M/s PRANJAL JOSHI & CO

CHARTERED ACCOUNTANTS

Audit Consulting Tax IFRS Valuation

Newsletter January 2013

Quarterly Newsletter on Finance

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Contents –

CA Pranjal Joshi CA Arti Kirpekar CA Amit Tanpure

Rajiv Gandhi Equity Saving Scheme

SCEHEME OPEN FOR -

a. New retail investors i.e who have opened the Demat A/c but not made any transaction in equity and /or in derivatives till date or who want to open new a/c. and

b. Annual taxable income of such investor must be ≤ Rs. 10 lakhs.

MAX. INVESTMENT AND DEDUCTION –

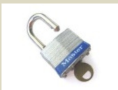
a. The maximum Investment permissible is Rs. 50,000.
b. The investor would get a 50% deduction of the amount invested from the taxable income for that year.

ELIGIBLE INVESTMENT –

a. Investment in Stocks listed under the BSE 100 or CNX 100, or those of public sector undertakings which are Navratnas, Maharatnas and Miniratnas.
d. Follow-on Public Offers (FPOs) of the above companies.
e. IPOs of PSUs, which are getting listed in the relevant financial year and whose annual turnover is not less than Rs. 4000 Crore for each of the immediate past three years.
f. Exchange Traded Funds (ETFs) and Mutual Funds (MFs) that have RGESS eligible securities as their underlying and are listed and traded in the stock exchanges and settled through a depository mechanism.

INVESTMENT IN INSTALLMENTS IS PERMISSIBLE –

a. To benefit the small investors, the investments are allowed to be made in instalments in the year in which tax claims are made.



LOCK IN PERIOD & OTHER CONDITIONS –

a. The total lock-in period for investments under the Scheme would be three years.
b. After the first year, investors would be allowed to trade in the securities in furtherance of the goal of promoting an equity culture and as a provision to protect them from adverse market movements or stock specific risks as well as to give them avenues to realize profits.
c. i. Investors would, however, be required to maintain their level of investment during these two years at the amount for which they have claimed income tax benefit or at the value of the portfolio before initiating a sale transaction, whichever is less, for at least 270 days in a year. The calculation of 270 days includes those days pursuant to the day on which the market value of the residual shares /units has automatically touched the stipulated value after the date of debit.
d. The general principle under which trading is allowed is that whatever is the value of stocks / units sold by the investor from the RGESS portfolio, RGESS compliant securities of at least the same value are credited back into the account subsequently. However, the investor is allowed to take benefits of the appreciation of his RGESS portfolio, provided its value, as on the previous day of trading, remains above the investment for which they have claimed income tax benefit.
e. For the purpose of valuation of shares, the closing price as on the previous day of the date of trading will be considered so that new investors are certain about their debits and credits into the account.
f. In case the investor fails to meet the conditions stipulated, the tax benefit will be withdrawn.

Investment Watch

Tax Free Bonds – Interest exempt u/s 10(15) of Income Tax Act, 1961

Particulars	**India Infrastructure Finance Co Ltd (IIFCL)**
Issue Open date	26 – 12 – 2012
Issue Closing Date	11 – 01 – 2013
Nature of Bonds	Tax free bonds in the nature of secured redeemable non-convertible bonds
Face Value	Rs. 1,000/- each
Interest payment	Annually
Bond Tenure	10 years, 15 years and 20 years
Credit Rating	[ICRA] AAA (Stable), CARE AAA
Minimum Application	Five Bonds (Rs. 5,000)
Coupon Interest Rate	10 yr – 7.19 % 15 yr – 7.36% 20 yr – 7.40% Additional 0.50% for retail investors
Escrow collection Banks	SBI, Kotak Mahindra, Axis, ICICI, Indusind, IDBI, Yes bank and PNB

Know your Income Tax Deductions –

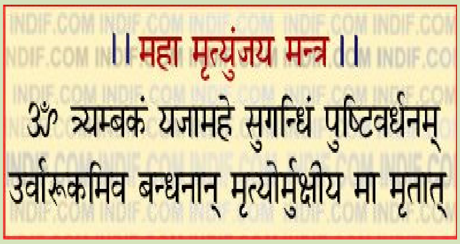
Section 80 D – Mediclaim Insurance Premium

u/s 80 D of The Income Tax Act, 1961 - 100% of premium paid by you towards Mediclaim Policy to cover self, spouse, parents or children is allowable as deduction.

The maximum ceiling of deduction is Rs. 20,000/- in the case of premium paid in respect of senior citizen while in other case it is Rs. 15,000 p.a.

