EXCEL COMMERCE ACADEMY PRIVATE LIMITED
E-96, Kalpatru Shopping Centre, Behind Rathi Hospital, Jodhpur - 342 003 (Rajasthan)
Telephone No. : 0291-2772323 CIN : U80302RJ2009PTC028610
E-mail : excelacademyjodhpur@rediffmail.com Web : www.excelcommerceacademy.com

UPDATE
On
Paper 4: Taxation
of
CA (IPC) Examination to be held in May, 2017

INDEX

PART (A) - DIRECT TAX

Note: These amendments <u>are already incorporated</u> at relevant places in our book for AY 2017-18.

COMPUTATION OF TOTAL INCOME

The income-tax law requires computation of total income of every person. The total income can be computed as under:

Taxable income from salary	Section 15 to 17	XXX
Taxable income from House-Property	Section 22 to 27	XXX
Taxable income from B/P/V	Section 28 to 44DB	XXX
Taxable income from Capital Gain	Section 45 to 55A	XXX
Taxable income from Other Sources	Section 56 to 59	XXX
Gross Total Income		XXX
Less: Deductions under Chapter VI-A	Section 80C to 80U	XXX
Total Income		XXX
Rounded off (in the nearest multiple of Rs. 10/-)	Section 288A	XXX

Note: While computing total income, (i) Only those incomes which fall within the "scope of total income" u/s 5 to 9 shall be included. (ii) Incomes which are exempted under Chapter III (i.e. section 10 to 13B) shall not be included, (iii) the clubbable incomes shall be included under the respective heads as per section 60 to 65, (iii) the undisclosed incomes shall be included under the respective heads as per section 68 to 69D and (iv) the losses shall be set off / carried forward as per section 70 to 80.

COMPUTATION OF TAX LIABILITY

The tax liability shall be computed on total income as under --

Basic tax on income chargeable at special rates	XXX
Basic tax on income chargeable at normal rates ***(If the assessee is an individual, HUF, artificial juridical person, AOP or BOI, agricultural income shall be considered for rate purpose).***	XXX
Total Basic Tax	XXX
Less: Rebate u/s 87A	XXX
Add : Surcharge	XXX
Less: Marginal relief of surcharge (MRS)	XXX
Basic tax + Surcharge	XXX
Add: Education Cess @ 2% of (Basic tax + Surcharge)	XXX
Add: Secondary and Higher Education Cess @ 1% of (Basic tax + Surcharge)	XXX
Tax before Relief	XXX
Less: Relief u/s 89	XXX
Regular Tax	XXX

<u>BASIC TAX ON INCOMES CHARGEABLE AT SPECIAL RATES:</u>

Certain incomes are chargeable at the special rates. A brief discussion of these incomes is given below:

	Section	**Nature of income**	**Tax Rate**
	111A	Short-term capital gain on transfer of equity shares or equity oriented mutual funds which has suffered STT	15%
	112	Tax on long-term capital gain	10% / 20%
	115BB	Tax on Seven Special Incomes (i.e. casual incomes)	30%
	115BBDA	Tax on dividend from a domestic company covered u/s 2(22)(a),(b),(c),(d) in excess of Rs. 10,00,000 in a previous year	10%
	115BBE	Tax on deemed income of section 68, 69,69A, 69B, 69C and 69D	30%

BASIC TAX ON INCOMES CHARGEABLE AT NORMAL RATES:

Incomes, other than those which are chargeable at special rates, shall be taxable at the normal rates. Such normal rates of tax are given below. Please note that there is no change in normal rates of tax from AY 2016-17 to 2017-18 ***except in the case of a domestic company***.

Assesses		Amount of income	Tax rate
Normal individual – (i.e. other than those individuals who are covered under special categories discussed below)		**First 2,50,000**	**Nil**
		2,50,001 to 5,00,000	10%
		5,00,001 to 10,00,000	20%
		Balance	30%
Senior resident individual (male or female) (a resident male or female aged 60 years or more but less than 80 years at any time during the previous year)		**First 3,00,000**	**Nil**
		3,00,001 to 5,00,000	10%
		5,00,001 to 10,00,000	20%
		Balance	30%
Very senior resident individual (male or female) (a resident male or female aged 80 years or more at any time during the previous year)		**First 5,00,000**	**Nil**
		5,00,001 to 10,00,000	20%
		Balance	30%
HUF		**First 2,50,000**	**Nil**
		2,50,001 to 5,00,000	10%
		5,00,001 to 10,00,000	20%
		Balance	30%
Artificial Juridical Person (AJP)		**First 2,50,000**	**Nil**
		2,50,001 to 5,00,000	10%
		5,00,001 to 10,00,000	20%
		Balance	30%
AOP / BOI	If the situation is covered u/s 167B	MMR or Higher Rate	
	If the situation is not covered u/s 167B	**First 2,50,000**	**Nil**
		2,50,001 to 5,00,000	10%
		5,00,001 to 10,00,000	20%
		Balance	30%
Co-operative Society		**First 10,000**	**10%**
		10,001 to 20,000	20%
		Balance	30%
Partnership firm (including a Limited Liability Partnership)		Any amount	30%
Local authority		Any amount	30%
Domestic company	A domestic company not covered u/s 115BBA, but the *total turnover or gross receipts of company in the Previous Year 2014-15 does not exceed Rs. 5 crore*	Any amount	29%
	Any other domestic company	Any amount	30%
Foreign company		Any amount	40%

REBATE U/S 87A:

- ✓ This rebate is allowed only to a **resident individual** whose **total income does not exceed Rs. 5,00,000/-**.
- ✓ The amount of rebate shall be Rs. 5,000/- or income-tax on total income, *whichever is less*. In other words, the maximum amount of rebate shall be Rs. 5,000/-.
- ✓ The rebate shall be allowed in all cases. To clarify further, the rebate shall be allowed even if the total income includes special incomes such as long-term capital gain, short-term capital gain u/s 111A etc. However, there is a view that this rebate shall not be allowed against casual income.

SURCHARGE:

The rates of surcharge have been changed. The new rates are as under:

Assesses	Total income upto Rs. 1 Crore	Total income exceeding Rs. 1 Crore but not exceeding Rs. 10 Crore	Total income exceeding Rs. 10 Crore
Individual, HUF, AJP, AOP, BOI	0%	15%	15%
Co-operative society, firm (including LLP), local authority	0%	12%	12%
Domestic company	0%	7%	12%
Foreign company	0%	2%	5%

MARGINAL RELIEF OF SURCHARGE (MRS):

Marginal relief of surcharge is allowed in appropriate situations. The marginal relief is based on the concept that the '**incremental tax**' should not exceed '**incremental income**'.

EDUCATION CESS:

All assessee are liable to pay Education Cess @ 2%.

SECONDARY & HIGHER EDUCATION CESS:

All assessee are liable to pay Secondary & Higher Education Cess @1%.

RATES OF TDS

The rates of TDS are not given here. Please refer the chapter titled "TDS" in our book. However, the amendments in TDS rates and TDS provisions shall be discussed later.

DEFINITIONS

Section 2(14) amended:

- ❖ This section defines the term **"Capital asset"**.
- ❖ The amendment seeks to exclude **"Deposit certificates issued under the Gold Monetisation Scheme, 2015"** from the definition of "Capital asset".
- ❖ Thus, the capital gain arising from transfer / maturity of **"Deposit certificates issued under the Gold Monetisation Scheme, 2015"** shall not be taxable.

Note: The amendments in section 2(14) and 10(15) should be read together.

Section 2(23C) inserted:

- ❖ The amendment seeks to insert definition of **"hearing"**.
- ❖ Accordingly, **"hearing"** includes communication of data and documents through electronic mode.
- ❖ This definition has been introduced in order to enable E-hearing and paperless proceedings in income-tax.
- ❖ Please note that the definition is inclusive. Hence physical hearing is also included in the definition of **"hearing"**.

Section 2(24) amended:

- This section prescribes the definition of **“income”.**

- Under the existing law, “income” includes *“assistance in the form of a subsidy or grant or cash incentive or duty drawback or waiver or concession or reimbursement (by whatever name called) by the Central Govt. or a State Govt. or any authority or body or agency in cash or kind to the assessee other than the subsidy or grant or reimburshment which is taken into account for determination of the actual cost of asset under Explanation 10 to section 43(1)”.*

- Thus, under the existing law of section 2(24):
  - (i) if the *subsidy / grant / cash incentive / duty drawback / waiver / concession / reimbursement* is relatable to the acquisition of a **depreciable asset**, it shall be deducted in computing cost of asset under Explanation 10 to section 43(1). Hence it will not be treated as income u/s 2(24).
  - (ii) any other *subsidy / grant / cash incentive / duty drawback / waiver / concession / reimbursement* shall be taxable as income of assessee.

- The above law of section 2(24) is also supported by **ICDS-VII**.

- Due to above provisions of section 2(24) read with ICDS-VII, the trusts and institutions which receive subsidy / grant from Govt. are facing problem of taxation because such subsidy / grant becomes taxable as “income”.

- Now, the amendment seeks to grant relaxation to some extent. The amendment provides that the **subsidy or grant given by the Central Govt.** for the purpose of the **corpus of a trust or institution established by the Central Govt. or a State Govt.** shall not be treated as “income”.

- Please read the language carefully. If the subsidy or grant is given by the State Govt., the benefit of amendment shall not be available.

Section 2(42A) amended:

- This section prescribes holding period for the purpose of ascertaining long-term or short-term nature of a capital asset / capital gain.

- The existing law prescribes either 12 months or 36 months criterion in this regard.

- The amendment seeks to prescribe a new criterion of **24 months** for the purpose of **shares of a company which are not listed in any recognised stock exchange in India (i.e. unlisted shares)**.

- Thus, if the **unlisted shares** of a company are held **upto 24 months**, the capital asset/capital gain shall be treated as **short-term** and if such unlisted shares are held for **more than 24 months**, the capital asset/capital gain shall be **long-term**.

RESIDENTIAL STATUS

Notification No. 70/2015, dated 17.8.2015:

- Explanation 2 to Section 6(1) prescribes that in the case of an individual, being a citizen of India and a member of the crew of a foreign bound ship leaving India, the period or periods of stay in India shall, in respect of such voyage, be determined in the prescribed manner.

- Accordingly, the CBDT has prescribed that in the case of an individual, being a citizen of India and a member of the crew of a ship, the period or periods of stay in India shall, in respect of an eligible voyage, **not include** the period commencing from the date entered into the Continuous Discharge Certificate in respect of joining the ship and ending on the date entered into the Continuous Discharge Certificate in respect of signing off.

- Here “Continuous discharge certificate” shall have the same meaning as in Merchant Shipping Act, 1958.

- Further “Eligible voyage” means a voyage undertaken by a ship engaged in the carriage of passengers or freight in international traffic where –
  (i) for the voyage having originated from any port in India, has as its destination any port outside India; and
  (ii) for the voyage having originated from any port outside India, has as its destination any port in India.

Section 9(1)(i) amended:

- Under this section, any income accruing or arising through or from any **business connection in India**, or through or from any property in India, or through or from any asset or source of income in India, or through the transfer of a capital asset situated in India, is deemed to accrue or arise in India.

- The amendment seeks to provide that in the case of a **foreign company** engaged in the business of **mining of diamonds**, no income shall be deemed to accrue or arise in India to it through or from the activities which are **confined to the display of uncut and unasserted diamond in any special zone notified by the Central Govt.**

Section 9A amended:

- The amendments are not so important for students.

EXEMPTIONS

Section 10(12A) inserted and 80CCD amended:

- Under the existing law, any payment received from **NPS** on closure or opting out is fully taxable in the hands of recipient (i.e. the assessee or his nominee, as the case may be).

- Section 10(12A) has been inserted to provide that any amount received by an **employee** from NPS on account of closure or opting out shall be exempted to the extent of **40%** of the total amount receivable from NPS at the time of opting out or closure.

- Simultaneously, section 80CCD has also been amended to provide that the amount received by nominee of assessee on death of the assessee (the assessee may be an employee or self-employed person) shall be fully exempt.

- Thus, we can summarise the treatment of **amount standing in NPS** together with interest thereon, in different situations, as under:

Sl.	**Situation**	**If the assessee is an employee**	**If the assessee is a self-employed person**
1	If lump sum amount is received by assessee from NPS (on closure of NPS or opting out of NPS)	***40% Exempt:*** Exempt to the extent of 40% of the total amount receivable from NPS at the time of opting out or closure u/s 10(12A).	Fully taxable.

			60% taxable: Hence 60% portion shall be taxable.	
	2	If lump sum amount is received by a nominee (on death of assessee) from NPS	Fully exempt.	Fully exempt.
	3	If pension is received from NPS	Fully taxable	Fully taxable
	4	If the amount standing in NPS is used for purchasing any annuity plan in the same previous year.	Exempt	Exempt
	5	If pension is received from annuity plan	Taxable	Taxable

Section 10(13) amended:

- Under the existing law, any payment received by an employee from superannuation fund is taxable except in some situations as prescribed in section 10(13).

- The amendment seeks to provide that if the superannuation amount is transferred to NPS, it shall be fully exempt.

Section 10(15) amended:

- The amendment seeks to provide that the **interest on "Deposit certificates issued under Gold Monetisation Scheme, 2015"** shall be exempt.

Note: The amendments in section 2(14) and 10(15) should be read together.

Section 10(23FC) amended:

- Under the existing law of section 10(23FC), income of a Business Trust by way of interest from SPV is exempted.

- The amendment seeks to split section 10(23FC) in two parts, viz. 10(23FC)(a) and 10(23FC)(b). Now, the amended language provides as under:

  - ✓ Section 10(23FC)(a) – Income of a Business Trust by way of interest from SPV shall be exempted.

  - ✓ Section 10(23FC)(b) – Income of a Business Trust by way of dividend from SPV covered u/s 115-O(7), shall be exempt.

- Logic of amendment – It may be noted that section 115-O has been amended by way of insertion of 115-O(7), under which any SPV paying dividend to BT has been exempted from levy of CDT (if certain conditions are satisfied). Now, due to removal of CDT on SPV, the dividend received by BT from SPV, does not remain eligible for exemption u/s 10(34). In other words, the dividend covered u/s 115-O(7) becomes taxable in the hands of BT. But the Parliament wants to exempt dividend in the hands of BT, as an incentive measure, despite non-payment of CDT by SPV. Hence, the Parliament has exempted such dividend covered u/s 115-O(7) in the hands of BT through section 10(23FC)(b).

Note: The amendments in section 10(23FC), 10(23FD) and 194LBA(1)/(2) should be read together.

Section 10(23FD) amended:

❖ Under the existing law, any income received by a unit holder from the business trust is exempted except the proportion of the income which is of the nature covered u/s **10(23FC) or 10(23FCA)**.

❖ With the split of section 10(23FC) in two parts, viz. 10(23FC)(a) and 10(23FC)(b), the section 10(23FD) has also been amended.

❖ The amendment seeks to provide that the income received by a unit holder from the business trust shall be exempt except the proportion of the income which is of the nature covered u/s **10(23FC)(a) or 10(23FCA)**.

❖ The effect of amendment is that the portion of income which is of the nature covered u/s **10(23FC)(b)** shall remain exempted in the hands of unit holders.

Note: The amendments in section 10(23FC), 10(23FD) and 194LBA(1)/(2) should be read together.

Section 10(34) amended:

❖ This section grants exemption to dividend earned by an assessee from a domestic company which has suffered CDT u/s 115-O i.e. the dividend covered u/s 2(22)(a),(b)(c),(d).

❖ The amendment seeks to provide that any **dividend covered u/s 115BBDA** shall not be exempt.

❖ Thus, we can summarise the treatment of dividend income, in different situations, as under:

<table>
<tr><th colspan="2">Situation</th><th>Treatment for shareholder</th></tr>
<tr><td rowspan="2">Dividend received from a domestic company covered u/s 115-O

[i.e. the dividend of the nature covered u/s 2(22(a)/(b)/(c)/(d)]</td><td>Section 115BBDA is applicable

[i.e. total dividend in excess of Rs. Rs. 10 lakh received by an individual/ HUF/firm (resident in India) from one or more domestic companies during a previous year]</td><td>• Dividend in excess of Rs. 10 lakh is taxable.
• Expenditure incurred for earning this dividend shall not be allowed.
• No loss can be set off against this dividend.
• Taxable @ 10%.
• MANCT is not allowed.</td></tr>
<tr><td>Section 115BBDA is not applicable</td><td>Exempt u/s 10(34)</td></tr>
<tr><td colspan="2">Dividend received from a domestic company not covered u/s 115-O [i.e. Dividend of the nature covered u/s 2(22)(e)]</td><td>Taxable</td></tr>
<tr><td colspan="2">Dividend received from a foreign company</td><td>Taxable</td></tr>
<tr><td colspan="2">Dividend received from a co-operative society</td><td>Taxable</td></tr>
</table>

Section 10(35A) amended:

❖ This section has been closed from 01.06.2016.

Section 10(38) amended:

❖ This section grants exemption to long-term capital gain arising from transfer of (i) equity shares in a company, or (ii) units of an equity oriented mutual fund, or (iii) units of a business trust (i.e. REIT or ITT), if the transaction of sale of equity shares or equity oriented mutual fund or units of a business trust **(i.e. REIT or ITT)** has suffered **Securities Transaction Tax (STT)**.

- ❖ In order to encourage growth of International Financial Service Centres (IFSC), it is now provided that the condition of STT payment shall not be applicable if the transaction of sale has been undertaken in a recognized stock exchange located in any International Financial Service Centre (IFSC) and the consideration for transaction is paid or payable in foreign currency.

- ❖ Hence, the effect is that the long-term capital gain arising from transfer of (i) equity shares in a company, or (ii) units of an equity oriented mutual fund, or (iii) units of a business trust (i.e. REIT or ITT) undertaken in a recognized stock exchange located in any International Financial Service Centre (IFSC) and the consideration for transaction is paid or payable in foreign currency, shall be exempt even if it has not suffered **Securities Transaction Tax (STT)**.

Note: The amendments in section 10(38) and 111A should be read together.

Section 10(48A) inserted:

- ❖ This section has been inserted to grant 100% exemption to any income accruing or arising to a **foreign company** on account of **storage of crude oil in a facility in India and sale of crude oil therefrom to any person resident in India**.

- ❖ The exemption shall be allowed if two conditions are satisfied, viz. (i) the storage and sale is pursuant to an agreement or arrangement entered into by the Central Govt. or approved by the Central Govt., and (ii) the foreign company and the agreement / arrangement are notified by the Central Govt. for the purpose of this section.

Section 10(50) inserted:

- ❖ This section has been inserted to grant 100% exemption to any income arising to any person from any **"specified service"** which has suffered **Equalisation Levy** *(Popularly called **"Google Tax"**)* under **Chapter VIII of the Finance Act, 2016**.

Note: The amendments in section 10(50) and 40(a) should be read together.

Section 10AA amended:

- ❖ This section grants exemption to SEZ units.

- ❖ The Govt. wants to close this section. Hence it is provided that the exemption u/s 10AA shall be allowable upto AY 2020-21 only.

INCOME FROM SALARY

Section 17(2) amended:

- ❖ This section prescribes definition of "perquisite".

- ❖ Under the existing law, any contribution made by employer to the **Approved Superannuation Fund** of employee is exempted upto Rs. 1,00,000 in a year. Excess contribution is taxable as perquisite.

- ❖ The amendment seeks to enhance exemption-limit from Rs. 1,00,000 to Rs. 1,50,000/-.

INCOME FROM HOUSE PROPERTY

Section 24(b) amended:

- ❖ This section grants deduction of interest on borrowed capital for house property.

- ❖ Under the existing law, if the property or part of the property is covered u/s 23(2) [i.e. Self-occupied property for residence by assessee], the deduction of interest is restricted to Rs. 30,000/-. But there is a provision of extended limit of Rs. 2,00,000/- if certain conditions are satisfied, viz. (i) the capital is borrowed on or after 01.04.1999, (ii) the borrowal is for acquisition or construction of property, (iii) the acquisition or construction is completed within 3 years from end of the financial year in which the capital has been borrowed, and (iv) the assessee submits a certificate of money lender with the Return of Income.

- ❖ The amendment seeks to extend the present limit of 3 years to 5 years for completion of acquisition or construction.

Section 25A substituted:

- ❖ Presently, section 25AA contains provision for taxation of "recovery of unrealized rent" and section 25B contains provision for taxation of "recovery of arrears of rent". Further, section 25AA does not allow any kind of deduction but section 25B allows standard deduction @ 30%.

- ❖ In order to simplify law, the present section 25AA and 25B have been merged into a new section 25A.

- ❖ The features of new section 25A are as under:
  - ✓ This single section would apply to both types of recoveries, viz. (i) recovery of unrealized rent and (ii) recovery of arrears of rent.
  - ✓ The recovery shall be taxable under the head "Income from House-Property".
  - ✓ The "Income from House-Property" head shall apply irrespective of whether or not the assessee is owner of concerned property in the previous year in which recovery is made.
  - ✓ A standard deduction of 30% is allowed shall be allowed in both cases, viz. (i) recovery of unrealized rent, as well as (ii) recovery of arrears of rent. **Please note this is a very important point.**
  - ✓ Any expenditure incurred by assessee for the purpose of recovery shall not be allowed as deduction.

INCOME FROM BUSINESS OR PROFESSION

Section 28(va) amended:

- ❖ Under the existing law, any sum, received or receivable, by an assessee under an agreement for—
  (a) not carrying out any activity in relation to any "**business"**; or
  (b) not sharing any know-how, patent etc.
  is taxable under the head "Income from Business or Profession".

- ❖ Thus, under Point No. (a), the non-compete fee received for not carrying out any "business" is taxable but the non-compete fee received for not carrying out any "profession" is not taxable.

- ❖ The amendment seeks to amend the language of (a) so as to make it **"business or profession"**.

- ❖ The effect of amendment is that the non-compete fee received or receivable in relation to business as well as profession shall be taxable as **"Income from Business or Profession".**

Note: The amendments in section 28(va) and 55 should be read together.

Section 32(1)(iia) amended:

- This section allows deduction of additional depreciation.
- Under the existing law, the deduction of additional depreciation is allowed to any assessee engaged in (i) the business of manufacture or production of any article or thing, or (ii) the business of **generation or generation and distribution** of power.
- After amendment, the deduction of additional depreciation shall be allowable to any assessee engaged in (i) the business of manufacture or production of any article or thing, or (ii) the business of **generation or transmission or distribution** of power.

