

KSCAA

Karnataka State Chartered Accountants Association ®

NEWS BULLETIN

September 2017 | Vol. 5 | Issue 1 | ₹ 25/-



www.kscAA.com

English Monthly
for Private Circulation only

Income Tax | Financial Reporting | GST

*Happy
Dasara*



Discussion on
**Practical Issues in GST
Compliances including Returns**

On **Saturday,**
23rd September 2017

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



**GROW, SHARE
& TRANSFORM**

Workshop on
**Income Computation &
Disclosure Standards (ICDS
(I to X))**

On **Friday & Saturday,**
6th & 7th October 2017

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



Dear Professional Friends,

Let me begin with the saying of SunTzu,

"In the midst of chaos, there is an opportunity."

As I write this September President's Message from Bangalore turmoiled by severe rains to the extent of

converting low areas to almost lakes and where road condition is somewhat like a village road, with much potholes, still it leaves an optimist with a glimmer of hope of positivity around the corner. Only with a positive frame of mind can one see emerging opportunities and take charge of himself to carve a niche for himself. In this direction, I call upon my dear members to identify professional opportunities lying in a pile of struggles and direct energies towards transforming the society and people around us.

I pay obeisance to the noted journalist turned social activist Gauri Lankesh, the indomitable spirit displayed by her will never die and shall be alive in the Bangaloreans forever. Hope her family members get justice and the journalism wins over the shoddy and dastardly act.

Moving to our sphere of activity, I salute the spirit of our professionals who are fire-fighting and lending their hands in whatever capacity to help the business community to face the challenges thrown in compliance regime of GST. Also, as partners in nation building, our members are working heart and soul towards leading India towards fair compliance of audit and tax laws.

The dual effect of demonetisation followed by introduction of GST to stem the menace of black money has of course been in the right direction. But the short-term effects have been far too much and the long-term benefits are yet to be gauged. The former RBI Governor has aired his views about the short-term effects of demonetisation and expressed his view on the right of Parliament to know about what went into the decision process of demonetization.

Post demonetisation, public sector banks are flush with funds. However legacy NPA issues have dampened the spirit of bankers and the tight lending norms have also added to the woes of credit offtake. There is glaring need for the banking sector to pump credit into the system to bolster the business in the wake of demonetisation and GST. The repo rate cut frequently has resulted in commensurate reduction of the benchmark rates. However, the deposits rates reduced in line with repo rate has deeply hit the senior citizens and those dependent on interest for their livelihood. A point highlighted by former RBI Governor Raghuram Rajan that banks should be consolidated when the assets position is strong to give impetus and help credit take off is definitely a point to be considered by the ruling Government. It has been a double-edged sword in terms of loans off-take being sluggish vis-à-vis the deposit rates lying low. The solution seems that Government spending on infrastructure and agriculture issues is to be expedited on war footing so that the benefits trickle down to the rural consumption and thereby uplifting the economy and achieving the objects of inclusive growth.

KSCAA has been robust in airing the troubles faced by the business and profession, and take it to the right forum for addressing and resolving the issues. Two representations were made - memorandum dated 19th August 2017 followed up with another memorandum on 30th August 2017 highlighting the practical hardships faced by businesses and professionals in GST compliances, which got published in nationally acclaimed tax solutions portal www.taxguru.com that saw more than 30,000 hits. It is encouraging to note that many of our recommendations were considered by the Finance Ministry like clarity on flow of ITC through GST TRAN-1, extension of due date for exercising the option of composition scheme by the migrated dealers, continuing of summary return in GSTR-3B till the resolution of teething issues, relaxing of due dates for filing GST R1, R2 & R3, hardships faced by small exporters etc. We firmly believe that our grievances should be populated before the right forum along with possible solutions through representation by the Association, which has greater chance of response and resolution of issues by the administration. In this light, we seek members to identify issues along with possible solutions, only through this vehicle can we make a meaningful difference.

We wish to inform you that we have constituted various committees like Taxation, Corporate and allied laws, Journals & Publications, Membership development and Public relations, Sports and Skill development, Mofussil programs, e-Initiatives and Social media to diversify the activities of the Association and to serve the members in a better way. To achieve this, we solicit seniors and members to join us in mentoring and building the committee activities and need valuable inputs to achieve the desired goal of '**Grow, Share & Transform**' as envisaged motto of the term, and going forward. In this regard, we make an earnest appeal to the past presidents, subject experts and young chartered accountants who can devote their valuable time to support the Chairmen of respective committees towards this noble cause of our profession.

In the words of Pubilius Syrus- "Where there is Unity there is always victory"

May this Navratri light up for you the hopes of happy times and dreams for a year full of smiles. Happy Dasara and Navratri!!!

