputs and/or capital goods as an inter-unit transfer to a different registered person within the same legal entity and PAN. As per section 7(1)(c) read with the schedule I, the act of sending such inputs and/or capital goods to a related party is deemed as Supply even without any consideration. However, section 143 allows sending of inputs and/or capital goods to job worker for job work without payment of tax. This specific provision relating to job work activities should prevail over general provisions contained in section 7 (1)(c) read with the schedule I as referred above and therefore such inter-unit transfers should not be liable for tax if sent for job work.

- The inputs and/or capital goods sent to job worker for job work shall:
  - ◆ In the case of inputs, bring back such inputs after completion of job work or otherwise, within one year from their being sent out, to any of the places of business of Principal without payment of tax, or
  - ◆ In the case of inputs, supply such inputs after completion of job work or otherwise, within one year from their being sent out, from the place of business of job worker on payment of tax within India, or with or without payment of taxes for exports, or
  - ◆ In the case of capital goods other than moulds & dies, jigs & fixtures or tools, bring back such capital goods within 3 years from their being sent out, to any of place of business of Principal without payment tax, or
  - ◆ In the case of capital goods other than moulds & dies, jigs & fixtures or tools, supply such capital goods within 3 years from their being sent out, from the place of business of job worker on payment of tax within India, or with or without payment of tax for exports.

In case the inputs are to be brought back, it is not necessary that such inputs have successfully gone through the job work process. Even unprocessed or partially processed inputs could also be brought back.

Further, the inputs and /or capital goods could be

brought back to any of the places of business of the Principal. It is not a requirement that the inputs and/or capital goods are returned to the source of the place from where those were originally sent to job worker for job work. Also, there is absolute no time restriction applicable for bringing back the moulds & dies, jigs & fixtures or tools.

- ◆ In order to supply the inputs and/or capital goods from the place of business of job worker, such job worker should be a registered person, or such Principal is engaged in the supply of notified goods. Otherwise, the Principal should declare the place of business of the job worker as his additional place of business and the same is to be mentioned in his registration certificate.
- ◆ In case such inputs and/or capital goods were not brought back or not supplied within 1 year or 3 years of their being sent out respectively, it shall be deemed that such inputs and/or capital goods had been supplied by the Principal to the job worker on the day when the said inputs and/or capital goods were sent out and challan issued at the time despatch shall be deemed to be an Invoice. The Principal will be required to discharge the tax liability on this supply along with interest u/s 50 (1).
- ◆ The responsibility of accountability of inputs and/or capital goods sent to the job worker for job work shall lie with the Principal. The details of the challan in respect of inputs and/or capital goods despatched to, or received from, the job worker during the tax period shall be included in FORM GSTR1 return.
- ◆ Any scrap or waste generated at the place of business of job worker, in case the job worker is a registered person, he should supply those directly from his place of business on payment of tax. In case the job worker is not registered, the Principal shall supply such scrap or waste on payment of tax.

### **Input tax credit – u/s 19 & 17 (5)(h):**

- The Principal shall be entitled to take input tax credit on the inputs and/or capital goods which are either sent by him or sent directly by the supplier without first being brought to his place of business.
- In case such inputs and/or capital goods are either not brought back or supplied from the place of business of job worker in accordance with provision of section 143 within

1 year or 3 years as the case may be, it shall be deemed that such inputs had been supplied by the principal to the job worker on the day when they were sent out.

- In case such inputs and/or capital goods are directly sent by the supplier, then the period of 1 year or 3 years as the case may be counted from the date of receipt of such inputs and/or capital goods by the job worker.
- In case the inputs and/or capital goods sent at the job worker's place of business are either lost, stolen, destroyed, written off or disposed of by way gift or free samples, the corresponding input tax credit availed shall be reversed by the Principal ( u/s 17(5)(h) ).

#### **Job work charges – u/s 7 (1):**

- As per section 7(1)(a), 7(1)(d) read with paragraph 3 of schedule II, any treatment or process undertaken is deemed as 'Supply of Service'. Hence the job worker is liable to pay tax on the labour charges applicable in relation to the supply of such services. It is 'Supply of Service' despite the fact that some part of the labour charges could also be attributable towards minor inputs or components or consumables used by the job worker on own account while performing job work process.