Section 32AC amended:

- This section grants deduction @ 15% of investment made in eligible plant and machinery during the period 01.04.2014 to 31.03.2017.
- Under the existing law, the deduction is allowable only if the investment in eligible plant and machinery **acquired and installed in one previous year** exceeds Rs. 25 Crore.
- Thus, the existing law requires not only acquisition but also installation of eligible plant and machinery in the one previous year. Otherwise deduction is not allowed. This has caused problems to many assessees who have acquired eligible plant and machinery exceeding Rs. 25 crore in a previous year, but are not able to install such plant and machinery in the same previous year.
- Now, the amendment seeks to provide that for the purpose of claiming deduction, the acquisition during a particular previous year must exceed Rs. 25 crore but the installation can be made at any time upto 31.03.2017.
- It is further provided that if an eligible plant and machinery is acquired in a previous year but installation is not done in that previous year, the deduction shall be allowable in the previous year in which installation is done.
- Please note that there is amendment in section 32AC only. There is no similar amendment in section 32AD. ***In fact, there is no need of amendment in section 32AD because the problem was in the language of section 32AC only and not in section 32AD***.

Section 35, 35AC, 35AD, 35CCC, 35CCD amended:

- The amendments shall be applicable from AY 2018-19 or later assessment year. Hence they are not relevant to examination.

Section 35ABA inserted:

- The Govt. has introduced spectrum fee for auction of airwaves.
- Hence this new section has been introduced to grant deduction of spectrum fee.
- It may be noted that the provisions of section 35ABA are exactly similar to the provision of section 35ABB. We have already discussed section 35ABB in our regular classes. Hence we shall not be discussing section 35ABA in detail.

Section 36(1)(viia) amended:

- This section grants deduction in respect of provision for bad and doubtful debts.
- The existing provision allows deduction only to banks, public financial institutions, SFCs and SIICOs.
- The amendment seeks to extend the benefit of section to **Non-Banking Financial Companies (NBFCs).**
- Hence NBFCs shall be eligible to claim deduction in respect of provision made by them for bad and doubtful debts. However, the deduction shall be allowable maximum upto 5% of Gross Total Income [before making any deduction u/s 36(1)(viia)].
- For this purpose **"NBFC"** shall have the same meaning as defined in **section 45-I of the RBI Act, 1934.**

Section 40(a) amended:

- This section has been amended to disallow the deduction of any sum paid or payable to a non-resident for a **"specified service"** on which the **Equalisation Levy *(popularly called "Google Tax")*** is deductible under **Chapter VIII of the Finance Act, 2016**, but the assessee (i) has not deducted such levy, or (ii) has deducted but not paid such levy to Govt. A/c upto the due date u/s 139(1).
- It is further provided that if the Equalisation Levy has been deducted in any subsequent year or has been deducted in the same previous year but paid in subsequent previous year, the relevant sum shall be re-allowed as deduction in the previous year in which such levy is paid.

Note: The amendments in section 10(50) and 40(a) should be read together.

Section 43B amended:

- The amendment seeks to extend the applicability of section 43B to any sum payable by an assessee to the **Indian Railways for the use of railway assets**.

Section 44AA amended:

- The amendment shall be discussed under the heading **"Section 44AD amended"**.

Section 44AB amended:

- This section prescribes for compulsory audit of accounts in certain cases.
- Following amendments have been made:
  - ✓ **(1) -** Under the existing law, a person carrying on profession is required to get his accounts audited if his gross receipts of the previous year has exceeded Rs. 25 lakh. The amendment seeks to enhance this limit to Rs. 50 lakh.
    Note: A person carrying on business is required to get his accounts audited if the sale, gross receipts or turnover of the previous year has exceeded Rs. 1 crore. Please note that there is no amendment in this limit of Rs. 1 crore applicable to business.
  - ✓ **(2) -** If the assessee is covered under newly inserted section 44ADA and declares income from profession lower than the presumptive income (as specified in section 44ADA) and his total income of the previous year exceeds the maximum amount not chargeable to tax (MANCT), he shall be required to get his accounts of such previous year audited.

Section 44AD amended:

- This section prescribes presumptive taxation scheme for an eligible business.
- Following amendments have been made:

  - ✓ **(1) -** Under the existing law, this section applies to a business whose total turnover / gross receipts in the previous year does not exceed Rs. 1 crore. The amendment seeks to enhance this limit to Rs. 2 crore. Thus, the section shall be applicable to a business having turnover / gross receipts upto Rs. 2 crore.

    Note: After this amendment, an apparent conflict is created between section 44AB(a) and 44AD. If we read section 44AB(a), there is a compulsion of audit if the turnover of business has exceeded Rs. 1 crore. But if we read section 44AD, there would be no requirement of audit in the case of an assesee opting for presumptive taxation, even if his turnover has exceeded Rs. 1 crore (but it is upto Rs. 2 crore). In this regard, attention is invited to the Press Release dated 20.06.2016, wherein the CBDT has clarified that the limit of Rs. 2 crore for non-audit of accounts shall be applicable only to the assessee opting for presumptive taxation scheme u/s 44AD.

  - ✓ **(2) -** Under the existing law, if the assessee is a partnership firm / LLP, the interest and remuneration paid to partners is allowable as deduction in computing presumptive income. The amendment seeks to provide that such interest or remuneration shall not be allowable as deduction. **This amendment is very harsh and partnership firms / LLPs shall be badly affected.**

    Note: Please note that in section 44AD and 44ADA, the interest and remuneration paid to partners shall not be allowed as deduction. But in section 44AE, the interest and remuneration paid to partners shall be allowed as deduction in computing presumptive income.

  - ✓ **(3) -** Under the existing law, an assessee covered u/s 44AD is exempted from payment of advance-tax in relation to the income of eligible business. The amendment seeks to withdraw this exemption. **[Please also read the amendment in section 211]**.

  - ✓ **(4) -** New sub-section (4) has been created in section 44AD. According to this, if an eligible assessee declares profit for any previous year according to the provisions of section 44AD [i.e. 8% or higher income] but he declares profit for **any of the 5 succeeding previous years** lower than 8%, he shall not be eligible to claim the benefit of section 44AD for **next 5 previous years** (i.e. for 5 previous years subsequent to the previous year in which lower income has been declared). ***In short, a compulsory exit route has been prescribed in section 44AD(4) and once exited, there would be a ban period of 5 previous years during which the assessee cannot re-enter into the scheme of section 44AD.***

  - ✓ **(5) -** Under the existing law, if an assessee is covered u/s 44AD but wants to declare lower income than presumptive income [8% of sales] and his total income of the previous year exceeds the maximum amount not chargeable to tax (MANCT), he is compulsorily required to maintain books of account u/s 44AA and get such accounts audited u/s 44AB of such previous year. This provision has been amended due to introduction of compulsory exit route through section 44AD(4).

    Now it is prescribed that if an assessee is covered u/s 44AD(4) and his total income of the previous year exceeds the maximum amount not chargeable to tax (MANCT), he shall be compulsorily required to maintain books of account of such previous year u/s 44AA and also get such accounts audited u/s 44AB.

Section 44ADA inserted:

- This section prescribes presumptive taxation scheme for the persons engaged in **"specified professions".**

- The provisions of section are as under:

  - ✓ The section is applicable to a person (i) who is resident in India, (ii) engaged in any "specified profession" covered u/s 44AA, and (iii) whose gross receipts do not exceed Rs. 50 lakh during the previous year.

  - ✓ Once the section is applicable, 50% of the gross receipts or the profit claimed to have been earned by the assessee, **whichever is higher**, shall be deemed to be taxable income from the profession.

  - ✓ It is presumed that all deductions as allowable u/s 30 to 37(1) have already been allowed to the assessee and hence no further deduction shall be allowed.

  - ✓ It is further presumed that the depreciation on assets, as allowable u/s 32, has actually been allowed. Hence WDV of assets shall be reduced.

  - ✓ If the assessee claims that his income from profession is lower than the presumptive income and his total income exceeds MANCT, he shall be required to keep and maintain books of accounts u/s 44AA and also get his accounts audited u/s 44AB.

  - ✓ Please note that section 44ADA is applicable only to **"specified professions"**. It does not apply to professions other than "specified professions". The meaning of **"specified professions"** shall be same as prescribed in section 44AA. We have discussed meaning of "specified professions" in our regular classes. Still for your immediate reference, "Specified Profession" means the following professions –
    (1) Legal (means advocates)
    (2) Accountancy
    (3) Medical
    (4) Technical consultancy
    (5) Engineering
    (6) Interior decoration
    (7) Architectural
    (8) Company secretary
    (9) Information technology.
    (10) Authorised representative
    (11) Film artists

  - ✓ Once again it is brought to your attention that in section 44AD and 44ADA, the interest and remuneration paid to partners shall not be allowed as deduction.

INCOME FROM CAPITAL GAIN

Cost Inflation Index notified:

- The Cost Inflation Index for the financial year 2016-17 shall be 1125.

Notification No. 18/2016, dated 17-03-2016:

- The CBDT has notified that in the case of conversion of bonds / debentures / debenture-stock / deposit certificates of a company into shares or debentures of that company, the holding period, for the purpose of computation of capital gain at the time of subsequent sale of new shares and debentures, shall be computed from the **"Old DOA"** i.e. the date on which the original bonds, debentures, debenture stock and deposit certificates were acquired by the assessee. Further, the indexation of COA shall also be done from the **"Old DOA"**.

Section 47, 49 and 2(42A) amended:

- Section 47 prescribes the transactions which are excluded from transfer. Section 49 prescribes the provisions for determination of COA of an asset. Section 2(42A) prescribes the provisions for determination of DOA of an asset.

- Following amendments have been prescribed in these sections:

  - ✓ ***(1) –*** Section 47(viic) has been inserted to provide that the **redemption of Sovereign Gold Bonds (SGBs)** issued by the RBI under the Sovereign Gold Bond Scheme, 2015, shall be excluded from transfer. Hence the capital gain shall not be taxable in case of redemption. However, it may be noted that the benefit of section 47(viic) is available only in case of redemption of **SGBs** by RBI. Therefore, if the assessee transfers **SGBs** in any other manner (For example – sale of **SGBs**), the capital gain shall be taxable.

  - ✓ ***(2) –*** The existing section 47(xiiib) prescribes that the conversion of a private company or unlisted public company into a LLP shall be excluded from "transfer" and hence the capital gain shall not be taxable, if certain conditions are satisfied. The amendment seeks to introduce one more condition i.e. the total value of assets appearing in the books of account of the company in any of the three previous years preceding the previous year in which the conversion takes place does not exceed Rs. 5 crore.

  - ✓ ***(3) –*** Section 47(xix) has been inserted to provide that any transfer of unit(s) in the **"consolidating plan"** of a mutual fund, made in consideration of the allotment of unit(s) in the **"consolidated plan"** of that scheme of the mutual fund, shall be excluded from "transfer". Hence the capital gain shall not be taxable.

    Here **"consolidating plan"** means the plan within a scheme of a mutual fund which merges under the process of consolidation of the plans within a scheme of mutual fund in accordance with SEBI Regulations and **"consolidated plan"** means the plan with which the consolidating plan merges or which is formed as a result of such merger.

    Note: Now a question would further arise as to what shall be the COA and DOA at the time of subsequent sale of units of consolidated plan. No amendment has been made in section 49 or 2(42A) to permit "Old COA" or "Old DOA". Perhaps, this is a lapse on the part of law makers.

Section 48 amended:

- This section prescribes method for computation of taxable capital gain.

- Following amendments have been prescribed in this section:

  - ✓ **(1) –** Under the existing law, the benefit of indexation is not allowed in case of bonds or debentures except the capital indexed bonds issued by the Govt. The amendment seeks to allow the benefit of indexation in the case of **Sovereign Gold Bonds (SGBs)** issued by the RBI under the Sovereign Gold Bonds Scheme, 2015.

  - ✓ **(2) –** The amendment seeks to provide that in the case of a non-resident assessee, any gain arising on account of **appreciation of rupee against a foreign currency** at the time of **redemption of rupee denominated bonds (RDBs) of an Indian company subscribed by him**, shall be ignored for the purpose of computation of **full value of consideration** (i.e. sale proceed). The effect of amendment is that the portion of capital gain relatable to appreciation of rupee shall not be taxable.

Section 49 amended:

- This section prescribes "notional cost of acquisition" in certain cases.

- Sub-section (5) has been inserted in section 49 which provides that if the capital gain arises on transfer of any capital asset declared under the **Income Declaration Scheme, 2016,** and the tax, surcharge and penalty have been paid in accordance with the provisions of that scheme on the fair market value of the asset [as on the date of commencement of the scheme], the cost of acquisition **(COA)** of the asset shall be deemed to be the **fair market value of the asset which has been taken into account for the purpose of that scheme.**

Section 50C amended:

- Under the existing law –
  - ✓ Section 50C prescribes that in the case of transfer of a land or building *(being a capital asset)*, the actual consideration declared by the assessee or the value adopted by the Stamps Authority (SAV), whichever is higher, shall be taken as full value of consideration (i.e. sale proceed) for the purpose of computation of "Income under CG head".
  - ✓ Similarly, section 43CA prescribes that in the case of transfer of a land or building *(held as stock-in-trade)*, the actual consideration declared by the assessee or the value adopted by the Stamps Authority (SAV), whichever is higher, shall be taken as full value of consideration (i.e. sale proceed) for the purpose of computation of "Income under BP head".
  - ✓ Moreover, section 56(2)(vii) prescribes that if an individual or HUF acquires any immovable property (i.e. land / building) for inadequate consideration, the value of immovable property adopted by Stamps Authority (SAV) ***minus*** the consideration paid by assessee, shall be as taxable as "Income from Other Sources".
  - ✓ We are further aware that both in section 43CA and 56(2)(vii), if the **Date of Agreement** fixing the value of consideration of the land / building and the **Date of Registration** of such transfer is not same ***(in other words, if there is a time-gap in-between the Date of Agreement and Date of Registration)***, the assessee has option to adopt SAV as on the **Date of Agreement**. But this **relaxation** is allowed only if the amount of consideration or a part thereof has been received / paid by **any mode other than cash** on or before the **Date of Agreement**.
  - ✓ It may be noted that the above discussed **relaxation** is available only in section 43CA and 56(2)(vii) but not in section 50C.
- Now section 50C is amended to bring this section at par with section 43CA and 56(2)(vii).
- Accordingly, it is now provided in section 50C that if the date of agreement fixing the value of consideration of land / building and the date of registration of transfer is not same (in other words, if there is a time-gap in-between the date of agreement and date of registration), the Stamp Authority Valuation (SAV) as on the date of agreement may be taken as full value of consideration (i.e. sale proceed) for the purpose of calculation of "Income under CG head". But this relaxation is allowed only if the amount of consideration or a part thereof has been received **by way of an account payee cheque or account payee bank draft or by use of electronic clearing system (ECS) through a bank account**, on or before the date of agreement.
- It may please be noted that even after amendment, there is a difference in language i.e. section 43CA and 56(2)(vii) uses "**any mode other than cash"** but section 50C uses "**account payee cheque or account payee bank draft or by use of electronic clearing system (ECS) through a bank account".**

Section 54EE inserted:

- Under the existing law, an assessee can re-invest capital gain in a specified asset and claim exemption u/s 54, 54B, 54D, 54EC, 54F, 54G, 5GA, or 54GB, as the case may be.
- The amendment seeks to insert a new exemption section 54EE.
- Please note that the existing section 54EC and the newly inserted section 54EE are **exactly similar except one difference**, viz. in existing section 54EC, the new investment must be made in the bonds

of REC or NHAI, but in new section 54EE the investment must be made in the **Units notified by the Govt.**

- Since all other contents of section 54EC and 54EE are same, we do not narrate all provisions of section 54EE in detail. Please read the whole section 54EE from your book.

- ***You are aware that the maximum limit of exemption in section 54EC is Rs. 50 lakh. Similarly, in section 54EE too, there is a maximum limit of Rs. 50 lakh. Your attention is particularly invited towards this limit of Rs. 50 lakh both in section 54EC and 54EE, since it is very much relevant from examination point of view.***

Section 54GB amended:

- Under this section, any capital gain arising to an assessee (i.e. individual or HUF) from transfer of a long-term residential house or residential plot is exempted, if the assessee makes investment by way of subscription to the equity shares of an **"eligible company"** and thereafter the **"eligible company"** makes investment in **"new asset"**.

- The existing law contains following restrictions:

  (a) The exemption u/s 54GB is allowable only in respect of residential house or residential transferred upto 31.03.2017. The effect is that the section is applicable upto AY 2017-18 only.

  (b) The meaning of **"eligible company"** is restricted to a company which qualifies to be a Small or Medium Enterprise **(SME)** under the Micro, Small and Medium Enterprises Act, 2006. Hence if the assessee makes investment in shares of a company other than SME, the exemption of section 54GB is not allowed.

  (c) The meaning of **"new asset"** excludes **"computers or computer softwares"**. Hence if the **"eligible company"** makes investment in **"computers or computer softwares"**, it is not permissible.

- In order to encourage setting up of start-up companies and to enable such start-up companies to receive equity capital from investors, section 54GB has been relaxed on following pattern, for "**eligible start-up companies":**

  (1) If the assessee (individual or HUF) transfers residential house or residential plot upto 31.03.2019 and makes investment by way of subscription to the equity shares of **"eligible start-up company",** the benefit of section 54GB shall be allowable. In short, the applicability of section 54GB has been extended by 2 years for the limited purpose of **"eligible start-up companies"**.

  (2) **Meaning of "eligible start-up company"** – It means a company which fulfills following conditions –
  (a) It is incorporated during 01.04.2016 to 31.03.2019.
  (b) It is engaged in an **"eligible business".** Here **"eligible business"** means a business which involves innovation, development, deployment or commercialization of new products, processes or services **(PPS)** driven by technology or intellectual property.
  (c) It holds a certificate of eligible business from the Inter-Ministerial Board of Certification **(IBMC)** notified by the Central Govt.
  (d) The total turnover of its business does not exceed Rs. 25 crore in any of the previous years beginning on or after 01.04.2016 and ending on 31.03.2021 (i.e. PY 2016-17 to 2020-21) ***[Please read this condition carefully].***
  (e) It is a company in which the assessee has more than 50% share capital or more than 50% voting right after subscription in shares by the assessee.

  (3) The meaning of **"new asset"** has been amended so as to include **"computers or computer softwares"**. Hence, investment in **"computers or computer softwares"** is also permissible. This has been done because these "eligible start-up companies" are technology driven and they may need high investment in **"computers or computer softwares".**

  (4) All other provisions of section 54GB shall apply.

Section 55 amended:

- We are aware that the Hon'ble Supreme Court has held in the case of **CIT Vs. B.C. Srinivasa Setty (SC) [1981] 5 Taxman 1** that the profit on transfer of a "self-generated capital asset" is not taxable because the COA is absent. Subsequently, the Govt. has amended Income-tax Act from time to time and provided that in the cases of following self-generated assets, the COA shall be deemed to be **Nil:**

  (i) Goodwill of a business
  (ii) Tenancy right
  (iii) Loom hours
  (iv) Route permit
  (v) License to manufacture or process any goods
  (vi) Right to carry on business
  (vii) Trade mark associated with a business
  (viii) Brand name associated with a business

- Thus, the capital gain arising on transfer of self-generated assets of above 8 types is taxable. But the capital gain of any other self-generated asset is not taxable because COA is absent.

- Now, the amendment seeks to add one more item to the list of above 8 items i.e. **"right to carry on any profession".**

- The effect is the capital gain arising on transfer of **self-generated "right to carry on any profession"**, shall be taxable and for computation purpose, the COA shall be taken to be Nil.

Note: The amendments in section 28(va) and 55 should be read together.

INCOME FROM OTHER SOURCES

Section 56(2)(vii) amended:

- Under this section, taxability is attracted if an individual or HUF receives (i) money without consideration, or (ii) immovable property without consideration, or (iii) immovable property for inadequate consideration, or (iv) movable property without consideration, or (v) movable property for inadequate consideration.

- Existing law prescribes certain exemptions (for example – Receipt from a relative etc.) in which there would be no taxability.

- The amendment seeks to introduce one more exemption i.e. any receipt by way of a transaction excluded from transfer u/s 47(vicb) [i.e. receipt of shares in case of business re-organisaiton of a co-operative bank], 47 (vicd) [i.e. receipt of shares in case of a demerger of a company], or 47(vii) [i.e. receipt of shares in case of amalgamation of a company].

SET OFF OF LOSSES

Section 115BBDA / 115BBE:

- We are aware that no loss can be set off against casual income.

- Similarly, it is also prescribed that no loss can be set off against –
  (i) dividend income chargeable u/s 115BBDA [i.e. aggregate dividend covered u/s 2(22)(a)(b)(c)(d) received from one or more domestic companies in excess of Rs. 10,00,000/- in a previous year], and
  (ii) undisclosed income taxable u/s 68, 68, 69A, 69B, 69C and 69D.

Section 80 amended:

- This section prescribes that if a Return of loss is not filed u/s 139(3) by the due date prescribed in section 139(1), carry forward of losses u/s 72,73,74 and 74A is not allowed.

- The amendment seeks to bring section 73A within the scope of section 80.

- The effect is that if the Return of loss is not filed upto due date, the carry forward of loss u/s 73A shall not be allowed.

DEDUCTIONS

Section 80CCD amended:

- The existing section 80CCD is applicable to **"New Pension System (NPS)".** Now, **"Atal Pension Yojna"** has also been notified for the purpose of section 80CCD.

- Please note that not only section 80CCD, but also all other provisions of Income-tax Act, 1961 as applicable to "NPS" shall apply to "APY" *mutatis mutandis*.

- Section 80CCD has also been amended to provide that the amount received by nominee of assessee on death of the assessee (the assessee may be an employee or self-employed person) shall be fully exempt. This amendment has already been discussed under the heading **"Section 10(12A) inserted"**.

Section 80EE substituted:

- This section has been re-introduced to grant additional deduction upto Rs. 50,000/- in respect of interest payable by an assessee on loan taken for acquisition of a residential house property, provided following conditions are satisfied:
  - ✓ The assessee is an individual.
  - ✓ The loan must be taken for **acquisition of a residential property**.
  - ✓ The loan must be taken from a **"financial institution"**. Here **"financial institution"** means a bank or a housing finance company.
  - ✓ The loan must be **sanctioned** by the financial institution during **01.04.2016 to 31.03.2017 (i.e. PY 2016-17).**
  - ✓ The amount of loan sanctioned **should not exceed Rs. 35 lakh**.
  - ✓ The value of residential house property **should not exceed Rs. 50 lakh**.
  - ✓ The assessee should **not own any residential house property on the date of sanction of loan**.