I wish to end my message with a thought:

"Only thing more expensive than education is ignorance. If you think education is expensive try ignorance".

- Benjamin Franklin

With warm regards,

CA. Raghavendra T.N.
President

KSCAA

News Bulletin

September 2017

Vol. 5 Issue 1

No. of Pages : 16

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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.

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SECTION 80IA - INFRASTRUCTURE DEVELOPMENT - INCOME TAX INCENTIVES

CA S. Krishnaswamy

Section 80IA confers a tax holiday in respect of profits and gains from industrial undertakings or enterprises engaged in infrastructure development etc.

The section in brief:

- A 10 year tax holiday for Infrastructure projects – 100% profit exempt.
- Eligible business (defined).
- 10 consecutive assessment years to be chosen in a block of 15 years. (20 years if the “infrastructure facility” is a highway project including housing or other activities being an integral part of the highway project and road including toll road, a bridge or a rail system, a water supply project, water treatment system, irrigation project, sanitation and sewage system or solid waste management system.)
- Any infrastructure facility or providing telecommunication services or develops an industrial park(s) in a special economic zone; or
- Generates power or commercial transmission or distribution of power or undertakes industrial reconstruction and modernization of the existing transmission and distribution lines.
- In respect of telecommunication services-
 - 100% for first 5 years.
 - 50% thereafter for next 5 years.
- Undertaking must be new (defined).
- Conditions specified.
- Applicable for periods prior to 01.04.2017.
- For the purposes of this clause, “infrastructure facility” means-
 - a road including toll road, a bridge or a rail system;
 - a highway project including housing or other activities being an integral part of the highway project;
 - a water supply project, water treatment system, irrigation project, sanitation and sewerage system or solid waste management system;
 - a port, airport, inland waterway, inland port or navigational channel in the sea

This is important as some enterprises not eligible have claimed deductions.

Other conditions:

- Audit by a Chartered Accountant is mandatory and report in Form 10CCB attached to return of income.
- Deduction must be claimed in the return of income.
- Deduction not to be allowed unless return furnished in time – Sec.80AC.

Audit Objections:

Report of the C & AG for the year ended 31.03.2015.

Performance audit of allowance of deduction to the assesses engaged in infrastructure development. Report No. 28 of 2016.

- The Income Tax Department irregularly allowed deduction to assesses in 33 cases in respect of infrastructure developed by joint venture formed by collaboration with foreign companies, undertakings owned by Association of persons (AOPs), assesses who did not enter into agreement with the Government, non-compliant Industrial park and excluded works contractors. This resulted in underassessment of income involving tax effect of Rs.205.84 crore.
- The Department irregularly allowed deduction to assesses in 16 cases where the business of the assesses such as sale of plots, projects not covered under infrastructural facilities, conversion charges, development/maintenance of park etc., were not eligible for the deduction. This resulted in underassessment of income involving tax effect of Rs.174.35 crore.
- The Department irregularly allowed deduction to assesses in eight cases in respect of profits derived from ‘Railway Sidings/Jetties’ constructed and operated by the assesses for their private purposes, which did not qualify to be treated as infrastructure facilities in terms of Explanation to section 80 IA(4). Irregular allowance of deduction attracted tax effect of Rs.2066.70 crore.
- In 10 cases, the Department incorrectly computed Minimum Alternative Tax (MAT) by
 - not adding back reserves, provisions,
 - capital gains credited to profit and loss account,

- allowing excess carry forward of MAT credit etc. resulting in underassessment of income involving tax effect of Rs.14.12 crore.
- The Department did not disallow deduction in 11 cases despite belated filing of return which resulted in underassessment of income involving tax effect of Rs.80.49 crore.
- The Department irregularly allowed deduction to assesses in six cases for the period beyond the permissible limit of 10 consecutive assessment years, starting from the declared initial assessment year. Incorrect allowance of deductions resulted in underassessment of income involving tax effect of Rs.859.47 crore.

Author's Note: This situation arises where the assessee because of losses in initial years does not claim deduction but chooses from the year of profits. The block of 15 years was inserted by amendment made w.e.f 01.04.2000. Department claimed that this has retrospective effect.