<u>Thus you can avail total Rs. 35,000 (15,000 self & spouse + 20,000 for parents) or Rs. 40,000 (Rs. 20,000 self & spouse + 20,000 for parents) as deduction.</u>

Life



Mahamrityunjaya Mantra is the great mantra for conquering death for it protects against all threats and at the time of death eases the process of release. It is one of the more potent of the ancient mantras, a call for enlightenment and a practice of purifying the karmas of the soul at a deep level. It is beneficial for mental, emotional and physical health.

Taxation News

TDS – Centralised Processing Cell

TDS Centralised Processing Cell - www.tdscpc.gov.in
TRACES – TDS Reconciliation Analysis and Correction Enabling System

- ✓ TDS (Tax Deducted at Source) Centralized Processing Cell (CPC) or TDS CPC is a transformational initiative undertaken by the Income Tax Department (ITD) to enable easy filing of TDS / TCS correction statements by deductors / collectors and related functionalities.

- ✓ TDS CPC endeavors to improve overall service levels for deductors and tax payers. Deductors / collectors can file online correction statements after registering on TRACES.

- ✓ TDS CPC will facilitate timely filing and processing of statements and follow-up with deductors / collectors for rectification of defaults to enable correct reporting of TDS / TCS.

How to use TDS CPC –

- ✓ If you already have a TAN Account in TIN, you can use the existing User Id and Password as in TIN to login to TRACES.

- ✓ However, if you are not able to register on TRACES using existing User Id and Password, you can register as new user on TRACES.

- ✓ If you are not able to register on TRACES using your TIN User Id and Password (for your TAN Account), please register as a new user.

The following functionalities are available to a **deductor** after logging in to TRACES:	The following functionalities are available to a **Tax Payer** after logging in to TRACES:
○ Landing page ○ Dashboard ○ View Challan Status ○ View TDS / TCS Credit ○ PAN Verification ○ View Statement Status ○ Download Consolidated TAN PAN File ○ Request for NSDL Conso file ○ Request for Justification Report ○ Download Form 16 / 16A ○ Manage Profile ○ Add / Edit sub-users for a TAN	○ Landing page ○ View Form 26AS ○ Manage Profile

Partial Reverse Charge Mechanism under Service Tax Law

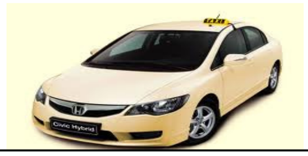
- **What is "Partial Reverse Charge Mechanism" –**
  It is a system whereby the liability of payment of service tax shall be both on the service provider and the service recipient.

- **When Partial Reverse Charge Mechanism is applicable –**
  Partial reverse charge mechanism is applicable to services provided or agreed to be provided by way of –

  (a) renting of a motor vehicle designed to carry passengers on non-abated value to any person who is not engaged in a similar business, or

  (b) supply of manpower for any purpose, or

  (c) service portion in execution of a works contract;



CAR HIRE

  by any individual, Hindu Undivided Family or partnership firm, whether registered or not, including association of persons, located in the taxable territory to a business entity registered as a body corporate located in the taxable territory.

- **Percentages prescribed for making such partial payments are as follows –**

Service Receiver will also Pay Tax directly to Govt.

Description of a service	Percentage of service tax payable by **the person providing service**	Percentage of service tax payable by **the person receiving the service**
Renting of a motor vehicle to carry passengers on non abated value to any person who is not engaged in the similar line of business	60%	40%
Supply of manpower for any purpose	25 %	75 %
Service portion in execution of works contract	50 %	50 %
Supply of Security Services	25 %	75 %

- **Example of Partial Reverse Charge Mechanism and Payment Due Dates –**
  The invoice is issued by Service Provider in July 2012 and the service recipient paid for the same in August 2012, the point of taxation for the service provider will be the date of issue of invoice in July 2012. The point of taxation for the service recipient shall be the date of payment in August 2012.

  The service provider would be required to pay tax (to the extent liability is affixed on him) by 5th/6th August, 2012 or 5th/6th October 2012 depending upon the admissibility of benefit under the proviso to rule 6 of the Service Tax Rules 1994. The service recipient would need to pay tax (to the extent liability is affixed on him) by 5th/6th September 2012.