- The benefit of this section shall be allowed till repayment of loan.

- ***Question –*** Interest on house loan is deductible u/s 24(b) itself. Hence what is extra-utility of section 80EE?
  Answer: It is true that section 80EE is not useful in the case of a property covered u/s 23(1) because the assessee can get full deduction u/s 24(b) itself. But the 80EE shall be useful if the property is covered u/s 23(2), because in the case of a property covered u/s 23(2), the maximum allowable deduction u/s 24(b) is Rs. 2,00,000/- and the deduction upto Rs. 50,000/- u/s 80EE shall be over and above the deduction upto Rs. 2,00,000/- u/s 24(b). Hence the assessee should first claim deduction u/s 24(b) upto Rs. 2,00,000/- and thereafter the remaining interest, if any, should be claimed u/s 80EE [upto a maximum of Rs. 50,000/-]. In short, in the case of a property covered u/s 23(2), the assessee can claim deduction upto Rs. 2,50,000 [Maximum upto Rs. 2,00,000 u/s 24(b) + Maximum upto Rs. 50,000 u/s 80EE], ***provided all conditions of section 80EE are satisfied.***

- Care must be taken that the same amount is not doubly claimed, once u/s 24(b) and again u/s 80EE because it is specifically restricted in section 80EE.

- ❖ Section 80EE prescribes that the loan must be taken for **"acquisition"** of a residential property. There is no definition of **"acquisition"**. Thus, although it is very much clear that the section is not applicable if the loan is taken for repair or renovation of property, yet a doubt arises as to whether the section 80EE shall apply to purchase of house only or construction of house also. In **Explanatory Memorandum to Finance Act, 2016**, the Parliament has clearly stated that the section is for **"first-home buyers".** Hence it appears that the intention of Govt. is to apply section 80EE only in case of purchase of a residential house property and not in case of construction of a residential house property.

- ❖ A further question would arise – Whether the deduction u/s 80EE is allowed on payment basis or payable basis?

  Answer: Normally, in the case of payment-related deductions u/s 80C to 80GGC, the deduction is allowed in the previous year in which payment is made. However, the language of section 80EE uses the word "payable" and not "paid". Hence there is a view that the deduction of interest shall be allowed on "payable" basis and actual payment is not necessary.

Section 80GG amended:

- ❖ This section grants deduction in respect of rent paid by an individual for residential accommodation.
- ❖ Under the existing law, the maximum limit of deduction is Rs. 2,000/- per month.
- ❖ The amendment seeks to extend this maximum limit to Rs. 5,000/- per month.

Section 80-IA, 80-IAB, 80-IB amended:

- ❖ The Govt. wants to phase out these sections in near future. Hence **sunset provisions** have been inserted. These are not relevant for examination.

Section 80-IAC inserted:

- ❖ This section has been inserted to grant deduction to start-ups.
- ❖ Under this new section, an **"eligible start-up"** deriving profit from **"eligible business"** shall be entitled to 100% deduction of such profit for **3 consecutive assessment years,** provided following conditions are satisfied –

(1) The assessee must be an **"eligible start-up"**. Here "e**ligible start-up"** means a **Company or LLP** which fulfills the following conditions:
   (i) It is incorporated during 01.04.2016 to 31.03.2019.
   (ii) It is engaged in **"eligible business". Here "eligible business"** means a business which involves innovation, development, deployment or commercialisation of new products, processes or services **(PPS)** driven by technology or intellectual property.
   (iii) It holds a certificate of "eligible business" from the Inter-Ministerial Board of Certification **(IMBC)** notified by the Central Govt.
   (iv) The total turnover of its business does not exceed Rs. 25 crore in any of the PY 2016-17 to 2020-21. ***[Please read this condition carefully].***

(2) **Formation –** It should not be formed by splitting up or reconstruction of an existing business.

   Exception: This condition is not applicable in respect of a start-up formed as a result of re-establishment, reconstruction or revival by the assessee of the business in the circumstances and within the period prescribed in section 33B.

(3) **New plant & machinery –** It should not be formed by the to a new business of machinery or plant previously used for any purpose.

Exception: Following relaxations have been given in this condition:

(a) The old plant and machinery is allowed to the extent of 20% of total value of plant and machinery.

(b) Imported plant and machinery shall be deemed to be new plant and machinery provided such plant and machinery was not used in India at any time before the date of installation by the assessee and no deduction on account of depreciation in respect of such machinery or plant has been allowed or is allowable in computing the total income of any person for any period prior to the date of installation by the assessee.

❖ Following points should also be noted:

(a) The assessee has option to claim deduction in any 3 consecutive years out of 5 years beginning from the year in which the eligible start-up is incorporated.

(b) The provisions of section 80-IA(5) and 80-IA(7) to (11) shall apply *mutatis mutandis*.

Section 80-IBA inserted:

❖ This section has been inserted to grant deduction to housing sector.

❖ Under this new section, an assessee deriving profit from the business of developing and building housing project, shall be entitled to 100% deduction of such profit, provided following conditions are satisfied –

(1) The housing project must be approved during 01.06.2016 to 31.03.2019 by the competent authority.

(2) The construction must be completed within 3 years from the date of approval by the competent authority.

Following points should be noted in this regard:

- If the approval of a housing project is obtained more than once, the project shall be deemed to have been approved on the date on which the building plan of such project was first approved by the competent authority.
- The project shall be deemed to have been completed when a certificate of completion of project as a whole is obtained in writing from the competent authority.

(3) The "**minimum size of plot"** (over which the project is located) must be:

(i) 1,000 square metres, if the project is located within the cities of Chennai, Delhi, Kolkata or Mumbai, or within the distance of 25 kilometres from the municipal limits of these cities (aerially measured),

Or

(ii) 2,000 square metres, if the project is located in any other place.

(4) The relevant project is the only housing project on the plot of land specified above.

(5) The **maximum "built-up area"** of **each residential unit** should be as follows --

(i) 30 square metres -- If the project is located within the cities of Chennai, Delhi, Kolkata or Mumbai, or within the distance of 25 kilometres from the municipal limits of these cities (aerially measured),

or

(ii) 60 square metres -- if the project is located in any other place

(6) Some assessees can develop techniques to by-pass the above rule of **maximum built-up area**. Hence the Govt. has imposed a restriction that where a residential unit in the project is allotted to an individual, no other residential unit in the project shall be allotted to (i) such individual, or (ii) spouse of such individual, or (iii) minor child of such individual.

(7) The project must utilise **minimum:**
   (i) 90% of the permissible FAR (Floor Area Ratio), if the project is located within the cities of Chennai, Delhi, Kolkata or Mumbai, or within the distance of 25 kilometres from the municipal limits of these cities (aerially measured),
   or
   (ii) 80% of the permissible FAR (Floor Area Ratio), if the project is located in any other place.

(8) The **"build-up area"** of the shops and other commercial establishments included in the housing project should not exceed **3%** of the **aggregate "built-up area"**.

(9) The assessee must maintain separate books of account of project.

❖ Following definitions have also been prescribed:

(i) **"Housing project"** means a project consisting predominantly of residential units with such other facilities and amenities as the competent authority may approve.

(ii) **"Built-up area"** means the inner measurements of the residential unit at the floor level (practically it is called 'carpet area'), including the projections and balconies, as increased by the thickness of the walls but does not include the common areas and open terrace shared with other residential units.

(iii) **"Residential unit"** means an independent housing unit with separate facilities for living, cooking and sanitary requirements, distinctly separated from other residential units within the building, which is directly accessible from an outer door or through an interior door in a share hallway and not by walking through the living space of another household.

❖ Following further restrictions have also been prescribed:

(a) If an assessee is merely executing the housing project as a work contract awarded by any person, he shall not be entitled to deduction.

(b) If the housing project is not completed within the prescribed period of 3 years but the assessee has already claimed deduction u/s 80-IBA [in relation to the income derived from completed and sold units or portions], the deduction claimed by him shall be re-taxable under the head "Income from BPV" of the previous year in which the period for completion expires.

Section 80JJAA substituted:

❖ This section grants deduction in respect of employment of new employees. The existing section has been substituted by a new section.

❖ The deduction shall be allowed only if following conditions are satisfied –
(1) The assessee should be a person to whom section 44AB applies.
(2) The assessee must be engaged in any business (not profession).
(3) The business should not be formed by splitting up, or the reconstruction, of an existing business. [However, this condition is not applicable in respect of a business formed as a result of re-establishment, reconstruction or revival by assessee of the business in the circumstances and within the period prescribed in section 33B].
(4) The business should not be acquired by the assessee by way of transfer from any other person or as a result of any business reorganization.
(5) Report of CA in a prescribed form must be filed with the return of income.

❖ **<u>How much deduction</u>?**
30% of "**additional employee cost"** incurred during the previous year.

❖ **<u>Deduction for how many years</u>?**
The deduction shall be allowed for **3 assessment years** including the assessment year in which the employment is provided.

❖ **Meaning of "additional employee cost":**

"Additional employee cost" means the total emoluments paid or payable to **"additional employee"** employed during the previous year.

But in the case of an existing business, the **"additional employee cost"** shall be deemed to be **Nil,** if –

(a) there is no increase in the number of employees employed as on the last day of the preceding year;
(b) emoluments are paid otherwise than by an account payee cheque or account payee draft or by use of electronic clearing system through a bank account.

However, in the case of first year of a new business, emoluments paid or payable to the employees employed during that previous year shall be deemed to be additional employee cost.

❖ **Meaning of "Additional employee":**

"Additional employee" means an employee who has been employed during the previous year and whose employment has the effect of increasing the total number of employees employed by the employer as on the last day of the preceding year.

However, **"additional employee"** does not include –-

(a) an employee whose total emoluments are more than Rs. 25,000 per month, or
(b) an employee employed for a period of less than 240 days during the previous year, or
(c) an employee who does not participate in the recognized provident fund, or
(d) an employee for whom the entire contribution to Employees' Pension Scheme [under Employees' Provident Funds and Misc. Provisions Act, 1952] is paid by the Govt.

❖ **Meaning of "Emoluments":**

"Emoluments" means any sum paid or payable to an employee in lieu of his employment (by whatever name called) but **does not include**—

(a) any contribution given by employer to any pension fund or provident fund or other fund for the benefit of the employee under any law; and
(b) any lump-sum payment paid or payable to an employee at the time of retirement by way of termination of his service or superannuation or voluntary retirement, such as gratuity, severance pay, leave encashment, voluntary retrenchment benefits, commutation of pension and the like.

❖ **Please note the following points:**

(a) The deduction under this section is in addition to deduction allowable to the assessee in computing "Income from BP" head.
(b) The section is applicable to all assessees, whether individual, HUF, firm, company etc.
(c) The section is applicable to all assessees, whether engaged in trading, manufacturing, banking, insurance or any kind of business. However, it is not applicable to the persons engaged in profession.
(d) There is no condition regarding the minimum number of employees.
(e) The requirement of payment by account payee cheque or account payee draft or by use of electronic clearing system (ECS) through a bank account is only in case of an existing business and not in case of a new business.

❖ **The language of section is very badly drafted. It leads to many interpretations and confusions.**

REBATE

Section 87A amended:

❖ The maximum limit of rebate has been enhanced from Rs. 2,000 to Rs. 5,000.

TAXATION OF SPECIAL INCOMES

Section 111A amended:

- This section prescribes concessional tax rate of 15% in respect of short-term capital gain arising from transfer of (i) equity shares in a company, or (ii) units of an equity oriented mutual fund, or (iii) units of a business trust (i.e. REIT or ITT), if the transaction of sale of equity shares or equity oriented mutual fund or units of a business trust **(i.e. REIT or ITT) had** suffered **Securities Transaction Tax (STT)**.

- In order to encourage growth of International Financial Service Centres (IFSC), it is now provided that the condition of STT payment shall not be applicable if the transaction of sale has been undertaken in a recognized stock exchange located in any International Financial Service Centre (IFSC) and the consideration for transaction is paid or payable in foreign currency.

- Hence, the effect is that the short-term capital gain arising from transfer of (i) equity shares in a company, or (ii) units of an equity oriented mutual fund, or (iii) units of a business trust (i.e. REIT or ITT) undertaken in a recognized stock exchange located in any International Financial Service Centre (IFSC) and the consideration for transaction is paid or payable in foreign currency, shall be covered u/s 111A even if it has not suffered **Securities Transaction Tax (STT)**.

Note: The amendments in section 10(38) and 111A should be read together.

Section 112 amended:

- This section prescribes concessional tax rate of 10% or 20%, in the case of long-term capital gain.

- Under the existing law, the long-term capital gain derived by a **Foreign company (FC) or a Non-resident non-corporate (NRNC)** from transfer of **unlisted securities** is taxable @ 10% without giving benefit of the First proviso to section 48 [i.e. conversion benefit] and Second proviso to section 48 [i.e. indexation benefit].

- The amendment seeks to provide that the long-term capital gain derived by a **Foreign company (FC) or a Non-resident non-corporate (NRNC)** from transfer of **shares of a closely-held company** shall also be taxable @ 10% without giving benefit of the First proviso to section 48 [i.e. conversion benefit] and Second proviso to section 48 [i.e. indexation benefit].

SUBMISSION OF RETURN

Section 139(1) amended:

- This section requires compulsory filing of Return of Income.

- Under the existing law, following persons are required to submit Return compulsorily:
  (a) Every company
  (b) Every firm
  (c) Ordinary resident having asset/financial interest/signing authority in a foreign country
  (d) An individual, HUF, AOP, BOI or AJP, whose total income before deductions under Chapter VI-A exceeds MANCT.

- Now, the amendment seeks to provide that in the case of last category [i.e. Point No. (d) *supra*], the concerned person shall have to file Return if his total income before **deductions under Chapter VI-A and exemption u/s 10(38),** exceeds MANCT.

Section 139(4) amended:

- This section allows belated filing of Return.

- Under the existing law, a belated return can be filed within ***one year from end of the relevant assessment year*** *or before completion of assessment, whichever is earlier.*

- The amendment has reduced this time. Now, after amendment, a belated return can be filed ***before end of the relevant assessment year*** *or before completion of assessment, whichever is earlier.*

Section 139(5) amended:

- This section allows revision of return.

- Under the existing law, a belated return filed u/s 139(4) cannot be revised u/s 139(5).

- The amendment seeks to provide that even a belated return filed u/s 139(4) can also be revised.

- Please note that there is no change in time-limit for revision of return [The existing time limit of ***one year from end of the relevant assessment year or before completion of assessment, whichever is earlier,*** *remains unchanged].*

Section 139(9) amended:

- This sections prescribes provisions for defective return.

- Under the existing law, a return is treated as defective if any of the following defects is found by department:
  (a) The space provided in the Return for filling Headwise taxable income, Gross Total Income and Total Income are not duly filled in.
  (b) Certain documents are not filed with the Return.
  (c) The assessee has not paid tax and interest on the basis of self-assessment before filing Return.

- The amendment seeks to remove third situation [i.e. Point No. (c) *supra*]. The effect is that the Return shall not be treated as defective even if the assessee has not paid tax and interest before filing Return.

Section 139A – Rule 114B amended:

- The CBDT has prescribed a new list of transactions where the quoting of PAN shall be mandatory.

- The list is very lengthy and cannot be reproduced here. The latest list is already included in our book and discussed in regular classes.

TDS

Amendments in threshold limits and rates of TDS:

- In following sections, the threshold limits and rates of TDS have been amended:

Section	**Threshold limit**		**TDS Rate**	
	Old	**New**	**Old**	**New**
192A	30,000	50,000	--	--

194BB	5,000	10,000	--	--
194C -- Aggregate in one year	75,000	1,00,000	--	--
194D	20,000	15,000	10%	5%
194DA	--	--	2%	1%
194G	1,000	15,000	10%	5%
194H	5,000	15,000	10%	5%
194LA	2,00,000	2,50,000	--	--
194LBB – Payment to NRNC	--	--	10%	30%
194LBB – Payment to Foreign Company	--	--	10%	40%

❖ The latest position regarding inclusion of **surcharge in TDS** is as under:
(i) In the case of TDS u/s 192 – Surcharge shall always be included.
(ii) In the case of any other TDS –
(a) **If the payee (i.e. deductee) is a foreign company –** (i) Surcharge @ 2% if the amount / aggregate of amounts paid / credited or likely to be paid / credited during the previous year exceeds Rs. 1 Crore but does not exceed Rs. 10 Crore, and (ii) Surcharge @ 5% if the amount / aggregate of amounts paid / credited or likely to be paid / credited during the previous year exceeds Rs. 10 Crore.
(b) **If the payee (i.e. deductee) is a non-resident co-operative society or firm –** Surcharge @ 12% if the amount / aggregate of amounts paid / credited or likely to be paid / credited during the previous year exceeds Rs. 1 Crore.
(c) **If the payee (i.e. deductee) is any other non-resident –** Surcharge @ 15% if the amount / aggregate of amounts paid / credited or likely to be paid / credited during the previous year exceeds Rs. 1 Crore.
(d) **In other cases –** Surcharge shall not be included.

❖ The latest position regarding inclusion of **EC @ 2% and S&H EC @1% in TDS** is as under:
(i) In the case of TDS u/s 192 – EC and S&H EC shall always be included.
(ii) In the case of any other TDS –
(a) **If the payee (i.e. deductee) is a foreign company or a non-resident non-corporate –** EC and S&H EC shall be included.
(b) **In other cases -** EC and S&H EC shall not be included.

Section 194LBA(1)/(2) amended:

❖ Section 194LBA(1) require TDS out of payment of the income covered u/s 10(23FC) or 10(23FCA) made by a **Business Trust (i.e. REIT)** to its unit holders who are resident in India. Further, section 194LBA(2) require TDS out of payment of the income covered u/s 10(23FC) made by a **Business Trust (i.e. REIT)** to its unit holder who is a Foreign Company or a Non-Resident Non-Corporate.

❖ The amendment seeks to substitute 10(23FC) by 10(23FC)(a).

❖ The amendment is consequential upon the amendment in section 10(23FC).

❖ The effect of amendment is such that the Business Trust shall be liable to deduct TDS u/s 194LBA(1)/(2) out payment of the nature covered u/s 10(23FC)(a) only and not out of the payment of the nature covered u/s 10(23FC)(b).

Note: The amendments in section 10(23FC), 10(23FD) and 194LBA(1)/(2) should be read together.

Section 194LBC inserted:

- This section prescribes that the **Securitisation Trust** covered u/s 115TCA shall, at the time of credit of income to the account of its investors or at the time of payment thereof, whichever is earlier, deduct tax at source as under:
  - ✓ If the payee is a resident individual or HUF - @ 25%
  - ✓ If the payee is any resident other than individual or HUF - @ 30%
  - ✓ If the payee is a non-resident non-corporate - @ 30%
  - ✓ If the payee is a foreign company - @ 40%

Section 197 amended:

- Under this section, the payee can obtain a certificate from AO for non-deduction of TDS or deduction at a lower rate.

- The amendment seeks to extend the benefit of this section to TDS u/s 194LBB and 194LC.

Section 197A amended:

- Under this section, the payee can submit a declaration in Form No. 15G or 15H to the payer for non-deduction of TDS.

- The amendment seeks to extend the benefit of this section to the TDS u/s 194-I.

Section 200(1) – Rule 30(2A) amended:

- Earlier the time-limit for payment of TDS u/s 194-IA was 7 days from the end of the month in which deduction was made. This time-limit has been extended to 30 days from the end of the month in which deduction is made.

Section 200(3) – Rule 31A amended:

- The due dates for submission of **Quarterly Returns of TDS** have been changed. Now, the due dates are:

Quarter ending	Due Date
30th June	31st July
30th September	31st October
31st December	31st January
31st March	**31st May**

- Please note that the due dates for **issuance of certificates of TDS** are linked with the due dates for submission of **Quarterly Returns of TDS**. Hence there is automatic change in the dates for issuance of TDS certificates. The new dates are:

Quarter ending	Due Dates
30th June	15th August
30th September	15th November
31st December	15th February
31st March	15th June

*Please note that there is no change in the due date for issuance of Certificate of TDS u/s 192. In that case, there is **Annual TDS certificate**, to be issued **upto 31st May**.*

Section 206AA amended:

- This section requires that the Payee shall furnish his correct PAN to the PRP.
- The amendment seeks to provide that the provision of this section shall not apply to section 194LC.

ADVANCE-TAX

Section 211 amended:

- This section prescribes the installments of advance-tax and the due dates for payment of those installments.
- Under the existing law, companies are require to pay advance-tax in four installments and non-companies were required to pay in three installments.
- The amendment seeks to provide that in all cases **(whether companies or non-companies)**, the advance tax shall be payable in **four** installments as under:

Due Date	**How much advance tax to be paid**
15^{th} June of Previous Year	Minimum 15%
15^{th} September of Previous Year	Minimum 45%
15^{th} December of Previous Year	Minimum 75%
15^{th} March of Previous Year	Minimum 100%

- It is further provided that an **"eligible assessee opting for presumptive income u/s 44AD"** [i.e. declaring 8% or higher income] shall be liable to pay 100% advance tax in one installment upto 15^{th} March only. Therefore, he is not required to pay first 3 installments.

PART (B)

Excel Commerce Academy Private Limited
E-96, Kalpataru Shopping Centre,
Behind Rathi Hospital, Jodhpur

IPCC

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Questions set out in ICAI supplement for May 2017/Nov. 2017

Example 1

Compute the tax liability of X Ltd., a domestic company, assuming that the total income of X Ltd. is ₹ 1,01,00,000 for A.Y.2017-18 and the total income does not include any income in the nature of capital gains

[Note - The gross receipts of X Ltd. for the P.Y.2014-15 is ₹ 7,00,00,000]

Answer 1

The tax payable on total income of ₹ 1,01,00,000 of X Ltd. computed@ 32.1% (including surcharge@7%) is ₹ 32,42,100. However, the tax cannot exceed ₹ 31,00,000 (i.e., the tax of ₹ 30,00,000 payable on total income of ₹ 1 crore plus ₹ 1,00,000, being the amount of total income exceeding ₹ 1 crore). Therefore, the tax payable on ₹ 1,01,00,000 would be ₹ 31,00,000. The marginal relief is ₹ 1,42,100 (i.e., ₹ 32,42,100 - ₹ 31,00,000).

Example 2

Compute the tax liability of Y Ltd., a domestic company, assuming that the total income of Y Ltd. for A.Y.2017-18 is ₹ 10,01,00,000 and the total income does not include any income in the nature of capital gains.