- The Department irregularly allowed deduction to assesses in 15 cases in where the assessee did not apportion the common expenses between eligible and non-eligible units properly which resulted in excess allowance of deduction involving tax effect of Rs.224.47 crore.
- In nine cases, the AO irregularly allowed deduction under section 80 IA to the extent of Rs.80.18 crore to the assesses engaged in the generation of power using windmill, treating each windmill as separate undertaking. The assesses did not aggregate income or loss of all the windmills but selectively opted to claim deduction only for the profit making windmills, leaving losses of other windmills and other ineligible business. The losses of other windmills were either set off against profit of non-eligible business or carried forward for future years. Thus, AOs failed to disallow deductions which resulted in excess allowance of deduction involving tax effect of Rs.27.15 crore.
- The Department irregularly allowed deduction to assesses in seven cases in respect of the profits related to the enterprises or undertaking which were transferred in a scheme of amalgamation/demerger, even though such amalgamation/demerger was effected on or after 01.04.2007. Incorrect allowance of deduction resulted in underassessment of income involving tax effect of Rs.376.10 crore.
- The Department irregularly allowed deduction to assesses in 43 cases due to mistake in calculation of income/tax, depreciation, double deduction allowed, deduction allowed on other head of income etc.

Omission to disallow the deduction on these cases resulted in under assessment of income involving tax effect of Rs.143.65 crore.

- The Department irregularly allowed deduction to assesses in six cases in the case of captive consumption of electricity where the assesses claimed excess deduction by adopting a rate higher than the market rate. The Assessing Officers (AOs) did not invoke the provisions of section 80 IA(8) to arrive at the correct amounts of eligible deduction in these cases which resulted in excess allowance of deduction involving tax effect of Rs.15.10 crore.
- The Department irregularly allowed deduction to assesses in 11 cases though the plant and machinery being used were old or a pre-existing infrastructure facility or undertakings being formed by splitting up of business already in existence. Irregular allowance of deduction involved tax effect of Rs.40.51 crore.
- The Department irregularly allowed deduction to assesses in 27 cases on interest receipts, sale of import license, insurance claim etc. that, inter alia, included the profit of the eligible business. Excess allowance of deduction attracted tax effect of Rs.227.87 crore.
- AOs were not taking uniform stand in allowance of brought forward loss(es) pertaining to years prior to initial assessment year in respect of eligible business. In 19 cases in Tamil Nadu, the AOs disallowed the claim of deduction after setting off brought forward losses pertaining to years prior to initial assessment year but tax collections of Rs.29.02 crore were kept in abeyance whereas in 50 cases, the Department allowed deduction claimed without setting off of brought forward loss (es) pertaining to years prior to initial assessment year which involved tax effect of Rs.35.06 crore. In 41 cases, Department allowed deduction without adjusting the notionally brought forward losses pertaining to initial assessment year and subsequent assessment years resulting in excess allowance of deduction involving tax effect of Rs.55.12 crore.
- In 19 cases, the Department allowed the deduction in respect of income earned through sale of carbon credit which involved tax effect of Rs.34.77 crore.
- In nine cases, additions made on account of treatment of expenditure as revenue, sale of fixed assets, disallowance made u/s 40A(3) 14A, 40(a) etc., were considered for deduction under section 80IA. Consequently, the allowances were more than the amount claimed by the assessee.

Further, in doing so, additions made by the AOs are neutralized due to allowance of deduction under section

80IA of the Act. Incorrect allowance of deduction resulted in consequential tax effect of Rs.74.66 crore.

- In four cases where deductions were allowed on the adjustments made while determining the Arm's Length Price under section 92CA (4) involving tax effect of Rs.15.11 crore.
- The information contained in the database provided by DGIT (Systems) New Delhi did not match with the details available in the actual assessments of the assessee companies. The database did not contain the data of deductions actually allowed during the assessments against the claims made by the 47 assesses. The database also did not show deduction allowed in the cases where the assessee was having profit from eligible unit but no deduction was admissible as gross total income was negative. From the examination of the database, we observed that in Gujarat charge, 35 assesses claiming the deduction of Rs.302.07 crore under section 80IA, were not included in the data provided by DGIT (Systems).
- The Department allowed deduction involving tax effect of Rs.121.88 crore under section 80IA in 65 cases in 10 states without verifying the information contained in the requisite audit report/certificate in Form 10CCB along

with the profit and loss account and the balance sheet

- In 37 cases, Form 10CCB were not e-filed in 32 cases whereas in 5 cases Form 10CCB were e-filed after due date of filing of the return. In these cases, the AOs irregularly allowed deduction of Rs.798.76 crore under section 80IA involving tax effect of Rs.259.09 crore. The compliance of this mandatory requirement was also not ensured by the system at the time of processing of return under section 143(1).
- In 19 cases which fulfilled the criteria for being selected for scrutiny assessment but were not selected. In these cases, the assesses were wrongly allowed deduction in summary assessment u/s 143(1) as claimed involving tax effect of Rs.7.54 crore.

Overall the excess allowances resulted in a tax effect of Rs.3,740.97 crores covering assessment made during the years 2012-2013 and 2014-2015.