Domestic Transfer Pricing Regulations
(Income Tax)

Background of Domestic Transfer Pricing –

- ✓ Transfer pricing regulations introduced in India in 2001, till very recently covered only cross border related party transactions.
- ✓ The Finance Act, 2012 however, has extended its scope to cover certain domestic transactions with related parties within India, defined as 'Specified Domestic Transactions'.
- ✓ The Supreme Court in the case of CIT vs Glaxo Smithkline Asia Pvt Ltd [2010-195Taxman 35 (SC)] recommended introduction of domestic TP provisions.
- ✓ Under Domestic Transfer Pricing there is Shift from generic Fair Market Value concept to focused "Arms Length Price" concept.

Objective of Domestic Transfer Pricing –

- ✓ The basic objective is to ensure that the pricing of the Specified domestic transactions will need to comply with the arm's length principle by application of one of the prescribed methods.
- ✓ Thus merely by shifting income from profit making company to loss making company or transferring expenditure to profit making company, group as a whole can not avoid / reduce tax liability.

Applicability and Coverage – "Specified Domestic Transactions" –

- ✓ It would be applicable to transactions entered into w.e.f. 1 April 2012.
- ✓ The following transactions with the aggregate value exceeding 5 crores p.a. are covered –

  - o Expenditure for which payment is made or to be made to specified domestic related parties.
  - o Transfer of goods or services to/from eligible business (tax holiday undertaking) from/to other business (non-tax holiday undertaking).
  - o Business transactions between eligible business (tax holiday unit) and other person(s) producing more than ordinary profits owing to close connection.

Who are Related parties –

- ✓ Related Party is as per Sec 40 A(2)(b).
- ✓ Thus, it includes husband, wife, brother, sister, lineal ascendant or descendant for Individual, Director or relative of Director for Co, Any Partner or relative of Partner for firm, any individual having substantial interest in the assessee's business or relative of such individual.

Examples of Transactions few very common e.g. can given as follows –

- ✓ Salary and Bonus payment to partners
- ✓ Normal Operating Expenses
- ✓ Royalty Payments
- ✓ Remuneration to Directors
- ✓ Project Management Fees
- ✓ Allocation of costs

Methods of Determining Arm's Length Price –

The Arm's Length Price has to be determined applying any of the prescribed methods

- ✓ Comparable Uncontrolled Price Method (CUP)
- ✓ Resale Price Method (RPM)
- ✓ Cost Plus Method (C+)
- ✓ Profit Split Method (PSM)
- ✓ Transactional Net Margin Method (TNMM)
- ✓ Or any other method as prescribed by the Central Board of Direct Taxes

Suggestive Steps to be taken to ensure proper compliance –

- ✓ To Identify the relationship between domestic related parties specified u/s 40A(2)(b).
- ✓ To identify the Specified Domestic Transactions (SDT).
- ✓ To determine the pricing mechanism applied for SDT applying the most appropriate prescribed methods.
- ✓ To prepare in advance so that the systems can be actually implemented in F.Y. 2012-13.

Applicable Compliances & Penalty Provisions –

- ✓ Maintain requisite information and documents as prescribed;
- ✓ Obtain and furnish a prescribed report from an Accountant in Form 3CEB and submit before due date (currently 30th November).
- ✓ Penalty Provisions are as follows –

Nature of Default	**Applicable Penalty**
Failure to maintain documents	2% of the value of the transaction
Failure to furnish documents	2% of the value of the Transaction
Failure to report a transaction in Accountant's report	2% of the value of the transaction
Maintaining or furnishing incorrect information or Documents	2% of the value of the transaction
Adjustment for incorrect Pricing	100% to 300% of the additional tax payable

Future Outlook

Basel III Norms

Background of Basel III –

The Basel Committee on Banking Supervision (BCBS) issued a comprehensive reform package entitled "*Basel III* in December 2010. The main objective is to improve the banking sector's ability to absorb shocks arising from financial and economic stress so as to reduce the risk of spill over from the financial sector to the real economy.

Main Features of Basel III –

- ✓ Improving the Quality, Consistency and Transparency of the Capital Base (under Basel III, with a view to improving the quality of capital, the Tier 1 capital will predominantly consist of Common Equity.)
- ✓ Enhancing Risk Coverage (in addition to coverage of the risk of default of the counterparty, an additional capital charge for Credit Value Adjustment (CVA) risk which captures risk of mark-to-market losses due to deterioration in the credit worthiness of a counterparty is also to be covered)
- ✓ Enhancing the Total Capital Requirement and Phase-in Period (Minimum Common Equity Tier 1 capital should become 4.5 % of Risk Weighted Assets (RWAs) by 2015. Further, banks will also be required to hold a capital conservation buffer of 2.5% of RWAs in the form of Common Equity)
- ✓ Supplementing the Risk-based Capital Requirement with a Leverage Ratio (bank's total assets (incl. on and off balance sheet assets should not be more than 33 times bank's capital)
- ✓ Increased stable long term balance sheet funding (Net stable funding ratio is designed to encourage and incentivize banks to use stable sources to fund their activities to reduce the dependency on short term wholesale funding)