[Note - The gross receipts of Y Ltd. for the P.Y.2014-15 is ₹ 9,00,00,000]

Answer 2

The tax payable on total income of ₹ 10,01,00,000 of Y Ltd. computed@ 33.6% (including surcharge@12%) is ₹ 3,36,33,600. However, the tax cannot exceed ₹ 3,22,00,000 [i.e., the tax of ₹ 3,21,00,000 (32.1% of ₹ 10 crore) payable on total income of ₹ 10 crore plus ₹ 1,00,000, being the amount of total income exceeding ₹ 10 crore]. Therefore, the tax payable on ₹ 10,01,00,000 would be ₹ 3,22,00,000. The marginal relief is ₹ 14,33,600 (i.e., ₹ 3,36,33,600 - ₹ 3,22,00,000).

Example 3

ABC Inc., a Swedish company headquartered at Stockholm, not having a permanent establishment in India, has set up a liaison office in Mumbai in April, 2016 in compliance with RBI guidelines to look after its day to day business operations in India, spread awareness about the company's products and explore further opportunities. The liaison office takes decisions relating to day to day routine operations and performs support functions that are preparatory and auxiliary in nature. The significant management and commercial decisions are, however, in substance made by the Board of Directors at Sweden. Determine the residential status of ABC Inc. for A.Y.2017-18.

Answer 3

Section 6(3) has been substituted by the Finance Act, 2016 with effect from A.Y.2017-18 to provide that a company would be resident in India in any previous year, if-

(i) it is an Indian company; or

(ii) its place of effective management, in that year, is in India.

In this case, ABC Inc. is a foreign company. Therefore, it would be resident in India for P.Y.2016-17 only if its place of effective management, in that year, is in India.

Explanation to section 6(3) defines "place of effective management" to mean a place where key management and commercial decisions that are necessary for the conduct of the business of an entity as a whole are, in substance made. In the case of ABC Inc., its place of effective management for P.Y.2016-17 is not in India, since the significant management and commercial decisions are, in substance, made by the Board of Directors outside India in Sweden.

ABC Inc. has only a liaison office in India through which it looks after its routine day to day business operations in India. The place where decisions relating to day to day routine operations are taken and support functions that are preparatory or auxiliary in nature are performed are not relevant in determining the place of effective management.

Hence, ABC Inc., being a foreign company is a non-resident for A.Y.2017-18, since its place of effective management is outside India in the P.Y.2016-17.

Example 4

Mr. Anand is an Indian citizen and a member of the crew of a Singapore bound Indian ship engaged in carriage of passengers in international traffic departing from Chennai port on 6th June, 2016. From the following details for the P.Y.2016-17, determine the residential status of Mr. Anand for A.Y.2017-18, assuming that his stay in India in the last 4 previous years (preceding P.Y.2016-17) is 400 days and last seven previous years (preceding P.Y.2016-17) is 750 days:

Particulars	*Date*
Date entered into the Continuous Discharge Certificate in respect of joining the ship by Mr. Anand	*6th June, 2016*
Date entered into the Continuous Discharge Certificate in respect of signing off the ship by Mr. Anand	*9th December, 2016*

Answer 4

In this case, the voyage is undertaken by an Indian ship engaged in the carriage of passengers in international traffic, originating from a port in India (i.e., the Chennai port) and having its destination at a port outside India (i.e., the Singapore port). Hence, the voyage is an eligible voyage for the purposes of section 6(1). Therefore, the period beginning from 6th June, 2016 and ending on 9th December, 2016, being the dates entered into the Continuous Discharge Certificate in respect of joining the ship and signing off from the ship by Mr. Anand, an Indian citizen who is a member of the crew of the ship, has to be excluded for computing the period of his stay in India. Accordingly, 187 days [25+31+31+30+31+30+9] have to be excluded from the period of his stay in India. Consequently, Mr. Anand's period of stay in India during the P.Y.2016-17 would be 178 days [i.e., 365 days – 187 days]. Since his period of stay in India during the P.Y.2016-17 is less than 182 days, he is a non-resident for A.Y.2017-18.

Note *- Since the residential status of Mr. Anand is "non-resident" for A.Y.2017-18 consequent to his number of days of stay in P.Y.2016-17 being less than 182 days, his period of stay in the earlier previous years become irrelevant.*

Example 5

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A Ltd., a domestic company, declared dividend of ₹ 170 lakh for the year F.Y.2015-16 and distributed the same on 10.7.2016. Mr. X, holding 10% shares in A Ltd., receives dividend of ₹ 17 lakh in July, 2016. Mr.Y, holding 5% shares in A Ltd., receives dividend of ₹ 8.50 lakh. Discuss the tax implications in the hands of Mr.X and Mr.Y, assuming that Mr.X and Mr.Y have not received dividend from any other domestic company during the year.

Solution 5

(i) The dividend of ₹ 170 lakh declared and distributed in the P.Y.2016-17 is subject to dividend distribution tax[2] in the hands of A Ltd., a domestic company.

(ii) In the hands of Mr.X, dividend received upto ₹ 10 lakh would be exempt under section 10(34). ₹ 7 lakh, being dividend received in excess of ₹ 10 lakh, would be taxable@10% as per section 115BBDA. Such dividend would not be exempt under section 10(34). Therefore, tax payable by Mr.X on dividend of ₹ 7 lakh under section 115BBDA would be ₹ 72,100 [i.e., 10% of ₹ 7 lakh + cess@3%].

(iii) In the hands of Mr.Y, the entire dividend of ₹ 8.50 lakh received would be exempt under section 10(34), since only dividend received in excess of ₹ 10 lakh would be taxable under section 115BBDA.

Example 6

Mr. Anand sold his residential house property in March, 2016.

In June, 2016, he recovered rent of ₹ 10,000 from Mr. Gaurav, to whom he had let out his house for two years from April 2010 to March 2012. He could not realise two months rent of ₹ 20,000 from him and to that extent his actual rent was reduced while computing income from house property for A.Y.2012-13.

Further, he had let out his property from April, 2012 to February, 2016 to Mr. Satish. In April, 2014, he had increased the rent from ₹ 12,000 to ₹ 15,000 per month and the same was a subject matter of dispute. In September, 2016, the matter was finally settled and Mr. Anand received ₹ 69,000 as arrears of rent for the period April 2014 to February, 2016.

Would the recovery of unrealised rent and arrears of rent be taxable in the hands of Mr. Anand, and if so in which year?

Solution 6

Since the unrealised rent was recovered in the P.Y.2016-17, the same would be taxable in the A.Y.2017-18 under section 25A, irrespective of the fact that Mr. Anand was not the owner of the house in that year. Further, the arrears of rent was also received in the P.Y.2016-17, and hence the same would be taxable in the A.Y.2017-18 under section 25A, even though Mr. Anand was not the owner of the house in that year. A deduction of 30% of unrealised rent recovered and arrears of rent would be allowed while computing income from house property of Mr. Anand for A.Y.2017-18.

Computation of income from house property of Mr. Anand for A.Y.2017-18

	Particulars	₹
(i)	Unrealised rent recovered	10,000
(ii)	Arrears of rent received	69,000
		79,000
Less:	Deduction@30%	23,700
Income from house property		**55,300**

(31)

Example (7) & sollution (7)

Company	Actual cost of new plant and machinery (₹)	Previous year of acquisition	Previous Year of installation	Assessment Year in which deduction u/s 32AC can be claimed	Deduction u/s 32AC (₹)
B Ltd.	40 crores	P.Y.2015-16	P.Y.2016-17	A.Y.2017-18	6 crores
C Ltd.	50 crores	P.Y.2016-17	P.Y.2016-17	A.Y.2017-18	7.50 crores
D Ltd.	60 crores	P.Y.2016-17	P.Y.2017-18	-	-

(xiii) **Example:** (8) & sollution (8)

Let us consider the following particulars relating to a resident individual, Mr. A, being an eligible assessee whose gross receipts do not exceed ₹ 2 crore in any of the assessment years between A.Y.2017-18 to A.Y.2019-20 -

Particulars	A.Y.2017-18	A.Y.2018-19	A.Y.2019-20
Gross receipts (₹)	1,80,00,000	1,90,00,000	2,00,00,000
Income offered for taxation (₹)	14,40,000	15,20,000	12,00,000
% of gross receipts	8%	8%	6%
Offered income as per presumptive taxation scheme u/s 44AD	Yes	Yes	No

In the above case, Mr. A, an eligible assessee, opts for presumptive taxation under section 44AD for A.Y.2017-18 and A.Y.2018-19 and offers income of ₹ 14.40 lakh and ₹ 15.20 lakh on gross receipts of ₹ 1.80 crore and ₹ 1.90 crore, respectively.

However, for A.Y.2019-20, he offers income of only ₹ 12 lakh on turnover of ₹ 2 crore, which amounts to 6% of his gross receipts. He maintains books of account under section 44AA and gets the same audited under section 44AB. Since he has not offered income in accordance with the provisions of section 44AD(1) for five consecutive assessment years, after A.Y.2017-18, he will not be eligible to claim the benefit of section 44AD for next five assessment years succeeding A.Y.2019-20 i.e., from A.Y.2020-21 to 2024-25.

***Note** – Section 44AB makes it obligatory for every person carrying on business to get his accounts of any previous year audited if his total sales, turnover or gross receipts exceed ₹ 1 crore. However, if an eligible person opts for presumptive taxation scheme as per section 44AD(1), he shall not be required to get his accounts audited if the total turnover or gross receipts of the relevant previous year does not exceed ₹ 2 crore. The CBDT, has vide its Press Release dated 20th June, 2016, clarified that the higher threshold for non-audit of accounts has been given only to assessees opting for presumptive taxation scheme under section 44AD.*

Questions set out in
ICAI supplement for May 2017/Nov

Example 1

Compute the tax liability of X Ltd., a domestic company, assuming that the total income of X Ltd. is ₹ 1,01,00,000 for A.Y.2017-18 and the total income does not include any income in the nature of capital gains

[Note - The gross receipts of X Ltd. for the P.Y.2014-15 is ₹ 7,00,00,000]

Answer 1

The tax payable on total income of ₹ 1,01,00,000 of X Ltd. computed@ 32.1% (including surcharge@7%) is ₹ 32,42,100. However, the tax cannot exceed ₹ 31,00,000 (i.e., the tax of ₹ 30,00,000 payable on total income of ₹ 1 crore plus ₹ 1,00,000, being the amount of total income exceeding ₹ 1 crore). Therefore, the tax payable on ₹ 1,01,00,000 would be ₹ 31,00,000. The marginal relief is ₹ 1,42,100 (i.e., ₹ 32,42,100 - ₹ 31,00,000).

Example 2

Compute the tax liability of Y Ltd., a domestic company, assuming that the total income of Y Ltd. for A.Y.2017-18 is ₹ 10,01,00,000 and the total income does not include any income in the nature of capital gains.

[Note - The gross receipts of Y Ltd. for the P.Y.2014-15 is ₹ 9,00,00,000]

Answer 2

The tax payable on total income of ₹ 10,01,00,000 of Y Ltd. computed@ 33.6% (including surcharge@12%) is ₹ 3,36,33,600. However, the tax cannot exceed ₹ 3,22,00,000 [i.e., the tax of ₹ 3,21,00,000 (32.1% of ₹ 10 crore) payable on total income of ₹ 10 crore plus ₹ 1,00,000, being the amount of total income exceeding ₹ 10 crore]. Therefore, the tax payable on ₹ 10,01,00,000 would be ₹ 3,22,00,000. The marginal relief is ₹ 14,33,600 (i.e., ₹ 3,36,33,600 - ₹ 3,22,00,000).

Example 3

ABC Inc., a Swedish company headquartered at Stockholm, not having a permanent establishment in India, has set up a liaison office in Mumbai in April, 2016 in compliance with RBI guidelines to look after its day to day business operations in India, spread awareness about the company's products and explore further opportunities. The liaison office takes decisions relating to day to day routine operations and performs support functions that are preparatory and auxiliary in nature. The significant management and commercial decisions are, however, in substance made by the Board of Directors at Sweden. Determine the residential status of ABC Inc. for A.Y.2017-18.

PART (C) – INDIRECT TAX

Note: These amendments are already incorporated at relevant places in our book for AY 2017-18.

CENTRAL EXCISE DUTY

Special provision for jewellery manufacturers:

- Excise duty of 1% (without CENVAT credit) or 12.50% (with CENVAT credit) has been levied on articles of jewellery (excluding silver jewellery, other than studded with diamonds or other precious stones).

- The jewellery manufacturers shall be eligible to claim SSI exemption on the first **"aggregate value of clearances (AVC)**" upto Rs. 10 crore ***[Please note that initially it was Rs. 6 crore, subsequently amended to Rs. 10 crore]*** in a financial year, provided the **"aggregate value of clearances (AVC)"** did not exceed Rs. 15 crore ***[Please note that initially it was Rs. 12 crore, subsequently amended to Rs. 15 crore]*** in the immediately preceding financial year.

Digital authentication of invoice:
Earlier the Govt. had permitted authentication of invoice by digital signature with a restriction that a hard copy (i.e. printout) of the DUPLICATE COPY of the Invoice meant for the TRANSPORTER must be self-attested by the manufacturer. Now, the restriction / requirement of self-attestation has been removed.

Substitution of ER-4 by an Annual Return:
The old ER-4 has been discontinued. However, in place of ER-4, an Annual Return will be required to be filed by 30th Nov. of the succeeding year.

Revision of Return allowed:
Earlier there was no facility of revision of Returns under Central Excise. Now, the Returns of Central Excise can be revised by the end of the calendar month in which the original return is filed.

Reduction of interest:
The rate of interest payable on delayed payment of duty has been reduced from 18% to 15% per annum.

CUSTOMS DUTY

Warehousing of imported goods:
The Govt. has amended the procedure for warehousing of goods and thereafter clearance from warehouse for home consumption. The requirement of new procedure is as under:

(a) The importer shall execute a warehousing bond equal to ***thrice*** of duty amount. Once the Proper Officer is satisfied that (i) the imported goods are not prohibited goods, and (ii) all formalities have been complied with, he may make an order granting permission for clearance for warehousing of goods.

(b) Subsequently, the importer may clear goods for home consumption. For this purpose, the importer shall file "Ex-Bond Bill of Entry" to the Proper Officer. The Proper Officer shall make assessment of duty and the importer shall such duty within 2 working days. Thereafter, the Proper Officer shall pass "Order for clearance for home consumption".

CENTRAL SALES TAX

Amendment in section 3:

Section 3 has been amended to provide that where the **gas** sold or purchased and transported through a common carrier pipeline [or any other common transport or distribution system] becomes co-mingled and fungible with other gas in the pipeline or system and such gas is introduced into the pipeline or system in one State and is taken out from the pipeline in another State, such sale or purchase of gas shall be deemed to be a movement of goods from one State to another. Hence such sale would be treated as inter-state.

Note: Please read carefully. If the gas is introduced in pipeline in one State and taken out in the same State, it would not be an inter-state sale. In that case, it would be an intra-state sale.

SERVICE-TAX

Basic Concepts – Charging Scheme:

- W.e.f. 01.06.2016, a new type of cess named "Krishi Kalya Cess (KKC)" has been levied @ 0.50% on the value of service. This KKC is in addition to SBC. Hence with the introduction of KKC, the effective rate for levy of service-tax has become 15% [14% Service-tax + 0.50% SBC + 0.50% KKC]. Let us understand the provisions relating to SBC and KKC at one place:

Provision	SBC	KKC
Relevant law?	SBC is levied through Finance Act, 2015.	KKC is levied through Finance Act, 2016.
Effective date?	It is levied from 15.11.2015.	It is levied from 01.06.2016.
Purpose?	It has been levied to generate funds for the purposes of financing and promoting Swachh Bharat initiatives.	It has been levied to generate funds for the purposes of financing and promoting initiatives to improve agriculture.
Levied on?	It is levied on all services except the services (i) which are covered under Negative List or (ii) which are fully exempted from service-tax.	-Same-
Computation	It is levied @ 0.50% of the "value of service".	-Same-
	In case of Rule 2A, 2B, 2C – The SBC shall be computed on "deemed value of service".	-Same -
	In case of abatement – The SBC shall be computed on "abated value".	-Same-
	In case of compounding scheme - The SBC shall be computed by using a special formula.	-Same-
CENVAT credit	CENVAT credit of SBC is not allowed at all.	CENVAT credit of KKC is allowed. But it can be utilized for payment of KKC only.
Payment	SBC cannot be paid by utilizing CENVAT credit of any duty or tax. Hence SBC can be paid only in money.	KKC can be utilized by CENVAT credit of KKC only. Balance KKC must be paid in money.
RCM provisions	RCM provision of service-tax shall apply *mutatis mutandis* to SBC.	-Same-
Procedural provision	SBC shall be separately mentioned in the Invoice.	-Same-

- Section 65B(44) defines “service”. We are aware that “any transaction in money or actionable claim” is excluded from service and hence tax is not payable on such transaction. Now, a clarificatory amendment has been made to provide that the following activity shall **not** be treated as “transaction in money or actionable claim”:

  > *“any activity carried out in relation to or for the facilitation of a transaction in money or actionable claim, **including** the activity carried out by a **lottery distributor** or **selling agent** on behalf of the State Government, in relation to promotion, marketing, organizing, selling of lottery or facilitating in organizing lottery of any kind, in any other manner, in accordance with the provisions of Lotteries (Regulation) Act, 1998”.*

  The effect is that the activity carried by a distributor or selling agent of lottery shall be **taxable** under service-tax.

Valuation of Taxable Service:

- **Section 67A –** This section has been amended. Now, it provides that:
  (i) the **value of taxable service** shall be as determined at the time when the when Point of Taxation arises in terms of Point of Taxation Rules, 2011.
  (ii) the **rate of service-tax** shall be as applicable at the time when Point of Taxation arises in terms of Point of Taxation Rules, 2011.
  (iii) the **rate of exchange** shall be as applicable **[as per generally accepted accounting principles]** on the date when Point of Taxation arises in terms of Point of Taxation Rules, 2011.

Short cut to remember - Section 67A is a “single medicine” for all “three diseases”.

- **Rule 6 of Service-tax (Determination of Value) Rules, 2006 –** This Rule prescribes certain costs / payments which are to be included or excluded in determination of value of service. Under the existing Rule, any interest on delayed payment of consideration for provision of service is excluded in determining the value of service.

  Now, the amendment seeks to prescribe that any interest chargeable on deferred payment in case of any service provided by Government or a local authority to a business entity, where payment for such service is allowed to be deferred on payment of interest or any other consideration, shall be included in determining the value of service.

Point of Taxation:

(i) **Rule 5 –** This Rule is applicable when a **new service** is taxed for the first time. There have been doubts regarding applicability or non-applicability of Rule 5 in the case of a **new levy on service**, For example – when the new levy of SBC / KKC is introduced. Now the amendment provides that the Rule 5 shall apply *mutatis mutandis* in the case of a **new levy on service**.

(ii) **Rule 7 -** This Rule applies for determination of POT in case of RCM. The existing Rule is further widened to make following special provisions:

(a) In case of service provided by Govt. or local authority to any business entity, the POT shall be:
  (i) the date on which any payment (part or full) in respect of service becomes due (as specified in the invoice / bill / challan or any other document issued by the Govt. or local authority demanding such payment), or
  (ii) the date of making payment,
  whichever is **EARLIER**.

Example-

S.No	Date of invoice	Date of payment	Due date (as specified in invoice)	POT
1	15.10.2014	10.01.2015	**20.10.2014**	20.10.2014
2	15.10.2014	**10.12.2014**	14.01.2015	10.12.2014

(b) In the case of RCM, if there is any change in liability or extent of liability of Service-Receiver, if the service has been provided and invoice is also issued **BEFORE** the date of such change in liability or extent of liability, **but payment has not been made as on such date**, the POT shall be the **Date of Invoice**. ***[Why has Govt. prescribed "date of invoice"? Try …. Try to understand. If we make a deeper analysis of this situation, it can be understood that the "Date of Invoice" has been prescribed on the concept of "Date of Invoice" or "Date of Payment" whichever is EARLIER.]***

Example:
A Ltd., a goods transport agency, transported goods of B Ltd. for Rs. 10,000 from Jodhpur to Jaipur. The transportation was made on 10.02.2016. B Ltd. paid invoice on 13.04.2016. Determine POT if service-tax rate has been changed from 15% to 18% w.e.f. 01.04.2016, assuming that the invoice is issued on (a) 20.02.2016, or (b) 10.04.2016.

Answer:
In the case of GTA service, RCM is applicable. Rule 7 of POT Rules, 2011 prescribes that in case of RCM if there is any change in liability or extent of liability of Service-Receiver and if the service has been provided and invoice is also issued **BEFORE** the date of such change in liability or extent of liability, **but payment has not been made as on such date**, the POT shall be the **date of Invoice**. Following this Rule, we determine POT as under:

Situation	Date of completion of service	Date of invoice	Date of payment	Date of change in liability	POT	Applicable tax rate shall be
(a)	10.02.2016	**20.02.2016**	13.04.2016	01.04.2016	Date of Invoice 20.02.2016	15%
(b)	10.02.2016	10.04.2016	**13.04.2016**	01.04.2016	Date of payment 13.04.2016	18%

Negative list:

Entry No.	Amendment
(l)	Under this Entry, the "educational services" were included in Negative List. Now, this Entry has been deleted fully.
	Benefit of Mega Exemption allowed Please note that the following "educational services" shall be exempted under Entry No. 9 of Mega Exemption Notification: (a) Services provided **by** an **"educational institution" to** its **students, faculty and staff**. (b) Services provided **by** any person **to** an **"educational institution"**, **by way of** - (i) **t**ransportation of students, faculty and staff (ii) **c**atering, including any mid-day meals scheme sponsored by the Government; (iii) **s**ecurity, cleaning or house-keeping services performed in such educational institution; (iv) services relating to admission to, or conduct of **e**xamination by, such Institution. ***[Remember – TCS]***

	Here "Educational institution" means an institution providing services by way of: (a) pre-school education [for example – Nursery and KG] and education upto higher secondary school [i.e. XII level]; (b) education as a part of a curriculum for obtaining a qualification recognised by any law [for example – conduct of courses by colleges, universities or institutions like ICAI, IITs and IIMs]; (c) education as a part of an approved vocational education course. **"Approved Vocational Education Course"** means – (a) a course run by an Industrial Training Institute **(ITI)** or an industrial training centre affiliated to the National Council for Vocational Training **(NCVT)** or State Council for Vocational Training **(SCVT)** offering courses in designated trades notified under the Apprentices Act, 1961, or (b) a Modular Employable Skill Course **(MES)**, approved under the **NCVT**, run by a person registered with the Directorate Genral of Training, Ministry of Skill Development and Entrepreneurship. Please note: • Coaching institutes or Private tutors do not fall within the definition of **"educational institution"**. Hence coaching / tution service provided by coaching institutes or private tutors is taxable. • Fee charged by educational institutions from companies for arranging campus interview, is taxable. • Audit service given by a Chartered Accountant to an Educational Institution is taxable.
(o)	Under this Entry, the service of transportation of passengers (with or without accompanied belongings) is included in "Negative List". Under the existing law, the transportation of passengers (with or without accompanied belongings) by a **stage carriage** was covered under Negative List. Now, the benefit of Negative List has been withdrawn for transportation of passengers (with or without accompanied belongings) by a **stage carriage.**
	Benefit of Mega Exemption allowed Please note that the transportation of passengers (with or without accompanied belongings) by a **non-air-conditioned stage carriage** has been granted exemption in **Entry No. 23(bb) of Mega Exemption.** However, the transportation of passengers by air-conditioned stage carriage shall be taxable.
(p)	Under this Entry, the "service by way of transportation of goods" is included in Negative List. Earlier the service by an aircraft or a vessel from a place outside India upto the customs station of clearance in India was covered under Negative List. Now, the benefit of Negative List has been withdrawn.