Conclusion:

The moral of the story is, be eternally vigilant in claiming incentives and avoid the risk of re-opening of assessments.

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What is the purpose of having separate table for supplies liable to reverse charges under GSTR 1 in table no 4 b?

Answer to your query

In the statement of supplies (other than forward supplies i.e., Form GSTR 1, Table 4 is provided for furnishing details of supplies (other than zero-rates supplies). The said table is further divided into three categories namely, -

A. supplies other than taxable under reverse charge in the hands of recipient of supply;

B. supplies liable to tax under reverse charge in the hands of recipient;

C. supplies made through e-commerce operator (value of which is already covered under A above).

The intention of providing separate tables for supplies liable to tax in the hands of recipient is because the input tax credit of inputs or inputs services used for making such supplies will be equated with that of input tax credit used for making exempt supplies, which is liable for reversal in terms of section 17(3) read with Rule 42 (c) of CGST Rules, 2017.

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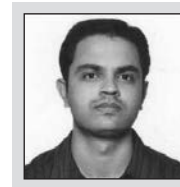
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GST CREDIT ON CAPITAL GOODS

CA Madhukar N. Hiregange and CA Mahadev.R



It's been two months since the implementation of GST replacing all major indirect taxes in India. For many, it was a roller coaster ride. There are lot of system related challenges which assesses have to face in the month of August and September in filing their returns including legal confusions such as utilization of carried forward credits for payment of GST. The government has been trying to clarify many of the aspects through tweets on twitter account (which can't be relied legally), press releases, circulars etc. However, there are still many issues which need to be addressed. In this article, we have analyzed provisions related to GST input tax credit on capital goods and issues associated with it.

Credit on capital goods under erstwhile provisions

Manufacturer or service provider who was engaged in taxable activities under Central excise or service tax law was eligible to claim full Cenvat credit of excise duty / import duties paid. Such credit was eligible fully even if capital goods were put to use substantially towards non-taxable activities. However, in case of VAT paid on capital goods which are put to use commonly for taxable and non-taxable activities, credit was eligible on proportionate basis considering the sales turnover as base. For the purpose of credit availment, there was a separate definition of capital goods which majorly covered goods falling under tariff heading 82,84, 85, 90, parts of machines, storage tanks etc.

Other major requirement in erstwhile provisions was availment of credit on installment basis. Cenvat credit provisions required availment of 50% credit of duties paid in first financial year and balance 50% in subsequent financial years. Few state VAT provisions also had the scheme of VAT credit on installment basis.

Credit on capital goods in GST

For GST, capital goods are those whose value has been capitalized in books of accounts of the person claiming the input tax credit. Such goods should be intended to be used in the course or furtherance of business. Due to simplified definition, it would be very easy for tax payers to classify the goods as inputs or capital goods for taking credit of GST paid on goods.

No scheme of installment

GST law provides for full input tax credit on purchase of goods in the month of receipt of goods itself. This would have positive impact on cash flow of those who were procuring capital goods paying higher taxes as there is no installment scheme of credit.

Proportionate credit on capital goods

One of the drawbacks in GST law is non-availability of full credit on capital goods even when goods are put only partially for taxable activities. Earlier, full credit was available for a manufacturer / service provider even though capital goods were partially put for non-taxable activities. However, the new law is similar to VAT provisions of few States.

Though provision for payment of credit on common capital goods is similar to inputs, there is a interest liability which arises on capital goods in GST. Rule 43 provides for availing full credit on common capital goods. Later on, the proportionate credit based on ratio of exempted supplies over total turnover be added to the output liability of every tax period. This addition is to be done for a period of 60 months. Though this requirement looks reasonable, the issue is payment of interest. Rule 43 (h) requires the tax payer to add even interest amount along with proportionate credit every month. There is no clarity on methodology of computing the interest.

GST on as such removal of capital goods

In Cenvat credit provisions there was a provision for claiming 2.5% depreciation every quarter for reversal of Cenvat credit on capital goods (other than computers) removed as such. After claiming deduction of 2.5% every quarter, the balance amount left was to be paid back on as such removals. Of course, if duty liability on transaction value was more than the depreciated credit, then duty was to be paid on transaction value.

Similar provisions exist in GST law as well. According to Section 43 (6), in case of supply of capital goods or plant and machinery on which input tax credit has been taken, the registered person needs to pay an amount equal to input tax credit taken reduced by such percentage points as may be prescribed or the tax on the transaction value whichever

is higher. However, there is no provision in ITC related rules prescribing percentage points to be reduced on as such removal of capital goods which looks to be inadvertent omission. Even if prescribed, this percentage could be 5% per quarter which is prescribed for other purposes. Therefore, if there are any as such removal of goods, 5% could be considered for removal of capital goods.