Short term Likely Impacts on Banks –

- ✓ Under adverse economic conditions, the weaker banks may find it difficult to raise the required capital.
- ✓ Due to increased capital requirements, increased cost of funding and the need to reorganize and deal with regulatory reform may put pressure bank's margins.
- ✓ With the requirement to increase capital, lending capacity of banks may get reduced.

Implementation in India –

- ✓ However recently RBI has postponed implementation date to 1st April, 2013 instead of earlier announced date of 1st January, 2013.

Introduction to XBRL

Introduction to XBRL

- XBRL stands for e**X**tensible **B**usiness **R**eporting **L**anguage. It is a language for the electronic communication of business and financial data.

- Under XBRL, all individual items requiring disclosure in the financial statements are assigned unique, electronically readable tags, which are mapped to taxonomies that are being developed by the accounting standard setters or the regulators etc. which are available in public domain.

- XBRL makes the data readable with the help of two documents – the *taxonomy* and the *instance document*.

- **Taxonomies** are dictionaries that contain the terms used in the financial statements and their corresponding XBRL tags, while **Instance document** is a business report in an electronic format created according to the rules of the XBRL.

- In India, the taxonomy has been developed by the Ministry of Corporate Affairs (MCA), based on the requirements of:
  - Schedule VI of Companies Act;
  - The Accounting Standards; and
  - SEBI Listing requirements.

XBRL filing for MCA compliance

- The Ministry of Corporate Affairs, Government of India, *vide* its General Circular No. 37/2011, dated June 07, 2011 has required the following class of companies (except banking companies, insurance companies, power companies and the Non Banking Financial Companies) to file the financial statements in XBRL form only from the year 2010 – 2011:

  - All companies listed in India and their Indian subsidiaries;

  - All companies having a paid up capital of Rs 5 crore and above; and

  - All companies having a turnover of Rs 100 crore and above.

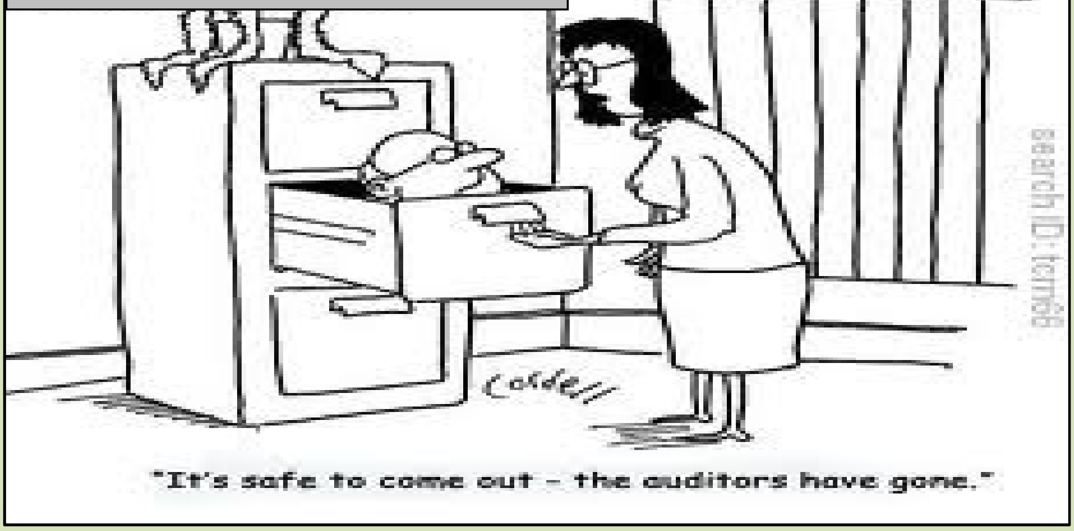
- Currently, as per General Circular No. 16/2012 dt. 6th July, 2012 Ministry has mandated above mentioned companies again to file their financial statements in XBRL mode for FY 2011-12 as well.