	Benefit of Mega Exemption allowed Please note that the service of transportation of goods by an aircraft from a place outside India upto the custom station of clearance in India shall be exempted under **Entry No. 53 of Mega Exemption.** However, the service of transportation of goods by a vessel from a place outside India upto the custom station of clearance in India shall be taxable. *Students may please recall that the domestic shipping lines registered in India will have to pay tax under forward charge but the service availed from foreign shipping lines (located in a non-taxable territory) by a business entity located in India (i.e. taxable territory) will attract RCM. Further, the service-tax paid on such service will not form part of the value for custom duty purpose.*

Mega Exemption:

Entry No.	Amendment
Existing exemptions modified	
4	"Yoga" has been included in the definition of charitable activities. Hence service-tax shall not be payable on fee charged for yoga camps conducted by an entity registered u/s 12AA of the Income tax Act, 1961.
6	This Entry gives exemption to legal service. This Entry has been thoroughly amended. Hence it would be better to discuss the latest provision of this Entry. Now, following services are exempted: (a) Service provided **by** an "**arbitral tribunal" to** - (i) any person other than a business entity; or (ii) a business entity with a turnover up to Rs. 10 lakh in the preceding financial year **(i.e. a small business entity).** (b) Legal service provided **by** an **"individual as an advocate or a partnership firm of advocates (other than a senior advocate)" to** – (i) any person other than a business entity; or (ii) a business entity with a turnover up to Rs.10 lakh in the preceding financial year **(i.e. a small business entity);** or (iii) an advocate or partnership firm of advocates providing legal service. (c) Legal service provided by a "**senior advocate"** to – (i) a person other than a business entity; or (ii) a business entity with a turnover up to Rs.10 lakh in the preceding financial year **(i.e. a small business entity);** **"Arbitral Tribunal"** means a sole arbitrator or a panel of arbitrators. **"Legal service**" means any service provided in relation to advice, consultancy or assistance in any branch of law, in any manner and includes representational services before any court, tribunal or authority. *Please note that the service by a **senior advocate** to a business entity whose turnover had exceeded Rs. 10 lakh in the preceding financial year, is taxable. Section 65B(17) defines the term **"Business entity**" as a person ordinarily carrying out any activity relating to industry, commerce or any other business. Hence the service provided by a **senior advocate** to an advocate or a partnership firm of advocates whose turnover had exceeded Rs. 10 lakh in the preceding financial year is also taxable.*

	Important point ***The Govt. has made frequent changes in the service provided by "senior advocate". The position explained above is latest position. This latest position is also given in RTP for May, 2017. A table showing the "Latest position of legal Legal Service under Entry No. 6 of Mega Exemption" is given below in Part (D). Please refer that Table for a quick and latest understanding.***
16	Earlier the service **by** an artist **by way of** performance in folk or classical art forms ***(Remember – Gulabo)*** of: (i) music, (ii) dance, or (iii) theatre was exempt if the consideration charged for such performance does not exceed Rs. 1,00,000/-. Now the limit has been increased from Rs. 1,00,000/- to Rs. 1,50,000/-.
23(bb)	Already discussed under the heading "Negative List".
23(c)	Earlier service provided by way of transportation of passengers by "ropeway, cable car or aerial tramway" was exempted. This exemption has been withdrawn. Please note that the service provided by way of transportation of passengers by "metro, monorail or tramway" is covered under Entry No. (o) of Negative List and hence not taxable. Thus, the service provided by way of transportation of passengers by "ropeway, cable car or aerial tramway" is taxable and service provided by way of transportation of passengers by "metro, monorail or tramway" is not taxable [due to Negative List]. Please be cautious about the difference of "aerial tramway" and "tramway".
	Teaser – Why "aerial tramway" is taxable and "tramway" is not taxable? ***"Aerial tramway" is used by tourists for entertainment purpose. "Tramway" is used by general public for transportation.***
26	Service of general insurance provided under "Niramaya Health Insurance Scheme" shall be exempt.
29	(a) Services provided by a business facilitator/business correspondent to a banking company with respect to Basic Savings Bank Deposit Accounts covered by Pradhan Mantri Jan Dhan Yojana in the rural area branches of banking company shall be exempt. (b) Service provided by an intermediary to a business facilitator/business correspondent with respect to the above mentioned service, shall be exempt. **"Business Facilitator"** or **"Business Correspondent"** ***[Remember – Bank Mitra]*** means an intermediary appointed under the business facilitator model or the business correspondent model by a banking company under the guidelines issued by RBI.
39	Till now, the services provided **by** Govt. **by way of** any activity in relation to any function entrusted to a municipality under article 234W of the Constitution is exempt. Now, this exemption has been extended to the services provided by a local authority or a Governmental authority.
New exemptions added	
9B	Services provided **by** the **Indian Institute of Managements** (IIMs) **to** their students, **by way of** the following educational programmes [except Executive Development Programme]— (a) 2 year full time residential Post Graduate Programme in Management for the Post Graduate Diploma in Management (PGDM) to which admissions are made on the basis of Common Admission Test (CAT), (b) fellow programme in Management (c) 5 year integrated programme in Management.
9C	Services of assessing bodies empanelled centrally by Directorate General of Training, Ministry of Skill Development and Entrepreneurship **by way of** assessments under Skill Development

	Initiative (SDI) Scheme.
9D	Services provided **by** training providers (Project Implementation Agencies) under Deen Dayal Upadhyaya Grameen Kaushalya Yojana **(DDU-GKY)** under the Ministry of Rural Development.
26C	Services of life insurance business provided by way of annuity under the National Pension System (NPS).
48	Services provided **by** Government / a local authority **to** a business entity with a turnover upto Rs. 10 lakh in the preceding financial year **(i.e. a small business entity)**.
49	Service provided **by Employees Provident Fund Organisation (EPFO) to** persons governed under EPF Act, 1952.
50	Service provided **by** the **Insurance Regulatory and Development Authority of India (IRDA) to** insurers (i.e. insurance companies) under the IRDA Act, 1999.
51	Service provided **by** Stock Exchange Board of India **(SEBI) by way of** protecting the interests of investors in securities and to promote the development of, and to regulate, the securities market.
52	Service provided **by National Centre for Cold Chain Development (NCCCD) by way of** cold chain knowledge dissemination.
53	Already discussed under the heading **"Negative List".**
54	Services provided **by** Govt. / a local authority **to** another Govt. / local authority. However this exemption-provision is not applicable to the services covered in sub-entry No. (i), (ii) and (iii) of Entry No. (a) of Negative list. Please note that: • In following situations, there is a self-consumption of service. Since such activity is not done by one person for another, it does not fall within the meaning of "Service". Hence it is not taxable: (a) Service provided **by** Central Govt. **to** Central Govt. (b) Service provided **by** State Govt. **to** State Govt. (c) Service provided by a local authority to local authority • Hence the exemption under Entry No. 54 of Mega Exemption, shall be required and available in following cases: (a) Service provided **by** Central Govt. **to** State Govt. / local authority (b) Service provided **by** State Govt. **to** Central Govt. / local authority (c) Service provided **by** local authority to Central Govt. / State Govt.
55	Services provided **by** Govt. / a local authority **by way of** issuance of passport, visa, driving licence, birth certificate or death certificate.
56	Services provided **by** Govt. / a local authority where the gross amount charged for service does not exceed Rs. 5000/-. This exemption-provision is not applicable to the services covered in sub-entry No. (i), (ii) and (iii) of Entry No. (a) of Negative list. Please note: • Where the continuous supply of service (CSS) as defined in POT, 2011 is provided by Govt. / local authority, the exemption shall be available only if the gross amount charged for such service does not exceed Rs. 5,000/- in a financial year. • Please note that if the gross amount charged exceeds Rs. 5,000/-, **No** exemption is allowed.
57	Services provided **by** Govt. / a local authority **by way of** tolerating non-performance of a contract for which consideration in the form of fines or liquidated damage is payable **to** the Govt. / the local authority under such contract,
58	Services provided **by** Govt. / a local authority **by way of** – (a) registration required under any law, or (b) testing, caliberation, safety check or certification relating to protection or safety of workers, consumers or public at large, required under any law.
59	Services provided **by** Govt. / a local authority **by way of** assignment of right to use natural resources **to** an individual farmer for the purpose of agriculture.
60	Services **by** Govt. / a local authority / a Governmental authority **by way of** any activity in relation to any function entrusted to a Panchayat under article 243G of the Constitution.
61	Services provided **by** Govt. / a local authority **by way of** assignment of right to use any natural

	resource where such right to use was assigned by the Govt. / local authority before 01.04.2016. *This exemption is allowed only to the service-tax payable on one time charge payable in full upfront or in installments.*
~~**62**~~	~~Service provided **by** Govt. / local authority **by way of** allowing a business entity to operate as a telecom service provider or use radio frequency spectrum during the financial year 2015-16 on payment of licence fee or spectrum user charges. This exemption is applicable for financial year 2015-16 only.~~ This provision is relevant for financial year 2015-16 only. Further, it is not given in ICAI material. Hence not required for examination purpose.
63	Service provided by Govt. **by way of** deputing officers after office hourse or on holidays for inspection or container stuffing or such other duties in relation to import export cargo on payment of Mechant Overtime Charges.

Please note:

- ***Several services provided by Govt. / local authority are not taxable due to Entry No. (a) of Negative List and Entry No. 39, 48, 54 to 63 of Mega Exemption.***
- ***Certain services provided to Govt. / local authority are not taxable due to Entry No. 25 of Mega Exemption.***

Please read these Entries once again for a better understanding.

Abatement:

The latest list of abatements is given below. The amendments have been highlighted in bold letters:

Sl	Description of taxable service	Abatement allowed	Taxable value	Whether CENVAT credit available?		
		%	%	For inputs	For capital goods	For input service
	(1) LEASING / HIRE PURCHASE					
1	Service in relation to financial leasing or hire purchase. Note*: Abatement is available only on interest portion (i.e. the difference between the installments paid towards repayment of the lease amount and the principal amount contained in such installments). Please note that the abatement is not available on other charges (e.g. lease management fee, processing fee, documentation charges and administration fee).*	90	10	Yes	Yes	Yes
	(2) HOTEL / BUNDLE					
2	Renting of hotels, inns, guest houses, clubs, campsites or other commercial places meant for residential or lodging purposes.	40	60	N	N	Yes
3	Bundled service by way of supply of food or any other article of human consumption or any drink, in a premises (including hotel, convention centre, club, pandal, shamiana or any other place, specially arranged for organising a function) together with renting of such premises.	30	70	No / Yes	Yes	Yes
	(3) CONSTRUCTION					
4	Construction of a complex, building, civil structure or a part thereof, intended for a sale to a buyer, wholly or partly, *except where entire*	70	30	N	Yes	Yes

	consideration is received after issuance of completion certificate by the competent authority. *Note: The abatement is available only when the value of land is included in the amount charged from the service receiver.*					
	(4) TRANSPORT OF GOODS					
5	Transport of goods in a vessel	70	30	N	N	**Yes**
6	(a) Transport of goods by road by GTA: in relation to transportation of ***used household goods***	70	30	N	N	N
	(b) Transport of goods by road by GTA: in relation to transportation of goods other than *used household goods [Remember – Business goods].*	**60**	**40**	**N**	**N**	**N**
7	(a) Transport of goods by rail - **other than service specified below**	70	30	N	N	**Yes**
	(b) Transport of goods in container by rail - by any person other than Indian Railways	**60**	**40**	**N**	**N**	**Yes**
	(5) TRANSPORT OF PASSENGERS					
8	Transport of passengers by rail (with or without accompanied belongings)	70	30	N	N	**Yes**
9	(a) Transport of passengers by air (with or without accompanied belongings) in economy class.	60	40	N	N	Yes
	(b) Transport of passengers by air (with or without accompanied belongings) **i**n non-economy class (i.e. higher class).	40	60	N	N	Yes
10	**Transport of passengers (with our without accompanied belongings) by air, emarking from or terminating in a Regional Connectivity Scheme Airport (RCSA)**	**90**	**10**	**N**	**N**	**N**
11	Renting of motorcab.	60	40	N	N	N
12	Transport of passengers (with or without accompanied belongings): (a) by radio taxi (b) by air-conditioned contract carriage [other than motor cab]. (c) by **air-conditioned stage carriage**	**60**	40	N	N	N
	(6) TOUR OPERATOR					
13	(a) **Service by a tour operator in relation to a tour only for the purpose of arranging or booking accommodation for any person *(i.e. only hotel booking through a tour operator).***	**90**	**10**	**N**	**N**	**N**

14	(b) **Service by a tour operator in relation to a tour other than (i) above (i.e. *full package tour)***	**70**	**30**	**N**	**N**	**N**
	(7) FOREMAN OF CHIT FUND					
15	**Services provided by a foreman of chit fund in relation to chit.**	**30**	**70**	**N**	**N**	**N**

RCM:

Following services have been shifted from RCM to Forward Charge:

(a) Service provided **BY** agents/distributors of Mutual Fund **TO** a Mutual Fund / Asset Management Company.

~~(b) Legal service provided by a Senior Advocate. [This point is again amended. We shall discuss in Part (D)]~~

Hence the service-receiver shall not be liable to pay tax. The service provider (i.e. the agents/distributors of Mutual fund) shall be paying tax under Forward Charge.

Service Tax Procedures:

1. Earlier the facility of Quarterly Payment of service tax was allowed only to an individual (or proprietorship concern), partnership firm and LLP. Now, this facility has also been extended to HUF and Small OPC *[i.e. if the **"Aggregate value of taxable services (AVTS)"** provided by OPC from one or more premises in the preceding year did not exceed Rs. 50 lakh].*

2. New requirement has been introduced for filing of **Annual Return**. Briefly, the following provisions have been made in this regard:
   (a) Every assessee shall submit an Annual Return. The form and manner of filing such Return will be prescribed by CBEC.
   (b) The Return shall be filed by the 30th day of November of the succeeding financial year. However, the CBEC can extend the due date.
   (c) The Central Government may, subject to such conditions or limitations, exempt an assessee or class of assessee from filing such annual return.
   (d) The Annual return can be revised within 1 month from the date of its submission.
   (e) Delayed filing of Annual Return shall attract a late fee of Rs. 100 per day for the period in default subject to a maximum of Rs. 20,000.

3. Earlier there was a system of slabwise interest rates. The amendment has deleted the slabwise system and also reduced interest rates. The latest position of interest is as under:

Section	Situation	Interst rate	Interest for which period?
73B	If a person collects from service receiver, an amount in excess of the amount required to be collected under service-tax, but fails to pay to Govt. by the due date of payment **[Excess collection]**	15% per annum	First day of the month succeeding the month in which the amount ought to have been paid **TO** the date of actual payment
75	If a person collects service-tax but fails to pay to Govt. by the due date of payment **[Proper collection]**	24% per annum	Due date of payment **TO** The date of actual payment
	Any other situation (i.e. the person does not collect service-tax but fails to pay the liability of service-tax) by the due date of payment **[Example – Failure to collect tax / RCM]**	15% per annum	Due date of payment **TO** The date of actual payment

Following points should be noted:
(a) In the case of a service provider whose value of taxable services provided in the preceding financial year does not exceed Rs. 60.00 lakh, a rebate of 3% shall be allowed in the rate of interest.
(b) The calculation of interest shall be made on day to day basis for the period of delay.

CENVAT credit

Several amendments have been made in CENVAT Credit Rules. Here we shall be discussing some important amendments:

Particulars	Amendment
Meaning of "Capital Goods" – Rule 2(a)	"Capital Goods" shall include **the items covered under sub-heading 860692 i.e. Railway / tramway goods vans and wagons**. Hence these items shall be eligible for CENVAT credit as capital goods.
	"Capital goods" shall include the capital goods used in an **office located in a factory**. Hence the Capital Goods used in an office located in a factory shall be eligible for CENVAT credit. However, please note that the capital goods used in an office located outside factory shall not be eligible for credit.
	"Capital goods" shall include the capital goods used outside the factory of the manufacturer of the final products for pumping of water, for captive use within the factory. Hence the "capital goods" used outside the factory of the manufacturer of the final products for pumping of water, for captive use within the factory, shall be eligible for CENVAT credit.
Meaning of "Exempted service" – Rule 2(e)	"Service by way of transportation of goods by a vessel from customs station of clearance in India to a place outside India" has been excluded from the definition of "Exempted service". Hence the "Service by way of transportation of goods by a vessel from customs station of clearance in India to a place outside India" shall not be treated as "exempted service" for CENVAT purpose. Therefore the shipping lines which provide such service, shall be eligible to take CENVAT credit of inputs and input services used in providing such service.
Meaning of "Input service" – Rule 2(l)	We are aware that "input service" includes "services used in relation to advertisement, sales promotion and market research". Now amendment prescribes that "**sales promotion"** shall include services by way of sale of dutiable goods on commission basis". Hence the services by way of sale of dutiable goods on commission basis" shall be eligible for CENVAT credit.
Meaning of "Inputs" – Rule 2(k)	"Input" shall include all goods used for pumping of water for captive use. Hence such goods shall be eligible for CENVAT credit.
	"Input" shall include all capital goods which have a value upto Rs. 10,000/- per piece. Hence full CENVAT credit of the capital goods valuing upto Rs. 10,000/- per piece, shall be allowed in the year of receipt.
KKC – Rule 3	CENVAT credit of KKC can be claimed against the liability of KKC only. Further, the liability of KKC can be paid only by CENVAT credit of KKC. Remaining liability of KKC can be paid only in money.

	Please note that credit of KKC is allowed only to a Service-Provider and not to a Manufacturer because KKC is levied only in service-tax and not in excise duty.
SBC – Rule 3	CENVAT credit of SBC is not allowed. Further, the liability of SBC can be paid only in money.
NCCD – Rule 3	CENVAT credit of NCCD can be claimed against liability of NCCD only. Further, the NCCD can be paid only by CENVAT credit of NCCD. Remaining liability of NCCD can be paid only in money.
Rule 4	Earlier the validity of permission granted by department for sending inputs / partially processed inputs outside the factory to a job-worker and *clearance of final products directly there from (i.e. from the place of job-worker)* was for 1 financial year. Now, the permission shall be valid for 3 financial years.
Rule 4	We are aware that the CENVAT Credit in respect of input services must be availed within 1 year from the date of issue of the documents specified in Rule 9. If the credit is not availed, it lapses. Now, the amendment provides that the time-limit of 1 year shall not apply in case of Input service provided by Govt. or local authority by way of assignment of right to use any natural resource. Hence, in the case of Input service provided by Govt. or local authority by way of assignment of right to use any natural resource, the CENVAT credit can be taken on the basis of eligible documents even after the period of 1 year from the date of issue of such document.
Rule 5	This Rule provides for refund of CENVAT to exporter of goods or services. The amendment seeks to modify the procedure for grant of refund. The new procedure shall be as under: • The manufacturer / service provider shall submit a duly signed application in Form A to the department alongwith (i) copies of bank realization certificate (BRCs), (ii) a certificate duly signed by the auditor certifying the correctness of refund claimed, and (iii) other specified documents. • The refund claim shall be filed: (a) in case of manufacturer, before the expiry of the period specified in section 11B of Central Excise Act, 1944; or (b) in case of service provider, before expiry of 1 year from the date of receipt of payment in foreign exchange or the date of issue of invoice of export, whichever is LATER. • The authority, after satisfying himself in respect of the correctness of the claim and the fact that goods cleared for export or services provided have actually been exported, shall allow the refund claim in full or part.
Rule 6	This Rule prescribes obligations on a manufacturer of final product or a provider of output service. Due to substantial amendments, the latest provisions of Rule 6 are given below.
Rule 7, 7A, 7B	These Rules prescribe a mechanism for distribution of input credit. Due to substantial amendments, the latest provisions of these Rules are given below.

Rule 6 - OBLIGATIONS OF A MANUFACTURER OF FINAL PRODUCTS AND A PROVIDER OF OUTPUT SERVICE:

Under this Rule, a manufacturer / service provider has certain obligations, as discussed below.

Rule 6(1):

The CENVAT credit shall **not be allowed** on **input / input services** used (i) in or in relation to manufacture of **exempted goods** and their clearance upto the palce of removal, or (ii) for provision of **exempted services,** and the credit not allowed shall be calculated and paid (i.e. reversed) by the manufacturer or service provider, as per Rule 6(2) / 6(3) discussed below.

For the purpose of Rule 6 only:

- *"Exempted goods" / "Final products" shall include "non-excisable goods" cleared for a consideration from the factory.*
- *"Exempted service" includes an activity which is not a "service".*

Rule 6(2):

A manufacturer who **exclusively manufactures exempted goods** for their clearance upto the place of removal or a service provider who **exclusively provides exempted services** shall have to pay (i.e. reverse) the whole amount of credit of **input and input services.** Thus, in effect, he shall not be eligible for credit of inputs and input services.

Rule 6(3):

A manufacturer who manufactures **two classes of goods,** namely (i) non-exempted goods and (ii) exempted goods; or a service provider who provides **two classes of services,** namely (i) non-exempted services and (ii) exempted services, shall follow any one of the following two options:

Option (1) - Adhoc Reversal:

Pay an amount equal to (i) 6% of value of exempted goods or (ii) 7% of value of exempted services, subject to a maximum of the sum total of opening balance of the credit of input and input services available at the beginning of the period to which the payment relates and the credit of input and input services taken during that period.