Transitional credit on capital goods

Section 140(2) of GST Act allows for availing the un-availed credit of Cenvat duties or VAT. For this purpose, the un-availed credit is amount which remains after subtracting the amount of credit already availed. Let us say, total excise duty on capital goods purchases in April 2017 is Rs.1,00,000/-. Then 50% of this amount would have been claimed as credit in April 2017. Balance amount of Rs.50,000/- can be claimed as credit in GST transition period.

There are dealers who are liable to register in GST law but exempted earlier may be because goods were exempted earlier. These dealers have the option of taking ad-hoc credit of 40% / 60% of CGST payable on inputs in stock when there is no duty paid documents. Wherever invoices are available, then full credit can be taken subject to condition that inputs are less than year old. Such dealers may have stock of capital

goods purchases as well. However, the facility of ad-hoc credit or actual credit on such capital goods not allowed in transition provisions. Government could have considered allowing credit on capital goods as well.

Conclusion: It is no wonder that the new law would take its own time to get settled. Tax payers need to take lot of precaution before undertaking any new type of transactions. Professionals need to caution the clients about the new law and requirements so as to avoid clients spending their valuable time unnecessary litigation instead of business.

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KSCAA WELCOMES NEW MEMBERS - SEPTEMBER 2017

S.No.	Name	Place
1	Rohith Shanbhogue M.R.	Bengaluru
2	Deepak Gulecha	Bengaluru
3	Navaneetha G. Chiploonkar	Bengaluru





FINANCIAL REPORTING AND ASSURANCE – KEY UPDATES

CA Vinayak Pai V

1. Introduction

The **IFRS Foundation** and the **Basel Committee on Banking Supervision (BCBS)** entered into a MOU on Sep 5, 2017 agreeing to share information to support both parties in their interest to **encourage** the consistent and **high-quality application of IFRS Standards**, financial stability, and related regulatory matters. This development would be closely watched in the financial sector.

The **second phase of IND-AS** transitioning listed companies would be coming out with their first IND-AS **half yearly results** shortly. The challenges of first-time adoption and interim financials disclosures continue.

2. Financial Reporting And Assurance Updates

a) Technical Guide on Income Computation and Disclosure Standards – ICDS II: Valuation Of Inventories

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 II-Valuation of Inventories** are summarized herein below.

- ICDS II adopts principles contained in AS 2 (R 2016)
 - Unless there is a difference between the provisions of ICDS II and AS2, one may **refer** to the **explanations and examples** given in the AS 2 for applying the provisions of the ICDS.
- ICDS VIII–Securities does not deal with **securities** held by **mutual funds, VC funds, Banks, PFIs**.
 - The **valuation of securities** held, as stock-in-trade by such entities will be **governed** by **ICDS II**.
- **Machinery spares** that can be used only in connection with a tangible fixed asset and where use is expected to be irregular need to be dealt with in accordance with the provisions of ICDS V- Tangible Fixed Assets.
- The provisions of ICDS II **shall not apply** in case of **work in progress** of **service providers**.
- AS per AS 2, **Duties and Taxes** that are subsequently recoverable from the taxing authorities are excluded while arriving at the cost of purchase.

- ICDS II prescribes ‘**inclusive method**’ while AS 2 prescribe ‘**exclusive method**’.

- If an exclusive method is followed for the purpose of valuation of inventory as per AS, the tax payer would be **required to prepare a memorandum account** to demonstrate that vis-a-vis inclusive method, it is tax neutral and this would be compliant with Sec 145A and ICDS.

- **Fixed overheads** shall be allocated to inventories based on the **normal capacity** of the production facility.

- Normal capacity is average production that is expected to be achieved over a number of periods under **normal conditions**.

- Normal conditions are **not ideal conditions**.

- One should take into account **efficiency levels expected** to be **achieved**, infrastructure facility available to achieve the production level, periods during which the production facility cannot be utilized, etc.

- The **assesse** should consider and **keep appropriate evidence** based on which NRV was estimated.

- The **method of valuation** of inventories once adopted by a person in any previous year shall **not be changed** without **reasonable cause**

- Change in the applicable law necessitating a change, change in the nature of business, etc. could be considered as examples of reasonable causes.