- Further, MCA has stated in its implementation approach of XBRL, that "It is proposed to include all companies in a phase-wise manner to file their Balance Sheet and Profit and Loss account statements in XBRL from Financial Year 2011-12 onwards." Further it has also stated that "Cost Audit Report and Compliance Report from eligible companies as per Cost Accounting Record Rules, 2011 would be captured from FY 2011-12 onwards."

<u>Steps involved in preparation of XBRL based financial statements –</u>

- Obtaining audited financial statements.
- These audited financial statements would preferably be in Excel and/ or Word format.
- Preparation of the source document based on the audited financial statement for XBRL conversion.
- Mapping the source document to the Target Taxonomy as mandated by MCA.
- Validating the mapped document to create instance document.
- Eliminating errors arising out of validation based on error logs.
- Approval of Instances and mapping by the Board of Directors before creating XBRL instance document.
- Creating XBRL instance document.
- Validation of the XBRL instance document by the management using the tool provided by the MCA before filing with the Office of the Registrar of Companies (ROC).

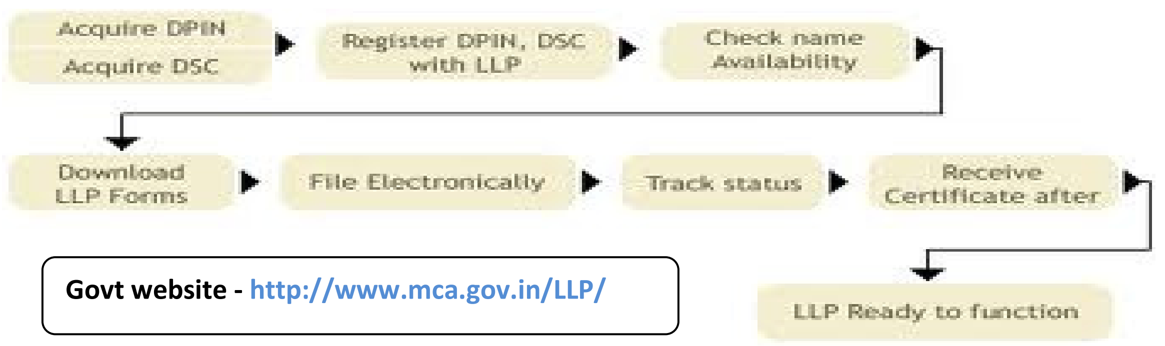
Laughter corner !



Limited Liability partnership (LLP) – As a form of Doing Business

Basic Information about LLP (Limited Liability partnership)

- Applicable legislation for LLP is Limited Liability Partnership Act, 2008 which was enacted on January 7, 2009.
- "Limited Liability Partnership" means a partnership formed and registered under LLP Act.
- "Limited liability partnership agreement" means any written agreement between the partners of LLP or between the LLP and its partners which determines the mutual rights and duties of the partners and their rights and duties in relation to that LLP.
- LLP shall have at least two "designated partners" who are individuals and at least one of them shall be "resident in India"(i.e. who has stayed in India for minimum 182 days during the immediately preceding 1 year.)
- Designated partner need to obtain Designated Partner Identification Number [DPIN] and is responsible for compliance with the provisions of LLP Act.
- For Incorporation of LLP applicants are required to obtain the name from the Registrar of Companies. Once the name is approved by the ROC, the documents for incorporation need to be filed.
- LLP agreement is be filed within 30 days of incorporation of LLP.
- LLP, being a separate legal entity, shall be liable to the full extent of its assets whereas the liability of the partners of LLP shall be limited to their agreed contribution in the LLP.
- LLP can maintain its accounts on cash or accrual basis.
- LLP are required to file each year, Statement of Account and Solvency within 30 days from the end of 6 months of the financial year and Annual return within 60 days from the end of the financial year.
- LLPs may be wound-up either voluntarily or by National Company Law Tribunal.