Notes:

(i) If any excise duty is paid on the exempted goods, the same shall be reduced from the amount payable under this Option.

(ii) If any part of the value of a taxable service has been exempted (i.e. abatement) on the condition that no CENVAT credit of inputs and input services used for providing such service shall be taken, then 7% of the value so exempted (i.e. 7% of abated value), shall be payable.
Example: If gross amount charged is Rs. 100, abatement is 60%, then 7% of Rs. 60 shall be taken.

(iii) In case of transportation of goods or passengers by rail, 2% of the value of exempted service (in place of 7% of the value of exempted service), shall be payable.

Option (2) – Formula based Reversal:

Pay an amount as determined under Rule 6(3A).

Note: The manufacturer or service provider shall exercise any of the above two options for all exempted goods or all exempted services and such option shall not be withdrawn during the remaining part of the financial year.

Rule 6(3A):

This Rule is very lengthy. It seems that it is not relevant for IPC. Hence not discussed. Interested students may please refer the ICAI material.

Rule 6(3B):

A banking company / financial institution / NBFC, engaged in providing services by way of extending deposits, loans or advances, shall in addition to the two options discussed above, have an additional option to pay (i.e. reverse) for every month an amount equal to 50% of the CENVAT credit availed on inputs and input services in that month. In short, the banking company / financial institution / NBFC has option to reverse 50% of actual credit.

Rule 6(4):
No CENVAT Credit shall be allowed on **capital goods** exclusively used in the manufacture of **exempted goods** or in providing **exempted services** for a period of 2 years from the date of commencement of the commercial production or provision of service.

Following points should be noted:
- The restriction of Rule 6(4) is not applicable to a manufacturer claiming **SSI exemption [Please note this relaxation has been given to SSI and not to SSP]**.

- What will happen if the **capital goods** are used for **two classes of goods,** namely (i) non-exempted goods and (ii) exempted goods; or for **two classes of services,** namely (i) non-exempted services and (ii) exempted services? The law does not prescribe any restriction. Hence full credit can be taken ***[But please note that under VAT laws, proportionate credit is allowed in such cases]***.

RULE 7, 7A and 7B – DISTRIBUTION OF INPUT CREDIT:
Situations may arise where the CENVAT credit has to be distributed. In this regard, following Rules have been prescribed:
- Rule 7 – Distribution of credit on input services
- Rule 7A – Distribution of credit on inputs and capital goods.
- Rule 7B – Distribution of credit on inputs by warehouse of manufacturer

Now we shall discuss these Rules.

Rule 7 – Distribution of credit on input services:
(a) Sometimes the bill / invoice is raised in the name of head office / regional office etc. for services which are actually received in the factory or premises of service provider. Similarly, sometimes the bill / invoice is for multi-locations or is not for any specific factory / premise. Hence, Rule 7 has been prescribed to provide a way to distribute CENVAT credit to the concerned factory or the premises of the output service provider.

Example: A Ltd. is having head office in Jaipur and plants at Jodhpur and Ajmer. Advertisement bills are received by Jaipur head office and also paid there. In such a case, Jaipur office can distribute CENVAT credit to its plants at Jodhpur and Ajmer. Thereafter, the plants at Jodhpur and Ajmer can take CENVAT credit and utilize the same for payment of excise duty / service tax.

(b) We have earlier discussed the definition of **"Input service distributor"** in Rule 2(m) according to which **"input service distributor"** means an office of manufacturer or provider of output service which receives invoices towards purchase of input services and issues invoice, bill or challan for the purpose of distributing the credit of service tax paid on the services to its manufacturing units or units providing output service or an outsourced manufacturing units, as the case may be.

(c) The input service distributor has to obtain service tax registration, maintain proper records and file half-yearly Returns. Further an ISD may submit revised return within a period of 60 days from the date of submission of original return.

(d) The input service distributor may distribute the CENVAT credit in respect of the service tax paid on the input service to its manufacturing units or units providing output service or an outsourced manufacturing units, subject to the following conditions:—

  (i) The credit distributed does not exceed the amount of service tax paid thereon.

  (ii) The credit of service tax attributable as input service to a particular unit shall be distributed only to that unit.

  (iii) The credit of service tax attributable as input service to more than one units but not to all the units shall be distributed only amongst the related units and such distribution shall be *pro rata* on the basis of the turnovers of such units, during the relevant period, to the total turnover of all such units to which such input service is attributable and which are operational in the current year, during the said relevant period.

(iv) The credit of service tax attributable as input service to all the units shall be distributed to all the units *pro rata* on the basis of the turnover of such units during the relevant period to the total turnover of such units during the relevant period to the total turnover of all the units, which are operational in the current year, during the said relevant period.

(v) **"Outsourced manufacturing unit"** shall maintain separate account for input service credit received from each of the ISD and shall use it only for payment of duty on goods manufactured for the ISD concerned.

For this purpose:

(i) **"R<u>elevant period</u>"** shall be:

(a) If the assessee has turnover in the 'financial year' preceding to the year during which the credit is to be distributed for month / quarter -- the said financial year; or

(b) If the assessee does not have turnover for some or all of the units in the preceding financial year -- the last quarter for which details of turnover of all units are available, previous to the month / quarter for which the credit is to be distributed.

(ii) "**Unit"** includes the premises of a provider of output service or the premises of a manufacturer including the factory or the premises of an outsourced manufacturing unit.

(iii) The turnover of an outsourced manufacturing unit shall be the turnover of goods manufactured for the ISD.

(iv) **"Outsourced manufacturing unit"** means a job worker who is liable to pay excise duty on goods manufactured for ISD or a manufacturer who manufactures goods under the brand name of ISD and is liable to pay excise duty.

<u>Rule 7A – Distribution of credit on inputs and capital goods</u>:

(a) Sometimes bill / invoice for inputs and capital goods are raised in the name of head office / regional office etc. while the goods are received in some other premises of the service provider from where the services are actually provided. Hence, Rule 7A has been prescribed to provide a way to distribute the CENVAT credit of inputs and capital goods to the concerned service provider.

(b) All provisions as applicable to the first stage dealer or a second stage dealer in excise shall apply *mutatis mutandis* to such office or premises of the provider of output service.

Difference in Rule 7 and 7A
Rule 7 is applicable for distribution of CENVAT credit of tax paid on input services but Rule 7A is applicable for distribution of CENVAT credit of excise duty paid on inputs and capital goods.

<u>Rule 7B – Distribution of credit on inputs by warehouse of manufacturer:</u>

A manufacturer having one or more factories, will be allowed to take credit on inputs received under the cover of an invoice issued by a warehouse of such manufacturer, who receives inputs under cover of documents specified in Rule 9, towards the purchase of such inputs. The procedures applicable to a first stage dealer or a second stage dealer would apply, mutatis mutandis, to such a warehouse of the manufacturer. ***This Rule has been introduced to enable the manufacturers with multiple manufacturing units to maintain a common warehouse for inputs.***

PART (D) – SOME MORE PROVISIONS of DT / IDT

Note: The provisions explained below are either taken from RTP for May, 2017 or from some other sources. These are NOT INCLUDED in our book. Please learn these provisions too.

INCOME-TAX

CBDT Circular No. 28/2016 dated 27.07.2016:

A resident individual who has attained the age of 60 years or more (i.e. a senior resident) at any time during the previous year is entitled to Basic Exemption Limit of Rs. 3,00,000 and a resident individual who has attained the aged of 80 years or more (very senior resident) at any time during the previous year is entitled to Basic Exemption Limit of Rs. 5,00,000.

A question has arisen - How to reckon the age of 60 years / 80 years for assessees born on 1st April? The CBDT has given an interesting clarification. According to CBDT, a person born on 1st April shall be deemed to have attained the age of 60 years / 80 years on 31st March i.e. the day preceding the anniversary of his birthday.

Example:

A resident individual whose 60th birthday falls on 01.04.2017, shall be treated as having attained the age of 60 years on 31.03.2017 i.e. in the PY 2016-17 and hence eligible to claim basic exemption limit of Rs. 3,00,000/- in the AY 2017-18. Similarly, a resident individual whose 80th birthday falls on 01.04.2017, shall be treated as having attained the age of 80 years on 31.03.2017 i.e. in the PY 2016-17 and hence eligible to claim basic exemption limit of Rs. 5,00,000/- in the AY 2017-18.

CBDT Circular No. 36/2016 dated 25.10.2016:

The Govt. has passed **Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013 (RFCTLARR Act).** Section 96 of RFCTLARR Act prescribes that income-tax shall not be levied on any award or agreement made under RFCTLARR Act (except those made u/s 46 of that Act). However, there is no exemption provision in Income-tax Act to support the mandate of section 96 of RFCTLARR Act. Now, in order to obey the mandate of section 96 of RFCTLARR Act, the CBDT has issued a Circular to clarify that no tax shall be charged on the compensation received for compulsory acquisition of land (whether agricultural or non-agricultural) u/s 96 of RFCTLARR Act, even if there is no specific exemption in Income-tax Act, 1961.

Section 14A and Rule 8D:

Section 14A prescribes that any expenditure incurred by an assessee for the purpose of earning **income which does not form part of total income** (i.e. Exempted income), shall not be allowed as deduction in computing taxable income of any head. In short, section 14A disallows deduction of expenditure incurred for earning exempted income.

Example – If a person borrows money for investment in shares of an Indian company, the deduction of interest is not allowed because the dividend received from Indian company is exempted u/s 10(34).

How much disallowance - Rule 8D prescribes the method for ascertaining quantum of disallowable expenditure. This Rule has been substantially amended. The latest provision of Rule 8D is as under:

(1) Where the Assessing Officer, having regard to the accounts of the assessee of a previous year, is not satisfied with --
   (a) the correctness of the claim of expenditure made by the assessee; or
   (b) the claim made by the assessee that no expenditure has been incurred
   in relation to any exempted income, he shall determine the amount of expenditure in relation to such income in accordance with the provisions of sub-rule (2).

(2) The expenditure in relation to the exempted income shall be the **aggregate of following amounts**:
   (i) **Direct Expenditure** – i.e. the amount of expenditure directly related to exempted income;

(ii) **Standard amount to cover composite/indirect expenditure –** 1% of the *annual average of the monthly averages of the opening and closing balances of the value of investments*, from which exempted income is derived.

Overall cap over disallowance - It is specifically prescribed that the amount of disallowance calculated as above, shall not exceed the **"total expenditure claimed by the assessee"**. *[There would be controversies over the interpretation of **"total expenditure claimed by the assessee"].***

Section 32(1)(iia) – Additional Depreciation – CBDT Circular No. 15/2016 dated 19.05.16:

It has been clarified that the business of (i) printing, or (ii) printing and publishing shall be treated as manufacture or production of article and therefore entitled for additional depreciation.

Section 35ABA – Deduction of Spectrum Fee:

The Govt. has prescribed Rule 6A, which is given in the RTP of ICAI. However, the students may ignore this.

Deduction u/s 80JJAA - Taxation Laws (Amendment Act), 2016:

In the case of seasonal business of manufacturing of apparel, the limit of minimum number of days of employment has been reduced from 240 days to 150 days during the previous year.

E-Return intermediary:

"E-Return intermediary" means an intermediary who is qualified to receive Income-tax Returns from assessees in physical form, digitize those physical Returns and transmit the same electronically to a server designated by department. Thus, E-Return intermediary acts as an intermediary between the assessees and Income-tax Department ***[The concept is similar to E-Mitra]***.

Till now, a firm of Chartered Accountants or an Advocate (who holds PAN) was only qualified to be an E-Return intermediary. Now, a firm of Company Secretary or a Cost Accountant or Tax Return Preparer (TRP) (who holds PAN) would also qualify to be an E-Return Intermediary.

Section 197A(1F) - TDS:

The Govt. has notified that no tax shall be deducted at source out of payments of following nature made by any person to a bank listed in the Second Schedule to the Reserve Bank of India Act, 1934 (excluding a foreign bank) —

(i) Bank guarantee commission,

(ii) Cash management service charges,

(iii) Depository charges on maintenance of DEMAT accounts ,

(iv) Charges for warehousing services for commodities,

(v) Underwriting service charges,

(vi) Clearing charges (MICR charges) and

(vii) Credit card or debit card commission for transaction between the merchant establishment and acquirer bank.

TDS - CBDT Circular No. 28/2016 dated 27.07.2016:

Section 194-I requires TDS out of payment of "rent". For this purpose , "Rent" means any payment, by whatever name called, under any lease, sub-lease, tenancy or other agreement or arrangement for the use of any land or building ………". Now, the CBDT has clarified that any "lump sum lease premium" or "one time upfront lease charges" paid by an assessee for acquiring long term leasehold rights for land or other property shall not be treated as "rent" for the purpose of section 194-I. Hence TDS shall not be required out of such payment.

CUSTOMS DUTY

Safeguard duty u/s 8C of the CTA, 1975 abolished:

Under section 8B of CTA, 1975, the Central Govt. can impose safeguard duty. There is no change in this provision. However, there was another safeguard duty u/s 8C of CTA, 1975 on the import of goods from China. The Govt. has abolished safeguard duty leviable u/s 8C.

SERVICE-TAX

Charging scheme - Composition rate for single premium annuity policy:

In the case of single premium annuity policies of life insurance, the composition rate shall be 1.40% of the single premium charged.

LATEST POSITION OF ACTIVITY OF INSURER

Activity			Regular system of service-tax	Composition scheme
Insure carrying on general insurance business			14% [+0.50%SBC+0.50%KKC] of **gross premium** because there is no saving portion in general insurance and gross premium is for service only.	There is no composition scheme. In fact, composition scheme is not required because there is no saving portion.
Insurer carrying on life insurance business	Saving policy	Single premium annuity policy	14% [+.50%SBC+.50%KKC] of **risk part** of insurance premium	1.40% of the **single gross premium** charged from policy holder.
		Any other policy	14% [+.50%SBC+.50%KKC] of **risk part** of insurance premium	3.50% of the **gross premium** charged from policy holder for first year and 1.75% of the **gross premium** charged from policy holder for subsequent year.
	Risk policy / term plan		14% [+0.50%SBC+0.50%KKC] of **gross premium** because there is no saving portion in general insurance and gross premium is for service only.	There is no composition scheme. In fact, composition scheme is not required because there is no saving portion.

Just to remind you following provisions which you have already studied:

- *The composition scheme is optional.*
- *In case of composition scheme, SBC and KKC shall be levied by a special formula.*

Charging scheme - Circular No. 189 dated 26.11.2015:

The CBEC has clarified that the activity of testing of seeds and the ancillary activities to such testing rendered during the testing of seeds (For example - seed certification, technical inspection, technical testing, analysis, tagging of seeds) shall be covered under Entry No. (d) of Negative List. Hence not taxable.

Charging scheme - DOF No. 334 dated 29.02.2016:

It has been clarified that the incentive received by Air Travel Agents (ATA) from Computer Reservation System Companies (CCRS) like Amadeus, Galileo etc. is liable to service tax.

Mega Exemption - Entry No. 6 in Mega Exemption:

The Govt. has made frequent changes in the service provided by "senior advocate". The latest position is given below. This latest position is also given in RTP for May, 2017:

"Legal service provided by a "senior advocate" to –

(i) a person other than a business entity; or

(ii) a business entity with a turnover up to Rs.10 lakh in the preceding financial year (i.e. a small business entity)

shall be exempt.

*Thus, the legal service provided by a **senior advocate** to a business entity whose turnover had exceeded Rs. 10 lakh in the preceding financial year, is taxable. Section 65B(17) defines the term **“Business entity**" as a person ordinarily carrying out any activity relating to industry, commerce or any other business. Hence the service provided by a **senior advocate** to an advocate or a partnership firm of advocates whose turnover had exceeded Rs. 10 lakh in the preceding financial year is also taxable.*

<u>Latest position of Legal Service under Entry No. 6 of Mega Exemption</u>

Service is provided to whom?		Service provided by an Arbitral Tribunal	Service provided by an individual as an advocate or a partnership firm of advocates	Service provided by a senior advocate
Service provided to a person other than business entity		Exempt	Exempt	Exempt
Service provided to a business entity	Turnover up to Rs.10 lakh in the preceding financial year (i.e. a small business entity)	Exempt	Exempt	Exempt
	Turnover exceeding Rs. Rs.10 lakh in the preceding financial year	**Taxable**	**Taxable**	**Taxable**
Service provided to an advocate or partnership firm of advocates providing legal service	Turnover upto Rs. 10 lakh in the preceding financial year	Exempt	Exempt	Exempt
	Turnover exceeding Rs. 10 lakh in the preceding financial year	**Taxable**	Exempt	**Taxable**

Mega Exemption - DOF No. 338 dated 29.02.2016:
Service provided by the Institute of Language Management to various schools / educational institutions to develop knowledge and language skills of the students of those schools / educational institutions is not covered under Entry No. 9 of Mega Exemption. Hence such service shall be taxable.

Mega Exemption - Notification No. 22/2016 dated 13.04.2016:
Entry No. 39 shall not apply to the services covered in sub-entry No. (i), (ii) and (iii) of Entry No. (a) of Negative list.

Mega Exemption - Notification No. 26/2016 dated 20.05.2016:
Entry No. 48 shall not apply to the services covered in sub-entry No. (i), (ii) and (iii) of Entry No. (a) of Negative list.

SSI Exemption for jewellery manufacturers:
The jewellery manufacturers shall be eligible to claim SSI exemption on the first **“aggregate value of clearances (AVC)**” upto Rs. 10 crore ***[Please note that initially it was Rs. 6 crore, subsequently amended to Rs. 10 crore]*** in a financial year, provided the **“aggregate value of clearances (AVC)”** did not exceed Rs. 15 crore ***[Please note that initially it was Rs. 12 crore, subsequently amended to Rs. 15 crore]*** in the immediately preceding financial year.

Exemption by virtue of SEZ Act, 2005:
SEZ Act, 2005 prescribes that the service provided to a developer of SEZ or a unit located in SEZ shall be exempt as under –

- If the services are **wholly consumed** within SEZ, service tax shall be fully exempted. It means there would be no need to pay service-tax.
- If the services are **partly consumed** within SEZ, then first service tax shall be paid and thereafter refund shall be claimed proportionately.

The amendment prescribes that the above benefits shall also be in relation to SBC and KKC.

Exemption to services provided by TBI and STEP:
All services provided by recognised Technology Business Incubators (TBI) and Science & Technology Entrepreneurship Parks (STEP) are fully exempted. This exemption shall also be available to all services provided by Bio-Incubators recognized by the Biotechnology Industry Research Assistance Council (BIRAC).

Refund / Rebate in relation to "Export of goods":
We are aware that the "Exporter of goods" are having following exemptions:

(a) The GTA service in respect of transport of goods by road from place of removal to ICD / CFS / port / airport / land customs station (from where the goods are exported) or from any CFS / ICD to port / airport / land customs station (from where goods are exported) is fully exempt from levy of service-tax.

(b) Rebate / Refund of service tax paid on "**specified services" used** in the export of goods, is allowed.

Now the amendment prescribes the meaning of "specified services". Accordingly, "specified services" means:

(i) in the case of excisable goods, taxable services that have been used beyond factory or any other place or premises of production or manufacture of the goods, for their export;

(ii) in the case of non-excisable goods, the taxable services used for the export of goods.

RCM:
The following service has been brought under RCM:

"Service provided by a Senior Advocate by way of representational service before any court, tribunal or authority, directly or indirectly, to any business entity located in the taxable territory, including where contract for provision of service has been entered through another advocate or a firm of advocates, and the senior advocate is providing such services, the person liable to pay service-tax is the recipient of such services, which is the business entity who is litigant, applicant, or petitioner, as the case may be".

The effect is:

(i) Where the legal service is provided by a senior advocate to a business entity, the service-tax shall be payable by business entity.

(ii) Where representational service is provided by a senior advocate to a business entity, service-tax shall be payable by the business entity who is litigant, applicant or petitioner.

(iii) Where the contract for representational service provided by a senior advocate to a business entity has been entered through another advocate or a firm of advocates, service-tax shall be payable by business entity who is litigant, applicant or petitioner.

POT - Relaxation provision for certain middle level assesses:
Under the existing provisions, an individual, partnership firm or LLP, whose **"Aggregate value of taxable services (AVTS)"** provided from one or more premises did not exceed Rs. 50 lakhs in the preceding financial year, had an **option** to pay tax on taxable services provided or agreed to be provided by him upto a total of Rs. 50 lakhs in the current financial year by the due dates with respect to the month or quarter (as the case may be) in which payment is received. Now this relaxation has also been extended to an **OPC**. ***Please note that this benefit is not allowed to HUF.***

Service-tax Procedures – E-Payment of Tax:
In my book there is a lacuna in explaining this provision. The correct / complete provisions is:
The GAR-7 challan format is both for E-Payment and Physical payment.

CENVAT Credit

Infrastructure Cess:

The Govt. has levied a new cess called "Infrastructure Cess" on certain motor vehicles through Finance Act, 2016. Now, it is specifically prescribed that the CENVAT credit of "Infrastructure Cess" shall not be allowed at all. Further, CENVAT credit of any duty cannot be used for payment of "Infrastructure Cess". ***[In short we can conclude that the position of "Infrastructure Cess" is similar to SBC].***

CENVAT credit of capital goods – Upto 50% in first year and balance in subsequent financial years:

In my book there is a lacuna in explaining this provision. The correct / complete provisions is:

The CENVAT credit of capital goods is allowable upto 50% in the first year. The language uses **"upto 50%".** Hence it is not necessary to claim full 50% in the first year. The assessee can claim any amount not exceeding 50% in first year. The balance of CENVAT credit can be claimed in **one or more subsequent years**.