- Changes in circumstances that lead to the existing method not reflecting the fairest approximation of the cost incurred in bringing the inventory to the present location and condition would be a reasonable cause for changing the method of valuation of inventory.

b) Presentation of Property, Plant and Equipment In IND-AS Balance Sheets

Our Institute has released a **Guidance Note On Division II- IND AS SCHEDULE III TO THE COMPANIES ACT 2013**. The presentation and disclosure aspects of PPE are summarized herein below

- **Assets under lease** need to separately specified under each class of asset.
 - The term “under lease” mean assets given on **operating lease** in the case of **lessor** and assets held under **finance lease** in the case of **lessee**.
 - An entity that has taken assets on finance lease and given assets on operating lease should show these **separately**.
 - **Leasehold improvements** should continue to be shown as a separate **asset class**.
 - Since reconciliation of gross and net carrying amounts of PPE is required, the corresponding depreciation/ amortization for each class of asset should be disclosed in terms of
 - Opening Accumulated Depreciation,
 - Depreciation / amortization for the year,
 - **Deductions / Other adjustments and**
 - Closing Accumulated Depreciation / Amortization.
 - Similar disclosures should also be made for Impairment, if any, as applicable.
 - In case if the company wants to **disclose** information regarding gross block of assets, accumulated depreciation and provision for impairment **under previous GAAP**, the same may **only be disclosed as an additional information** by way of a note.
 - All **acquisitions** (asset acquisition or through business combination) are to be **disclosed as part of the reconciliation** in the note on PPE.
 - While IND-AS 16 states that a class of PPE is a grouping of assets of a similar nature and use in an entity's operations for purpose of revaluation purposes, Companies should **continue to present land and building separately** per Schedule III.
 - **Capital advances** should be included under **other non-current assets** and hence, cannot be included under capital work-in- progress.
- 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 are relevant to a wide array of companies is provided herein below.
- The **amounts** as on start of the **opening date** of the **first year of adoption** should be considered for the **purposes of computation of transition amount**.
 - It may be noted that as per Explanation to Section 115 JB (2C) of the Act, the **convergence date** is defined as the first day of the first IND-AS reporting period. The Memorandum explaining the provisions of the Finance Bill 2017 mentions that the adjustment as on the last day of the comparative period is to be considered.
 - **Adjustment of proposed dividend** (including dividend distribution taxes) shall **not form part** of the **transition amount**.
 - Per IND-AS, proposed dividends are required to be recognized in the year in which it has been declared rather than the year for which it pertains to which is in variance with the previous GAAP principle.
 - **Deferred taxes adjustments** recorded on the **transition date** shall be **ignored** for the **purpose of computing Transition Amount**.
 - It may be noted that IND- AS transition adjustments may have a corresponding impact on deferred taxes.
- d) **Accounting for costs of obtaining regulatory permissions for setting up factory building**
- Our Institute has recently provided implementation material on **IND-AS** with specific respect to **Property, Plant and Equipment**. One of the accounting issues addressed therein was the capitalization of **costs of obtaining regulatory permission** for **setting up factory buildings**. The gist of the same is provided herein below.
- Where a manufacturing company **acquired agricultural land** for **setting up a factory building** and for construction of the building, incurred significant **costs** for obtaining such permissions such as **environmental clearance** and **change of land use**, then the expenditure incurred for obtaining such permission should be **capitalized in the cost of factory building** and **not as part of the cost of the land** since these costs are directly attributable for bringing the factory building to the location and condition necessary for it to be capable of operating in the manner intended by management.

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KEY EXEMPTIONS UNDER THE GST LAW

CA B.G. Srikanth Acharya and CA Annapurna Kabra



Section 11 of CGST Act/KGST Act provides for power to grant exemption from Tax. The Central Government/ State Government on recommendation of GST Council and in the public interest exempts the Inter/intra state supply of services. The following are some of the services which are exempted from levy of GST.

I) Charitable Trust

The Indian Income Tax Act, 1961 incorporates several provisions for Charitable Institutions by incorporating Tax Incentives if the fund is used for charitable purpose. The expression “charitable purpose” has been defined under Section 2(15) of the Income Tax Act to include: (a) relief of the poor, (b) Education, (c) medical relief, and (d) advancement of any other object of general public utility.

Under the GST law all the charitable purpose activities are not exempted from levy of GST. The definition of Persons includes the trust. The Exemption Notification exempts all services by an entity registered under section 12AA of the Income Tax Act 1961 by way of **charitable activities**. Therefore all the charitable activities are not exempted from GST. The charitable activities are defined in explanation (r) of the Notification 12/2017 dated 28.6.2017 under CGST Act 2017 are exempted from GST. The following are the charitable activities which are exempted from CGST.

“Charitable activities” means activities relating to

(i) **Public health by way of,**

(A) **Care or counseling 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;**

II) Renting of Precincts of a Religious Place

“Religious place” means a place which is primarily meant for conduct of prayers or worship pertaining to a religion, meditation, or spirituality. Services by a person by way of renting of precincts of a religious place meant for general public, owned or managed by an entity registered as a charitable or religious trust under section 12AA of the Income- tax Act, 1961 (hereinafter referred to as the Income-tax Act) or a trust or an institution registered under sub clause (v) of clause (23C) of section 10 of the Income-tax Act or a body or an authority covered under clause (23BBA) of section 10 of the said Income-tax Act.