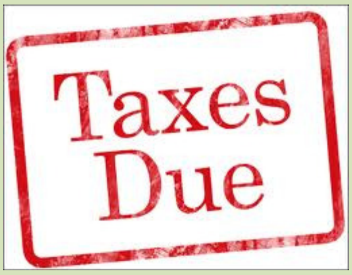


Govt website - http://www.mca.gov.in/LLP/

Advantages of LLP over Traditional Partnership and Pvt. Ltd. Co. –

- ✓ Unlike partnership, LLP is a legal entity separate from its partners, having perpetual succession.
- ✓ Under LLP, there is no personal Liability of partner, except in case of fraud.
- ✓ The cost of formation of an LLP is comparatively lesser than the formation of the Company.
- ✓ Death of Partner dissolves a firm, in absence of agreement. But, Death of Partner does not dissolve LLP.
- ✓ Maximum twenty partners are allowed under Partnership, but under LLP there is no limit on maximum number of Partners.
- ✓ Unlike partnership, Only designated partners are liable for statutory compliances.
- ✓ Every partner of LLP is a agent of LLP but not of other partners. Thus, he can bind LLP by his acts but not other partners.
- ✓ Foreign nationals can not form Partnership firm in India. But Foreign Nationals can be a Partner in a LLP.
- ✓ Companies need to hold certain meeting but there is no provision for LLP in regard to holding of any meeting.
- ✓ In case of co, there are restrictions on Board regarding some specified contracts, in which directors are interested. But in case of LLP Partners are free to enter into any contract.
- ✓ Companies have to mandatorily comply with accounting standards but the necessary rules in regard to the application of accounting standards for LLP are not yet issued.

Due Date Diary !



Income Tax	Vat	Service Tax
TDS Payments – 7th January, 7th February and 7th March **TDS Return –** 15th January **Advance Income Tax –** 15th March	**Vat Payment (for monthly filers) –** 21st January, 21st February and 21st March **Audit Report 704 –** 15th January	**Service Tax Payment –** 5th January & 31st March (for Individuals & partnership Firms) 5th January, 5th February and 31st March (for other assesses)

Important TDS Rates for A.Y. 2012 – 13 (F.Y. 2011 – 12)

Sr. No.	Section & Particulars	Rate of Tax
01	192 Payment of Salary	At normal rate as per slabs
02	194 Interest (other than Interest on Securities)	10 %
03	194C Payment to Resident Contractor & Sub contractor	Individual / HUF 1 % Other 2 % Transport Operator furnishing PAN 0 % Otherwise 20%
04	194 D Insurance commission to Residents	10 %
05	194 EE Payment of Deposit under NSS	Resident Individual 20% NRI 20.60%
06	194 H Commission or Brokerage	10%
07	194 I Rent for land & Building or Plant & Machinery	Plant & Machinery 2% Land, Building & Furniture 10%
08	194 J Payment of Professional Fees	10%
09	195 Payment to Non Resident	As per applicable — DTAA or as per Part-II of Sch. I of the Finance Act, whichever is beneficial to the assessee.

No Tax to be deducted, if –

a. Sec 192 – Salary is less than maximum exemption limit for the year
b. Sec 194 – Interest p.a. is less than Rs. 10,000 p.a.
c. Sec 194 C – Payment to contractor is less than Rs. 30,000 per contract or Rs. 75,000 for aggregate contracts p.a.
d. Sec 194 D – Insurance commission is less than Rs. 20,000 p.a.
e. Sec 194 EE – NSS amount is less than Rs. 2,500 p..a.
f. Sec 194 H – Commission or Brokerage is less than Rs. 5,000 p.a.
g. Sec 194 I – Rent paid is less than Rs. 1,80,000 p.a.
h. Sec 194 J – Professional Fees paid are less than Rs. 30,000 p.a.

Do you Know ?

As per section 206AA persons making the payments which attract the TDS provisions must obtain the PAN from the payee, otherwise:

- ✓ Tax is required to be deducted by the payer at the higher of following rates:
  — at the rate specified in the relevant provision of this Act
  — at the rate(s) in force
  — at the rate of 20%
- ✓ Even persons furnishing Form 15H or 15G for non-deduction of tax at source MUST provide their PAN in such declaration, else it is void
- ✓ Certificates u/s 197 issued by the department, for lower or NIL deduction will be issued, only if PAN is provided, else application is void
- ✓ Incorrect PAN will render submission as null and void hence insist on Copy of PAN or Scanned image of PAN.

Important web Links –

Income Tax Websites	www.incometaxindia.gov.in
	https://incometaxindiaefiling.gov.in
	www.tdscpc.gov.in
Service Tax Websites	www.cbec.gov.in
	www.aces.gov.in
Maharashtra Vat Website	www.mahavat.gov.in
Reserve Bank of India	www.rbi.org.in
Securities and Exchange Board of India	www.sebi.gov.in
Ministry of Company Affairs (ROC)	www.mca.gov.in
Foreign Contribution Regulation Act	www.mha.nic.in
Professional Bodies	www.icai.org
	www.icsi.in
	www.icwai.org
Maharashtra Co-operative Dept.	https://sahakarayukta.maharashtra.gov.in/SITE/Home/Home.aspx
Right to Information Act	http://righttoinformation.gov.in

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