Rule 5B - Refund of CENVAT credit to service providers providing services taxed on RCM:

In my book there is a lacuna in explaining this provision. The correct / complete provisions is:

*"If a service provider provides service on which tax is payable by the service-recipient under **Partial RCM** and he is unable to utilize the CENVAT credit available to him on inputs and input services for payment of service-tax on output services, he shall be entitled to refund of CENVAT credit. The refund shall be allowed subject to prescribed safeguards, conditions, limitations and procedures."*

PART (D) – SOME MORE PROVISIONS of DT / IDT

Income Computation and Disclosure Standards (ICDS)

OVERVIEW

ICDS	AS
The ICDS have been notified by Central Govt. under the authority of section 145(2) of Income-tax Act, 1961.	AS have been issued by the ICAI.
There are 10 ICDS serially numbered from ICDS I to ICDS X.	There are 27 AS serially numbered from AS 1 to AS 29 (AS-6 & 8 are deleted).
These ICDS shall apply from 01.04.2016. Hence in relation to AY 2017-18.	AS have become applicable from respective dates.
ICDS are provisions-based and the purpose is proper collection of income-tax, 1961.	AS are principles based and the purpose is to present a true and fair view to the readers of financial statements.
Applicable only for computation of income (and not for maintenance of accounts and preparation of financial statements).	Applicable only for maintenance of accounts and preparation of financial statements (and not for computation of income).
Applicable only for two heads, viz. (i) Income from BPV, and (ii) Income from Other Sources. ICDSs are not applicable for other three heads, viz. (i) Income from Salary, (ii) Income from House-Property, and (iii) Income from Capital Gain.	AS issued are to be used in presentation of general purpose financial statements issued by enterprises engaged in commercial, industrial or business activities, whether it is profit oriented or established for charitable or religious purpose.
Applicable only if the assessee follows mercantile method of accounting. Not applicable if the assessee follows cash method of accounting.	As per AS 1 Accrual is fundamental accounting assumption, so no concept of cash method.
Applicable to all assesses (other than individual and HUF who is not required to get his accounts audited u/s 44AB)	Applicability has been prescribed by ICAI & Companies Act
Non-compliance of ICDS attracts section 144 i.e. best judgement assessment.	Non-compliance of AS attracts remarks / qualifications / disclaimer of auditors as well as violation of Companies Act.
In case of conflict between ICDS and provisions of Income-tax Act, 1961, the provisions of Income Tax Act shall prevail.	No such point.

ICDS and Corresponding AS

ICDS No.	Title of ICDS	Corresponding AS
I	Accounting Policies	1
II	Valuation of Inventories	2
III	Construction Contracts	7
IV	Revenue Recognition	9
V	Tangible Fixed Assets	10
VI	Effects of changes in foreign exchange rates	11
VII	Government Grants	12
VIII	Securities	13
IX	Borrowing costs	16
X	Provisions, Contingent liabilities & Contingent assets	29

DETAILED ANALYSIS OF ICDS and AS

Content Title	Para	ICDS requirement	AS requirement
ICDS I – Accounting Policies			**AS 1**
Scope	1	This ICDS deals with significant accounting policies.	Same
Fundamental Accounting Assumptions	2	"**Going concern**" refers to the assumption that the person has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the business, profession or vocation and intends to continue his business, profession or vocation for the foreseeable future. "**Consistency**" refers to the assumption that the accounting policies are consistent from one previous year (accounting period) to another. "**Accrual**" refers to the assumption that the revenues and costs are accrued, i.e. recognised as they are earned or incurred (and not as money is received or paid) and recorded in the previous year to which they relate.	Same
Accounting Policies	3	**"Accounting policies"** means (i) the specific accounting principles and (ii) the methods of applying those principles, adopted by a person.	Same
Considerations in the Selection and Change of Accounting Policies	4	Accounting policies adopted by a person shall be such so as to represent a true and fair view of the state of affairs and income of the business, profession or vocation. For this purpose: (i) the treatment and presentation of transactions and events shall be governed by their substance and not merely by the legal form; and (ii) **"marked to market loss" or an "expected loss" shall not be recognised** unless the recognition of such loss is in accordance with the provisions of any other ICDS. ***Please note that ICDS does not recognize (i) prudence, and (ii) materiality.*** ***Logic:*** ***Income-tax department does not want to escape taxation on the basis of prudence or materiality. Hence the department has not accepted considerations of (i) prudence, and (ii) materiality.***	The major considerations governing the selection and application of accounting policies are:- (a) Prudence (b) Substance over Form (c) Materiality Although AS is silent, the "marked to market losses" shall have to be provided for due to prudence concept. **(Refer Case Study No. 1)**

Content Title	Para	ICDS requirement	AS requirement
	5	An accounting policy shall not be changed without a ***reasonable cause***.	Change in accounting policies should be made only if: (i) it is required by statute, or (ii) for compliance with an AS, or (iii) for a more appropriate presentation of the financial statements.
Disclosure of Accounting Policies	6	All significant accounting policies adopted by a person shall be disclosed.	Same. However, AS specifically mentions that the disclosure of all significant accounting policies should form part of the financial statements and such disclosure should normally be at one place.
	7	Any change in an accounting policy which has a material effect shall be disclosed.	Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in **later periods** should be disclosed.
		The amount by which any item is affected by such change shall also be disclosed to the extent ascertainable.	Same
		Where such amount is not ascertainable, wholly or in part, the fact shall be indicated.	Same
		If a change is made in the accounting policies which has no material effect for the current previous year but which is reasonably expected to have a material effect in later previous years, the fact of such change shall be appropriately disclosed in the previous year in which the change is adopted and **also in the previous year in which such change has material effect for the first time**.	**Same** **However such disclosure is required in year of change only**
	8	Disclosure of accounting policies or of changes therein cannot remedy a wrong or inappropriate treatment of the item.	Same
	9	If the fundamental accounting assumptions of Going Concern, Consistency and Accrual are followed, specific disclosure is not required. But If a fundamental accounting assumption is not followed, the fact shall be disclosed.	Same
ICDS II – Valuation of Inventories			**AS 2**
Scope	1	This ICDS shall be applied for valuation of inventories, except : (a) Work-in-progress arising under 'construction contract' including directly related service contract which is dealt with by the ICDS on construction contracts.	Same exclusions. However WIP of service providers is also excluded from AS.

Content Title	Para	ICDS requirement	AS requirement
		(b) Work-in-progress which is dealt with by other ICDS. (c) Shares, debentures and other financial instruments held as stock in trade, which is dealt with by the ICDS on securities. (d) Producers' inventories of livestock, agriculture and forest products, mineral oils, ores and gases to the extent that they are measured at net realisable value; (e) Machinery spares, which can be used only in connection with a tangible fixed asset and their use is expected to be irregular, which shall be dealt with by the ICDS on tangible fixed assets.	
Definitions	2(1)(a)	"Inventories" are assets held: (i) for sale in the ordinary course of business; (ii) in the process of production for such sale; (iii) in the form of materials or supplies to be consumed in the production process or in the rendering of services.	Same
	2(1)(b)	"Net realisable value" is the estimated selling price in the ordinary course of business *less* the estimated costs of completion and the estimated costs necessary to make the sale.	Same
Measurement	3	Inventories shall be valued at cost or net realisable value, whichever is lower.	Same
Cost of Inventories	4	Cost of inventories shall comprise of all (i) Costs of purchase / Costs of services, + (ii) Costs of conversion, (+) (iii) Other costs incurred in bringing the inventories to their present location and condition.	Same
Costs of Purchase	5	The costs of purchase shall include duties and taxes *(whether subsequently recoverable / creditable by the enterprise or not)*, freight inwards and other expenditure directly attributable to the acquisition. Trade discounts, rebates and other similar items shall be deducted in determining the costs of purchase. *It may be noted that even the duties and taxes paid by the enterprise which are subsequently recoverable or creditable (for example – Input credit is available) shall also be included in cost of purchase. This is in accordance with section 145A of Income-tax Act, 1961*. ***[In short the ICDS recognizes "inclusive method"].***	Same. However, the "Cost of purchase" cost **does not include** duties and taxes subsequently recoverable / creditable by the enterprise. ***[In short the AS recognizes "exclusive method"].*** **(Refer Case Study No. 2)**
Costs of Services	6	The costs of services in the case of a service provider shall consist of labour	The AS does not prescribe this. Because, WIP of services is

Content Title	Para	ICDS requirement	AS requirement
		and other costs of personnel directly engaged in providing the service including supervisory personnel and attributable overheads.	excluded from the scope of AS.
Costs of Conversion	7	The costs of conversion of inventories shall include costs directly related to the units of production and a systematic allocation of fixed production overheads + variable production overheads that are incurred in converting materials into finished goods. Fixed production overheads shall be those indirect costs of production that remain relatively constant regardless of the volume of production. Variable production overheads shall be those indirect costs of production that vary directly or nearly directly, with the volume of production.	Same
	8	The allocation of fixed production overheads for the purpose of their inclusion in the costs of conversion shall be based on the normal capacity of the production facilities. Normal capacity shall be the production expected to be achieved on an average over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance. The actual level of production shall be used when it approximates to normal capacity. The amount of fixed production overheads allocated to each unit of production shall not be increased as a consequence of low production or idle plant. Unallocated overheads shall be recognised as an expense in the period in which they are incurred. In periods of abnormally high production, the amount of fixed production overheads allocated to each unit of production is decreased so that inventories are not measured above the cost. Variable production overheads shall be assigned to each unit of production on the basis of the actual use of the production facilities.	Same
	9	Where a production process results in more than one product being produced simultaneously and the costs of conversion of each product are not separately identifiable, the costs shall be allocated between the products on a rational and consistent basis. Where by-products, scrap or waste material are immaterial, they shall be measured at net realisable value and this value shall be deducted from the cost of the main	Same

Content Title	Para	ICDS requirement	AS requirement
		product.	
Other Costs	10	Other costs shall be included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition.	Same
	11	Interest and other borrowing costs shall not be included in the costs of inventories, unless they meet the criteria for recognition of interest as a component of the cost as specified in the **ICDS IX** on borrowing costs.	Same
Exclusions from the Cost of Inventories	12	In determining the cost of inventories in accordance with paragraphs 4 to paragraphs 11, the following costs shall be excluded and recognised as expenses of the period in which they are incurred, namely:— (a) Abnormal amounts of wasted materials, labour, or other production costs; (b) Storage costs, unless those costs are necessary in the production process prior to a further production stage; (c) Administrative overheads that do not contribute to bringing the inventories to their present location and condition; (d) Selling Costs.	Same. However, AS also excludes **Distribution Cost (along with Selling Cost).**
Cost Formulae – Specific identification	13	The Cost of inventories of items (i) that are not ordinarily interchangeable; and (ii) goods or services produced and segregated for specific projects shall be assigned by specific identification of their individual costs.	Same
	14	'Specific identification of cost' means specific costs are attributed to identified items of inventory.	Same
	15	If there are a large numbers of items of inventory which are ordinarily interchangeable, specific identification of costs shall not be made.	Same
Cost formulae - FIFO and Weighted Average Cost Formula	16	Cost of inventories, other than the inventory dealt with in paragraph 13, shall be assigned by using the First-in First-out (FIFO), or weighted average cost formula. The formula used shall reflect the fairest possible approximation to the cost incurred in bringing the items of inventory to their present location and condition.	Same
	17	The FIFO formula assumes that the items of inventory which were purchased or produced first are consumed or sold first, and consequently the items remaining in inventory at the end of the period are	Same

Content Title	Para	ICDS requirement	AS requirement
		those most recently purchased or produced. Under the weighted average cost formula, the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period and the cost of similar items purchased or produced during the period. The average shall be calculated on a periodic basis, or as each additional shipment is received, depending upon the circumstances.	
Techniques for the Measurement of Cost	18(1)	Techniques for the measurement of the cost of inventories, such as the standard cost method or the retail method, may be used for convenience if the results approximate the actual cost. Standard costs take into account normal levels of consumption of materials and supplies, labour, efficiency and capacity utilisation. They are regularly reviewed and, if necessary, revised in the light of the current conditions.	Same
	18(2)	The retail method can be used in the retail trade for measuring inventories of large number of rapidly changing items that have similar margins and for which it is impracticable to use other costing methods. The cost of the inventory is determined by reducing from the sales value of the inventory, the appropriate percentage gross margin. The percentage used takes into consideration inventory, which has been marked down to below its original selling price. An average percentage for each retail department is to be used.	Same
Net Realisable Value	19	Inventories shall be written down to net realisable value on an item-by-item basis. Where 'items of inventory' relating to the same product line having similar purposes or end uses and are produced and marketed in the same geographical area and cannot be practicably evaluated separately from other items in that product line, such inventories shall be grouped together and written down to net realisable value on an aggregate basis.	Same
	20	Net realisable value shall be based on the most reliable evidence available at the time of valuation. The estimates of net realisable value shall also take into consideration the purpose for which the inventory is held. The estimates shall take into consideration fluctuations of price or cost directly relating to events occurring after the end of previous year to the extent that such	Same

Content Title	Para	ICDS requirement	AS requirement
		events confirm the conditions existing on the last day of the previous year.	
	21	Materials and other supplies held for use in the production of inventories shall not be written down below the cost, where the finished products in which they shall be incorporated are expected to be sold at or above the cost. Where there has been a decline in the price of materials and it is estimated that the cost of finished products will exceed the net realisable value, the value of materials shall be written down to net realisable value which shall be the replacement cost of such materials.	Same
Value of Opening Inventory	22	The value of the inventory as on the beginning of the previous year shall be - (i) the cost of inventory available, if any, on the day of the commencement of the business when the business has commenced during the previous year; and (ii) the value of the inventory as on the close of the immediately preceding previous year, in any other case.	Not dealt with by AS.
Change of Method of Valuation of Inventory	23	The method of valuation of inventories once adopted by a person in any previous year shall not be changed without **reasonable cause.**	Not dealt with by AS-2. However, this would amount to change in accounting policy and therefore AS-5 shall be applicable.
Valuation of Inventory in case of certain dissolutions	24	In case of dissolution of a partnership firm or association of person or body of individuals, ***notwithstanding whether business is discontinued or not***, the inventory on the date of dissolution shall be valued at the net realisable value only.	If firm will not be dissolved, then inventory shall be valued at cost or NRV whichever is less. If firm will be dissolved then accounts have to be prepared on realizable value, as therefore inventory will also be valued at NRV. **(Refer Case Study No. 3)**
Disclosure	26	The following aspects shall be disclosed, namely: (a) the accounting policies adopted in measuring inventories including the cost formulae used; and (b) the total carrying amount of inventories and its classification appropriate to a person.	Same
ICDS III – Construction Contracts			**AS 7**
Scope	1	This ICDS should be applied in determination of income for a construction contract of a contractor.	This statement should be applied in accounting for construction contracts in the financial statements of contractors
Definitions	2(1)	(a) **"Construction contract"** is a contract specifically negotiated for the construction of an asset or a combination of assets that	Same

Content Title	Para		ICDS requirement	AS requirement
			are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use and includes: (i) contract for the rendering of services which are directly related to the construction of the asset. For example -- Contracts for the services of project managers and architects. (ii) contract for destruction or restoration of assets, and the restoration of the environment following the demolition of assets.	
	2(1)	(b)	**“Fixed price contract”** is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output (which may be subject to cost escalation clauses as agreed between parties).	Same
	2(1)	(c)	**“Cost plus contract”** is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs, plus a mark up on these costs or a fixed fee.	Same
	2(1)	(d)	**“Retentions”** are the amounts of progress billings which are not paid until the satisfaction of conditions specified in the contract for the payment of such amounts or until defects have been rectified.	Same
	2(1)	(e)	**“Progress billings”** are the amounts billed for work performed on a contract whether or not they have been paid by the customer.	Same
	2(1)	(f)	**“Advances”** are the amounts received by the contractor before the related work is performed.	Same
	3		A construction contract may be negotiated for the construction of a single asset. A construction contract may also deal with the construction of a number of assets which are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.	Same
	4		Construction contracts are formulated in a number of ways which, for the purposes of this ICDS, are classified as (i) Fixed price contracts, and (ii) Cost plus contracts. Some construction contracts may contain both characteristics i.e. characteristics of	Same

Content Title	Para	ICDS requirement	AS requirement
		fixed price contract as well as a cost plus contract. For example - A cost plus contract with an agreed maximum price.	
Combining and Segmenting Construction Contracts	5	The requirements of this ICDS shall be applied separately to each construction contract except as provided for in paragraphs 6, 7 and 8 herein. For reflecting the substance of a contract or a group of contracts, where it is necessary, the ICDS should be applied to the separately identifiable components of a single contract or to a group of contracts together.	Same
	6	Where a contract covers a number of assets, the construction of each asset should be treated as a separate construction contract when: (a) Separate proposals have been submitted for each asset; (b) each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and (c) the costs and revenues of each asset can be identified.	Same
	7	A group of contracts, whether with a single customer or with several customers, should be treated as a single construction contract when: (a) the group of contracts is negotiated as a single package; (b) the contracts are so closely interrelated that they are, in effect, part of a single project with an overall profit margin; and (c) the contracts are performed concurrently or in a continuous sequence.	Same
	8	Where a contract provides for the construction of an additional asset at the option of the customer or is amended to include the construction of an additional asset, the construction of the additional asset should be treated as a separate construction contract when: (a) the asset differs significantly in design, technology or function from the asset or assets covered by the original contract; or (b) the price of the asset is negotiated without having regard to the original contract price.	Same
Contract Revenue	9	Contract revenue shall be recognized when there is a **reasonable certainty of its ultimate collection**.	When the **outcome of a construction contract can be estimated reliably,** contract revenue and contract costs

Content Title	Para	ICDS requirement	AS requirement
			associated with the construction contract should be recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date. In the case of a **fixed price contract**, the outcome of a construction contract can be estimated reliably when **all of the following conditions are satisfied:** (a) total contract revenue can be measured reliably; (b) it is probable that the economic benefits associated with the contract will flow to the enterprise; (c) both the contract costs to complete the contract and the stage of contract completion at the reporting date can be measured reliably; and (d) the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates. In the case of a **cost plus contract**, the outcome of a construction contract can be estimated reliably when all of the following conditions are satisfied: (a) it is probable that the economic benefits associated with the contract will flow to the enterprise; and (b) the contract costs attributable to the contract, whether or not specifically reimbursable, can be clearly identified and measured reliably.
	10	Contract revenue shall comprise of: (a) the initial amount of revenue agreed in the contract, including **retentions;** and (b) variations in contract work, claims and incentive payments:	In respect of **claims** it is recognized only when **negotiations have reached an advance stage** such that it is **probable that customer will accept it** and amount can

Content Title	Para	ICDS requirement	AS requirement
		(i) to the extent that it is probable that they will result in revenue; and (ii) they are capable of being reliably measured.	be measured reliably. **(Refer Case Study No. 4)**
			Incentives are included only when contract has **sufficiently advanced** that it is probable that the specified performance standards will be met or exceeded, and amount can be measured reliably.
			Contract revenue also includes penalties arising from delays caused by contractor in the completion of contract. **(Refer Case Study No. 5)**
			No specific requirement to include retention money in contract revenue **(Refer Case Study No. 6)**
	11	Where contract revenue already recognised as income is subsequently written off in the books of accounts as uncollectible, the same shall be recognised as an expense and not as an adjustment of the amount of contract revenue.	Same
Contract Costs	12	Contract costs shall comprise of: (a) costs that relate directly to the specific contract; (b) costs that are attributable to contract activity in general and can be allocated to the contract; (c) such other costs as are specifically chargeable to the customer under the terms of the contract; and (d) allocated borrowing costs in accordance with the ICDS on Borrowing Costs. **These costs shall be reduced by any incidental income, not being in the nature of interest, dividends or capital gains which is not included in contract revenue.**	Same. **However Borrowing cost is not discussed in AS 7 as it is included in AS 16.** Also **no specific requirement to exclude interest, dividend or capital gain from contract cost**. **(Refer Case Study No. 7)**
	13	Costs that cannot be attributed to any contract activity or a contract shall be excluded from the costs of a construction contract.	Same, but AS gives examples of such costs as general administration, selling costs, R&D, depreciation of idle plant.
	14	Contract costs include the costs attributable to a contract for the period from the date of securing the contract to the final completion of the contract. Costs that are incurred in securing the contract are also included as part of the contract costs, provided	Same

Content Title	Para	ICDS requirement	AS requirement
		(a) they can be separately identified; and (b) it is probable that the contract shall be obtained. When costs incurred in securing a contract are recognised as an expense in the period in which they are incurred, they are not included in contract costs when the contract is obtained in a subsequent period.	
	15	Contract costs that relate to future activity on the contract are recognised as an asset. Such costs represent an amount due from the customer and are classified as contract work in progress.	Same
Recognition of Contract Revenue and Expenses	16	Contract revenue and contract costs associated with the construction contract should be recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date.	Same. However AS requires that an **expected loss should be recognized as an expense immediately**. **(Refer Case Study No. 8)**
	17	The recognition of revenue and expenses by reference to the stage of completion of a contract is referred to as the percentage of completion method (POCM). Under POCM, contract revenue is matched with the contract costs incurred in reaching the stage of completion, resulting in the reporting of revenue, expenses and profit which can be attributed to the proportion of work completed.	Same
	18	The stage of completion of a contract shall be determined with reference to: (a) the proportion that contract costs incurred for work performed upto the reporting date bear to the estimated total contract costs; or (b) surveys of work performed; or (c) completion of a physical proportion of the contract work. Progress payments and advances received from customers are not determinative of the stage of completion of a contract.	Same
	19	When the stage of completion is determined by reference to the contract costs incurred up to the reporting date, only those contract costs that reflect work performed are included in costs incurred up to the reporting date. Contract costs which are excluded are: (a) contract costs that relate to future activity on the contract; and (b) payments made to sub-contractors in advance of work performed	Same

Content Title	Para	ICDS requirement	AS requirement
		under the subcontract.	
	20	During the early stages of a contract, where the outcome of the contract cannot be estimated reliably contract revenue is recognised only to the extent of costs incurred. **The early stage of a contract shall not extend beyond 25% of the stage of completion.**	Same, **but no reference of 25% limit**. **(Refer Case Study No. 9)**
Changes in estimates	21	The POCM is applied on a cumulative basis in each previous year to the current estimates of contract revenue and contract costs. Where there is change in estimates, the changed estimates shall be used in determination of the amount of revenue and expenses in the period in which the change is made and in subsequent periods.	Same
Disclosure	23	A person shall disclose: (a) the amount of contract revenue recognised as revenue in the period; and (b) the methods used to determine the stage of completion of contracts in progress.	Same However additional requirement to disclose method used to determine contract revenue.
	24	A person shall disclose the following for contracts in progress at the reporting date, namely:— (a) amount of costs incurred and recognised profits (less recognised losses) upto the reporting date; (b) the amount of advances received; and (c) the amount of retentions.	Same
	---	--	Since AS covers not only P&L A/c but also Balance-Sheet, following disclosures are also required: (a) the gross amount due from customers for contract work as an asset; and (b) the gross amount due to customers for contract work as a liability.
ICDS IV- Revenue recognition			**AS 9**
Scope	1(1)	This ICDS deals with the bases for recognition of revenue arising in the course of the ordinary activities of a person from (i) the sale of goods; (ii) the rendering of services; (iii) the use by others of the person's resources yielding interest, royalties or dividends.	Same
	1(2)	This ICDS does not deal with the aspects of revenue recognition which are dealt with by other ICDS.	No such para. However AS has specified list of exclusions.
Definitions	2(1)	"**Revenue"** is the gross inflow of cash,	Same