The above exemption is not applicable

- Where renting of rooms where charges are one thousand rupees or more per day
- Renting of premises, Community halls, Kalyanmandapam or open area, and the like where charges are **ten thousand rupees** or more per day,
- Renting of premises, community and renting of shops or other spaces for business or commerce where charges are **ten thousand** rupees or more per month.

Therefore all the renting services by the charitable institutions are not exempted from GST.

III) Training or coaching Recreational Activities

Even the services by way of training or coaching in recreational activities relating to sports by charitable entities registered under section 12AA of the Income Tax Act is exempted from Tax.

IV) Education Services:

“Educational institution” means an institution providing services by way of,-

- (i) Pre-school education and education up to higher secondary school or equivalent;
- (ii) Education as a part of a curriculum for obtaining a qualification recognized by any law for the time being in force;

(iii) Education as a part of an approved vocational education course;

a) Services by an Educational Institution

Services provided by an educational institution to its students, faculty and staff.

b) Services to Educational Institution

Services provided to an educational institution by way of transportation of students, faculty and staff, Catering, Security or cleaning or house-keeping services performed in such educational institution, Services relating to admission to, or conduct of examination. The above exemption shall apply to an educational institution providing services by way of pre-school education and education up to higher secondary school or equivalent.

V) Transportation of goods

A. Services by way of transportation of goods by road are exempted from GST except the services of—

- (i) A Goods Transportation Agency;
- (ii) A Courier Agency.

B. Services provided by a goods transport agency, by way of transport in a goods carriage of the following goods are exempted from GST.

- (a) Agricultural produce;
- (b) Goods, where consideration charged for the transportation of goods on a consignment transported in a single carriage does not exceed one thousand five hundred rupees;
- (c) Goods, where consideration charged for transportation of all such goods for a single consignee does not exceed rupees seven hundred and fifty;
- (d) Milk, salt and food grain including flour, pulses and rice;
- (e) Organic manure;
- (f) Newspaper or magazines registered with the Registrar of Newspapers;
- (g) Relief materials meant for victims of natural or man-made disasters, calamities, accidents or mishap; or
- (h) Defence or military Equipment.

VI) Services by way of giving on hire motor vehicle (meant to carry more than twelve passengers)

- to a State transport undertaking,
- to a Goods transport agency for transportation of goods.

VII) Entertainment and Event Services

- Services by way of Right to Admission to Circus, dance,

or theatrical performance including drama or ballet, Award function, concert, pageant, musical performance or any sporting event other than a recognized sporting event, Recognized sporting event, where the consideration for admission is not more than Rs 250 per person as referred above.

- Services by way of admission to a museum, National park, wildlife sanctuary, tiger reserve or zoo.

VIII) Health Care services

- Health care services by a clinical establishment, an authorized medical practitioner or Para-medics.
- Services provided by way of transportation of a patient in an ambulance.
- Services by a veterinary clinic in relation to health care of animals or birds
- Services provided by the cord blood banks by way of preservation of stem cells or any other service in relation to such preservation.

IX) Renting Services

- Services by a hotel, inn, guest house, club or campsite, by whatever name called, for residential or lodging purposes, having declared tariff of a unit of accommodation below one thousand rupees per day or equivalent.
- Services by way of renting of residential dwelling for use as residence.

X) Financial Services

- Services by way of extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount (other than interest involved in credit card services).
- Services by way of inter se sale or purchase of foreign currency amongst banks or authorized dealers of foreign exchange or amongst banks and such dealers.
- Services by an acquiring bank, to any person in relation to settlement of an amount upto two thousand rupees in a single transaction transacted through credit card, debit card, charge card or other payment card service.

XI) GSTN Services

- Services provided by the Goods and Services Tax Network to the Central Government or State Governments or Union territories for implementation of Goods and Services Tax.

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GST AND COMMON MAN

CA Teertha G R R



It has been now more than two months, since India has witnessed her biggest tax reform being implemented i.e. GST. By the time this article reaches you, many of my colleagues from the fraternity will be still busy in filing the first month's GST returns. Ever since the GST bills were enacted and the 1st July, 2017 deadline was fixed for its implementation, a lot has been said and written about it. Especially in our professional journals the GST law has been dissected by all the leading IDT practitioners giving us insights into what GST means to the business, to the industries, to the economy, to the professionals and finally what GST means to our own professional brethren. But it's very difficult to obtain even a single piece of paper where GST has been analysed from a common man's point of view and give a balanced and unbiased opinion on how GST will impact a common man, a family household and its economics.