#### **Transition provisions – Section 141:**

- **Inputs:** The inputs received at the place of business were removed as such or removed after being partially processed to a job worker for further processing, testing, repair, reconditioning or any other purpose in accordance with the provisions of existing law prior to the appointed day.
- **Semi-finished goods:** The semi-finished goods were removed from the place of business for carrying out certain manufacturing processes in accordance with provisions of existing law prior to the appointed day.
- **Finished goods:** The excisable goods manufactured at a place of business had been removed without payment of duty for carrying out tests or any other process not amounting to manufacture in accordance with existing law prior to the appointed day.

In all the above 3 cases, no tax shall be payable if such inputs, semi-finished goods, and finished goods, after completion of job work or otherwise, are returned to the place of business of Principal within 6 months from the appointed day with further 2 months possible extension. To illustrate, the Principal might have sent inputs, semi-finished goods and finished goods outside before 1-7-2017 (Assuming this is appointed day) for job work, testing, etc. If these are received back before 31-12-2017, GST will not be payable. Else GST is payable.

The semi-finished goods and finished goods may also be supplied within 6 months with the further possible extension of 2 months from the place of job worker on

payment of tax in India, or with or without payment of tax for exports.

In the event that such inputs, semi-finished goods, and finished goods are not returned within 6 months with further possible extension of 2 months from the appointed day, the input tax credit availed at the time of migration to GST shall be recovered as arrears of tax under clause (a) of section 142 (8).

The manufacturer and the job worker shall provide a declaration containing details of the goods held in stock by the job worker on behalf of the manufacturer on the appointed day in such form and time frame as may be prescribed by rules.

- **Capital goods:** Surprisingly, no transition provisions have been made in relation to capital goods which have been sent to job worker prior to the appointed day. Hence it seems that no input tax credit on capital goods sent to job workers place of business would be allowed to be migrated to GST regime.

#### **Returns:**

- The Principal to furnish details of challans in respect inputs and/or capital goods despatched to, or received from, the job worker during the tax period in FORM GSTR1 return being filed by the 10<sup>th</sup> day of succeeding month.
- Similarly, Job worker to furnish details of supply of services provided in the FORM GSTR1 return being filed by the 10<sup>th</sup> day of succeeding month.

#### **Advantages:**

- **Reduced working capital blockage** as input tax credit is availed on the inputs and/or capital goods sent for job work. Also, such inputs and/or capital goods are sent for job work without payment of tax.
- **Reduction in input tax related compliances and disputes.** Input tax credit calls for stringent compliance procedures and therefore one should brace for disputes in relation to input tax credit with the department. As no taxes are payable in the flow of inputs and/or capital goods in job work process, to that extent there will be a reduced burden of compliances and documentations as required in the normal case.
- **Direct supply to the customer.** The job work provisions provide for the supply of inputs and/or capital goods to the customers directly from job workers place of business. This saves the operational and logistical costs involved in bringing those inputs and/or capital goods back to the place of business of Principal before supplying to the customers.

*Author can be reached on e-mail:  
ganesh.shandage@gmail.com*

# 44<sup>th</sup> Annual General Meeting - Photo Gallery



## Cultural Meet





# KARNATAKA STATE CHARTERED ACCOUNTANTS ASSOCIATION®



## Executive Committee Members - 2017-18



**CA Raghavendra T.N.**  
 President



**CA Raghavendra Shetty**  
 Vice-President



**CA Chandrashekara Shetty**  
 Secretary



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 Chairman -  
 Representation Committee



**CA Vijay Kumar Patel**  
 Chairman - e-Initiatives &  
 Social Media Committee



**CA Raghavendra Puranik**  
 Immediate Past President

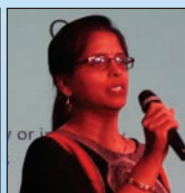
## Speakers at Study Circles



**CA Madhukar N Hiregange**



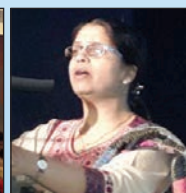
**CA B.D. Chandrashekar**



**CA Annapurna Kabra**



Cross section of participants



**CA Annapurna Kabra**



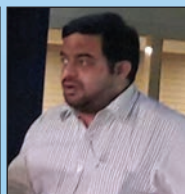
**CA S.N. Prasad**



**CA R.S. Pavan Kumar**



**CA Prateek Marlecha**



**Sri. Santosh Hatwar**



**Sri. Anil R.**



**Sri. Akella A.S. Prakasa Rao**



Cross section of participants