As we all know, GST has replaced various central and state government administered indirect tax laws like excise duty, service tax, central sales tax, VAT, entry tax to name a few. The main objective of bringing in GST is to replace a complicated indirect tax structure governed by various laws with a single uniform law across the country which would be easy to implement and govern. By implementing GST, the government aims to make the tax administration simpler and also make the tax compliance a non-tedious affair to the businesses.

Ideally, GST should also have been a single tax rate structure where in you buy a cloth bag or a car, things should be taxed at the same rate. But considering the heterogeneous society that we live in, where people belong to different economical strata and live under extremely contrasting socio-economic conditions, it is impossible to have a single rate of tax. However as a nation, in the coming years, we must aspire to implement the GST tagline of "One India One Tax" in its real sense.

Despite facing several challenges in understanding the new law and following it, GST not being the GST in true sense as it has been in western world, this tax reform has been widely hailed by the corporate sector mainly because of harmonised tax structure, increased use of technology and easy compliance. However there has been enough criticism from several quarters that GST is pro capitalist law and it only fleeces the common man. While the supporters of the government have vocally refuted such criticisms, some people in the government have been arrogant to suggest people to cook food at home and eat if GST has made restaurant bill costly. Most of the news debates on this topic has been futile where the ruling and the opposition parties' spokespersons have been parroting the lines briefed to them by their respective high commands without looking at any numbers.

There have been protests about the GST rates by people from several industrial sectors to women rights activists critiquing the government that the new GST rates imposed have been illogical, insensitive and will kill the industry or will adversely impact the living of a person. To that, the government has conceded to the demands of the protesters on a few occasions, while on the rest of occasions it has appealed to the people to not to compare the GST rate with erstwhile VAT rate because what the end consumer sees is a product which would have already suffered excise, entry tax, import duty, etc.

The reasoning given by the government is absolutely correct, but then how does a common man analyse whether the GST rate on a commodity bought by him is in harmony with the totality of taxes that was imposed in the earlier IDT regime? Indeed this will be a tedious task, but I am sure most of the taxes would remain same subject to variance within permissible limits but what is intriguing to me is the rate of GST fixed for supply of services.



Under the erstwhile service tax regime, every service was taxed at 14% + 0.5% Swachha Bharat Cess + 0.5% Krishi Kalyan Cess totalling to 15%. However under the GST regime, services are taxed at 18% making the cost of consumption of service costlier by 3%. Name any service and it is costly for an end user as he / she does not have the benefit of claiming any input credit. If we analyse the monthly budget of a family household we can determine the adverse impact of this.

While compared to tax rates on goods, analysing the tax rates on services is relatively easier as one has to compare 15% with 18% and decide which is greater. It is quite obvious that all the services have become costly for the end user, simple reason being no input tax credit available for common man. Unlike in the case of manufacturers, it's difficult to implement the anti-profiteering measures to a service provider and ask the service provider to pass on the benefits of reduced input cost to the end consumer for the simple reason being – how does one determine the input cost for a service provider?

Definitely taxing services at a higher rate is creating a big hole in common man's pocket. I strongly urge the government to reconsider to tax the services at the old rate of 15% instead of 18%. As it is, GST in the current form is definitely not a single tax rate law, so then why not reduce the burden on common man? Even from a broader economy perspective, mobilising revenue from people through higher rates of indirect taxes is not a healthy symbol, as indirect taxes is always considered a regressive method of taxation while compared to the direct tax.

Irrespective of the criticisms hurled, GST is a positive step

in the right direction. However certain anomalies have to be set right to make this into a more inclusive and growth oriented law and I am confident that there will be enough representations, made through pressure groups, to the government to set right the wrongs.

Ringside View

While I was discussing about GST with a friend of mine, as a matter of constructive criticism of GST, I did mention to him that taxing services at a higher rate causes inconvenience to the common man, to which he shot back **“Who is a common man?”**

Indeed a very tough question. Is it R. K. Laxman's common man? Is it Jaya Prakash Narayan's common man? Or is it Modi's common man? And then on a news channel there was a panellist speaking, where PM Modi was compared to Sardar Vallabhbhai Patel drawing parallel to India's political unification with unification of all indirect taxes into GST and terming it as financial unification of India. It took me a while to process the comparison drawn and then I concluded, India is very much united and unified over the last 70 years and today we need a JP more than a Sardar Patel because we need someone to answer **“Who is a common man?”** and protect the interests of the common man. In the last 3 years tax on services has gone up from 12.36% to 18% and yet not even one politician or a political party has hit the streets because they all are busy in protecting the interests of **“Common Man.”**

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