Content Title	Para	ICDS requirement	AS requirement
		receivables or other consideration arising in the course of the ordinary activities of a person (i) from the sale of goods, (ii) from the rendering of services, or (iii) from the use by others of the person's resources yielding interest, royalties or dividends. In an agency relationship, "Revenue" is the amount of commission and not the gross inflow of cash, receivables or other consideration	
Sale of Goods	3	In a transaction involving sale of goods, the revenue shall be recognised when the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership. In a situation, where transfer of property in goods does not coincide with the transfer of significant risks and rewards of ownership, revenue shall be recognised at the time of transfer of significant risks and rewards of ownership to the buyer.	Same
	4	Revenue from sale of goods shall be recognised when there is reasonable certainty of its ultimate collection	Same. In Addition AS requires that there should be **no significant uncertainty of amount** of consideration.
	5	Where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising **any claim for escalation of price and export incentives,** revenue recognition in respect of such claim shall be postponed to the extent of uncertainty involved.	Same
Rendering of Services	6	Subject to Para 7, Revenue from service transactions shall be recognized **by the Percentage Completion Method.** Under this method, revenue from service transactions is matched with the service transactions costs incurred in reaching the stage of completion, resulting in the determination of revenue, expenses and profit which can be attributed to the proportion of work completed. ICDS on construction contract also requires the recognition of revenue on this basis. The requirements of that	AS permits two methods: (i) **Proportionate completion method:** Performance consists of the execution of more than one act. Revenue is recognized proportionately by reference to the performance of each act. For practical purposes, when services are provided by an indeterminate number of acts over a specific period of time, revenue is recognised on a straight line basis over the specific period unless there is

Content Title	Para	ICDS requirement	AS requirement
		Standard shall apply *mutandis mutandis* to the recognition of revenue and the associated expenses for a service transaction. However, when services are provided by an indeterminate number of acts over a specific period of time, revenue may be recognised on a straight line basis over the specific period.	evidence that some other method better represents the pattern of performance. (ii) **Completed service contract method**: Performance consists of the execution of a single act. Alternatively, services are performed in more than a single act, and the services yet to be performed are so significant in relation to the transaction taken as a whole that performance cannot be deemed to have been completed until the execution of those acts. Accordingly revenue is recognised when the sole or final act takes place and the service becomes chargeable. Along with this, AS further requires that there should be **no significant uncertainty of amount** of consideration as well as it is not unreasonable to **expect ultimate collection.** **(Refer Case Study No. 10)**
	7	Revenue from service contracts with duration of **not more than ninety days** may be recognised when the rendering of services under that contract is completed or substantially completed.	No such para
The use of Resources by Others Yielding Interest, Royalties or Dividends	8 (1)	Subject to sub paragraph (2), interest shall accrue on the time basis determined by the amount outstanding and the rate applicable.	Same. However AS also requires that revenue should only be recognised when **no significant uncertainty** as to **measurability or collectability** exists. **(Refer Case Study No. 11)**
	8 (2)	Interest on refund of any tax, duty or cess shall be deemed to be the income of the previous year in which such interest is received	No such para
	8 (3)	Discount or premium on debt securities held is treated as though it were accruing over the period to maturity.	Same
	9	Royalties shall accrue in accordance with the terms of the relevant agreement and shall be recognised on that basis unless, having regard to the substance of the transaction, it is more appropriate to recognise revenue on some other systematic and rational basis.	Same. However As also requires that revenue should only be recognised when **no significant uncertainty** as to **measurability or collectability** exists.
	10	Dividends shall be recognised in accordance with the provisions of	Dividends are recognized when the owner's **right to receive** the

Content Title	Para	ICDS requirement	AS requirement
		Income-tax Act, 1961 ***(Please refer section 8 of Income-tax Act, 1961).***	payment is established. AS also requires that revenue should only be recognised when **no significant uncertainty** as to **measurability or collectability** exists.
Disclosure	13	Following disclosures shall be made in respect of revenue recognition, namely- (a) in a transaction involving sale of good, total amount not recognised as revenue during the previous year due to lack of reasonably certainty of its ultimate collection along with nature of uncertainty (b) the amount of revenue from service transactions recognised as revenue during the previous year; (c) the method used to determine the stage of completion of service transactions in progress; and (d) for service transactions in progress at the end of previous year: (i) amount of costs incurred and recognized profits (less recognised losses) upto end of previous year; (ii) the amount of advances received; and (iii) the amount of retentions.	No such detailed disclosure requirements.
ICDS-V : Tangible fixed assets			**AS 10**
Scope	1	This ICDS deals with the treatment of tangible fixed assets.	
Definitions	2 (1)	(a) **"Tangible fixed asset"** is an asset being land, building, machinery, plant or furniture held with the intention of being used for the purpose of producing or providing goods or services and is not held for sale in the normal course of business. (b) **"Fair value"** of an asset is the amount for which that asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.	**Property, plant and equipment** are tangible items that: (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and (b) are expected to be used during more than a period of twelve months. **Fair value** is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.
Identification of Tangible Fixed Assets	3	The definition of "Tangible fixed asset" in paragraph 2(1) above itself provides criteria for determining whether an item is to be classified as a tangible fixed	Same. However AS permits that an enterprise may decide to **expense** an item which could

Content Title	Para	ICDS requirement	AS requirement
		asset.	otherwise have been included as fixed asset, because the amount of the **expenditure is not material**.
	4	Stand-by equipment and servicing equipment are to be capitalised. Machinery spares shall be charged to the revenue as and when consumed. When such spares can be used only in connection with an item of tangible fixed asset and their use is expected to be irregular, they shall be capitalised.	Items such as **spare parts, stand-by equipment and servicing equipment** are recognised in accordance with this Standard when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory.
Components of Actual Cost	5	The actual cost of an acquired tangible fixed asset shall comprise its purchase price, import duties and other taxes, excluding those subsequently recoverable, and any directly attributable expenditure on making the asset ready for its intended use. Any trade discounts and rebates shall be deducted in arriving at the actual cost.	The cost of an item of property, plant and equipment comprises: (a) **its purchase price**, including import duties and **non – refundable** purchase **taxes**, after deducting trade discounts and rebates. (b) any **costs directly attributable** to bringing the asset to the **location and condition** necessary for it to be capable of operating in the manner intended by management. (c) **the initial estimate of the costs of dismantling**, removing the item and restoring the site on which it is located, referred to as **decommissioning, restoration and similar liabilities**, the obligation for which an enterprise incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.
	6	The cost of a tangible fixed asset may undergo changes subsequent to its acquisition or construction on account of-- (i) Price adjustment, changes in duties or similar factors; or (ii) Exchange fluctuation as specified in ICDS on the effects of changes in foreign exchange rates.	Same
	7	Administration and other general	Same

Content Title	Para	ICDS requirement	AS requirement
		overhead expenses are to be excluded from the cost of tangible fixed assets if they do not relate to a specific tangible fixed asset. Expenses which are specifically attributable to construction of a project or to the acquisition of a tangible fixed asset or bringing it to its working condition, shall be included as a part of the cost of the project or as a part of the cost of the tangible fixed asset	
	8	The expenditure incurred on start-up and commissioning of the project, including the expenditure incurred on test runs and experimental production, shall be capitalised. The expenditure incurred after the plant has begun commercial production, that is, production intended for sale or captive consumption, shall be treated as revenue expenditure.	Same
Self constructed Tangible Fixed Assets	9	In arriving at the actual cost of self-constructed tangible fixed assets, the same principles shall apply as those described in paragraphs 5 to 8. Cost of construction that relate directly to the specific tangible fixed asset and costs that are attributable to the construction activity in general and can be allocated to the specific tangible fixed asset shall be included in actual cost. Any internal profits shall be eliminated in arriving at such costs.	Same
Non Monetary Consideration	10	When a tangible fixed asset is acquired in exchange for another asset, the fair value of the tangible fixed asset so acquired shall be actual cost of asset so acquired.	If an enterprise is able to measure reliably the fair value of either the asset received or the asset given up, then the **fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.**
	11	When a tangible fixed asset is acquired in exchange for shares or other securities, the fair value of the tangible fixed asset so acquired shall be its actual cost.	If an enterprise is able to measure reliably the fair value of either the asset received or the asset given up, then the **fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.**
Improvements and Repairs	12	An expenditure that increases the future benefits from the existing asset beyond its previously assessed standard of performance is added to the actual cost.	An enterprise **adds in the carrying amount** of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the recognition
	13	The cost of an addition or extension to	

Content Title	Para	ICDS requirement	AS requirement
		an existing tangible fixed asset which is of a capital nature and which becomes an integral part of the existing tangible fixed asset is to be added to its actual cost. Any addition or extension, which has a separate identity and is capable of being used after the existing tangible fixed asset is disposed of, shall be treated as separate asset.	criteria are met. The **carrying amount of those parts that are replaced is derecognized** (deducted) in accordance with the de-recognition provisions.
Valuation of Tangible Fixed Assets in Special Cases	14	Where a person owns tangible fixed assets jointly with others, the proportion in the actual cost, accumulated depreciation and written down value is grouped together with similar fully owned tangible fixed assets. Details of such jointly owned tangible fixed assets shall be indicated separately in the tangible fixed assets register.	Same
	15	Where several assets are purchased for a consolidated price, the consideration shall be apportioned to the various assets on a fair basis.	Fair basis as determined by competent valuers.
Depreciation	17	Depreciation on a tangible fixed asset shall be computed in accordance with the provisions of Income-tax Act, 1961 ***(Please refer section 32 of Income-tax Act, 1961)***.	The depreciation method used should reflect the **pattern in which the future economic benefits** of the asset are expected to be consumed by the enterprise. A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the **straight-line method, the diminishing balance method and the units of production method**. For companies -- Schedule II to the Companies Act, 2013 is applicable, which permits (i) WDV method, and (ii) SLM only.
Transfers	18	Income arising on transfer of a tangible fixed asset shall be computed in accordance with the provisions of Income-tax Act, 1961.	Gain or loss has to be recognized and transferred to P&L.
Disclosures	19	Following disclosure shall be made in respect of tangible fixed assets, namely:- (a) Description of asset or block of assets; (b) Rate of depreciation; (c) Opening value (i.e. actual cost or WDV, as the case may be) (d) Addition during the year with dates of additions and dates on which the asset is put to use (e) Sales during the year with dates	The financial statements should disclose, for each class of property, plant and equipment: (a) the measurement bases (i.e., cost model or revaluation model) used for determining the gross carrying amount; (b) the depreciation methods used; (c) the useful lives or the depreciation rates used. In

Content Title	Para	ICDS requirement	AS requirement
		(f) Deductions on account of- (i) CENVAT credit claimed and allowed under the CENVAT Credit Rules, 2004; (ii) Change in rate of exchange of currency; (iii) Subsidy or grant or reimbursement, by whatever name called; (g) Depreciation allowable; and (h) WDV at the end of year;	case the useful lives or the depreciation rates used are different from those specified in the statute governing the enterprise, it should make a specific mention of that fact; (d) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and (e) a reconciliation of the carrying amount at the beginning and end of the period showing: (i) additions; (ii) assets retired from active use and held for disposal; (iii) acquisitions through business combinations ; (iv) increases or decreases resulting from revaluations and from impairment losses recognised or reversed directly in revaluation surplus in accordance with AS 28; (v) impairment losses recognised in the statement of profit and loss in accordance with AS 28; (vi) impairment losses reversed in the statement of profit and loss in accordance with AS 28; (vii) depreciation; (viii) the net exchange differences arising on the translation of the financial statements of a non-integral foreign operation in accordance with AS 11; and (ix) other changes.
Revaluation	--	***Not covered by ICDS because under Income-tax Act, 1961, revaluation is not allowed. The income and expenses are recognized only on due or receipt basis.***	***Allows revaluation Model as basis for valuation, which should be done with sufficient regularity***
Change in method of depreciation, useful life, scrap value	--	***Not covered by ICDS because under Income-tax Act, 1961, depreciation is to be computed in a specific manner prescribed in section 32.***	***AS-10 deals with all these aspects.***
Component Accounting	--	***Not covered by ICDS because under Income-tax Act, 1961, depreciation is***	***Schedule II & AS -10 mandates fixed assets to be***

Content Title	Para	ICDS requirement	AS requirement
		to be computed in a specific manner prescribed in section 32.	***componentized for depreciation purposes in respect of financial years commencing on or after 1st April 2015 / 1st April 2016***
Major Inspection cost	--	***Not covered by ICDS***	**When each major inspection is performed, its cost is recognised** in the carrying amount of the item of property, plant and equipment **as a replacement** if the recognition criteria are satisfied. **Any remaining carrying amount of the cost of the previous inspection is derecognised**.
De-commissioning, Restoration and other Liabilities	--	***Not covered by ICDS***	***AS-10 requires to make provision for such liabilities at the time of acquisition of Fixed Assets***
ICDS-VI : Effects of changes in foreign exchange rates			**AS 11**
Scope	1	This ICDS deals with: (a) treatment of transactions in foreign currencies; (b) translating the financial statements of foreign operations; (c) treatment of foreign currency transactions in the nature of forward exchange contracts	Same
Definitions	2(1)	(a) **"Average rate"** is the mean of the exchange rates in force during a period. (b) **"Closing rate"** is the exchange rate at the last day of the previous year (c) **"Exchange difference"** is the difference resulting from reporting the same number of units of a foreign currency in the reporting currency of a person at different exchange rates. (d) **"Exchange rate"** is the ratio for exchange of two currencies. (e) **"Foreign currency"** is a currency other than the reporting currency of a person. (f) **"Foreign operations of a person"** is a branch, by whatever name called, of that person, the activities of which are based or conducted in a country other than India. (g) **"Foreign currency transaction"** is a transaction which is denominated in or requires settlement in a foreign	Following definitions are in different / addition to ICDS: **"Foreign operations"** includes branch, associate, subsidiary and joint ventures, the activities of which are based or conducted in a country other than India. **"Forward exchange contract"** means an agreement to exchange different currencies at a forward rate. **Note: It does not include option and other financial instruments as included in ICDS.**

Content Title	Para	ICDS requirement	AS requirement
		currency, including transactions arising when a person:— (i) buys or sells goods or services whose price is denominated in a foreign currency; or (ii) borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency; or (iii) becomes a party to an unperformed forward exchange contract; or (iv) otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency: (h) **“Forward exchange contract”** means an agreement to exchange different currencies at a forward rate, and includes a foreign currency option contract or another financial instrument of a similar nature; (i) **“Forward rate”** is the specified exchange rate for exchange of two currencies at a specified future date; (j) **“Indian currency”** shall have the meaning as assigned to it in section 2 of the Foreign Exchange Management Act, 1999; (k) **“Monetary items”** are money held and assets to be received or liabilities to be paid in fixed or determinable amounts of money. Examples of monetary items are Cash, Receivables and Payables. (l) **“Non-monetary items”** are assets and liabilities other than monetary items. Examples of non-monetary items are fixed assets, inventories, and investments in equity shares. (m) **“Reporting currency”** means Indian currency except for foreign operations where it shall mean currency of the country where the operations are carried out.	
Initial Recognition	3(1)	A foreign currency transaction shall be recorded, on initial recognition in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency **at the date of the transaction.**	Same.
	3(2)	An average rate for a week or a month that approximates the actual	Same

Content Title	Para	ICDS requirement	AS requirement
		rate at the date of the transaction may be used for all transaction in each foreign currency occurring during that period. If the exchange rate fluctuates significantly, the actual rate at the date of the transaction shall be used.	
Conversion at Last Date of Previous Year	4	At last day of each previous year:- (a) foreign currency monetary items shall be converted into reporting currency by applying the closing rate; (b) where the closing rate does not reflect with reasonable accuracy, the amount in reporting currency that is likely to be realised from or required to disburse, a foreign currency monetary item owing to restriction on remittances or the closing rate being unrealistic and it is not possible to effect an exchange of currencies at that rate, then the relevant monetary item shall be reported in the reporting currency at the amount which is likely to be realised from or required to disburse such item at the last date of the previous year; and (c) **non-monetary items** in a foreign currency shall be converted into reporting currency by using the **exchange rate at the date of the transaction** (d) non-monetary item being inventory which is carried at net realisable value denominated in a foreign currency shall be reported using the exchange rate that existed when such value was determined.	Same However for **non monetary items** which are carried at which are **carried at fair value** or other similar valuation are reported using the exchange rates that existed when the **values were determined.** **(Refer Case Study No. 12)**
Recognition of exchange differences	5	(i) In respect of **monetary items**, exchange differences arising on the settlement thereof or on conversion thereof at last day of the previous year shall be **recognised as income or as expense in that previous year.** (ii) In respect of **non-monetary items**, exchange differences arising on conversion thereof at the last day of the previous year shall **not be recognised** as income or as expense in that previous year.	Same **Exception** to the above is that there is a limited period irrevocable option for entities to **capitalize/ amortize exchange differences on long-term foreign currency monetary items.**
Exception to Paragraphs 3,4, and 5	6	Notwithstanding anything contained in paragraph 3, 4 and 5, the initial recognition, conversion and recognition of exchange difference shall be subject to the provisions of **section 43A** of Income-tax Act, 1961 or Rule 115 of Income-tax Rules, 1962.	No such para

Content Title	Para	ICDS requirement	AS requirement
Financial Statements of Foreign Operations	7	The financial statements of an integral foreign operation shall be translated using the principles and procedures in paragraphs 3 to 6 as if the transactions of the foreign operation had been those of the person himself.	AS has different rules for integral and non-integral foreign operations
Forward Exchange Contracts	8(1)	Any premium or discount arising at the inception of a forward exchange contract shall be amortized as expense or income over the life of the contract. Exchange differences on such a contract shall be recognised as income or as expense in the previous year in which the exchange rates change. Any profit or loss arising on cancellation or renewal shall be recognised as income or as expense for the previous year.	Same
	8(2)	The provisions of paragraph 8(1) shall apply provided the contract - (a) is not intended for trading or speculation purposes; and (b) is entered into to establish the amount of the reporting currency required or available at the settlement date of the transaction.	Same
	8(3)	The provisions of paragraph 8(1) shall not apply to the contract that is entered into to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction. For this purpose, firm commitment, shall not include assets and liabilities existing at the end of the previous year	Not covered by AS 11
	8(4)	The premium or discount that arises on the contract is measured by the difference between the exchange rate at the date of the inception of the contract and the forward rate specified in the contract. Exchange difference on the contract is the difference between: (a) the foreign currency amount of the contract translated at the exchange rate at the last day of the previous year, or the settlement date where the transaction is settled during the previous year; and (b) the same foreign currency amount translated at the date of inception of the contract or the last day of the immediately preceding previous year, whichever is later.	Same
	8(5)	Premium, discount or exchange difference on contracts that are intended for **trading or speculation purposes**, or that are entered into to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction **shall be**	The premium or discount on the contract is ignored and at **each balance sheet date**, the value of the contract is **marked to its current market** value and the **gain or loss** on the contract is **recognized.**

Content Title	Para	ICDS requirement	AS requirement
		recognised at the time of settlement.	**(Refer Case Study No. 13)**
ICDS-VII : Government grants			**AS 12**
Scope	1	This ICDS deals with the treatment of Government grants. The Government grants are sometimes called by other names such as subsidies, cash incentives, duty drawbacks, waiver, concessions, reimbursements, etc.	Same
	2	This ICDS does not deal with:— (a) Government assistance other than in the form of Government grants; and (b) Government participation in the ownership of the enterprise	Same
Definitions	3(1)	(a) "Government" refers to the Central Government, State Governments, agencies and similar bodies, whether local, national or international. (b) "Government grants" are assistance by Government in cash or kind to a person for past or future compliance with certain conditions. They exclude those forms of Government assistance which cannot have a value placed upon them and the transactions with Government which cannot be distinguished from the normal trading transactions of the person.	Same
Recognition of Government Grants	4(1)	Government grants should not be recognised until there is reasonable assurance that: (i) the person shall comply with the conditions attached to them, and (ii) the grants shall be received.	Government grants available to the enterprise are considered for inclusion in accounts: (i) where there is reasonable assurance that the enterprise will comply with the conditions attached to them; and (ii) where such **benefits have been earned by the enterprise** and it is reasonably certain that the ultimate collection will be made
	4(2)	Recognition of Government grant shall **not be postponed beyond the date of actual receipt.**	**Mere receipt of a grant is not necessarily a conclusive evidence** that conditions attaching to the grant have been or will be fulfilled
Treatment of Government Grants	5	Where the Government grant relates to a depreciable fixed asset or assets of a person, the grant shall be deducted from the actual cost of the asset or assets concerned or from the written down value of block of assets to which concerned asset or assets belonged to.	Grants related to **depreciable assets** are **either:** (i) **treated as deferred income** and transferred to the statement of profit and loss in proportion to depreciation, or (ii) **deducted from the cost of**

Content Title	Para	ICDS requirement	AS requirement
			the asset. Grants relating to **non-depreciable assets** are credited to **capital reserve** or **deducted from cost of asset**.
	6	Where the Government grant relates to a non-depreciable asset or assets of a person requiring fulfillment of certain obligations, the grant shall be recognised as income over the same period over which the cost of meeting such obligations is charged to income.	Same
	7	Where the Government grant is of such a nature that it cannot be directly relatable to the asset acquired, so much of the amount which bears to the total Government grant, the same proportion as such asset bears to all the assets in respect of or with reference to which the Government grant is so received, shall be deducted from the actual cost of the asset or shall be reduced from the written down value of block of assets to which the asset or assets belonged to.	Government grants in the nature of **promoter's contribution** i.e. they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay and no repayment are ordinarily expected are **credited directly to shareholders' funds**. **(Refer Case Study No. 14)**
	8	The Government grant that is receivable as compensation for expenses or losses incurred in a previous financial year or for the purpose of giving immediate financial support to the person with no further related costs, shall be recognised as income of the period in which it is receivable.	Same
	9	The Government grants other than covered by paragraph 5, 6, 7, and 8 shall be recognised as income over the periods necessary to match them with the related costs which they are intended to compensate.	Same
	10	The Government grant in the form of non-monetary assets, given at a concessional rate, shall be **accounted for on the basis of their acquisition cost.**	Same
Refund of Government Grants	11	The amount refundable in respect of a Government grant referred to in paragraphs 6, 8 and 9 shall be applied first against any unamortised deferred credit remaining in respect of the Government grant. To the extent that the amount refundable exceeds any such deferred credit, or where no deferred credit exists, the amount shall be charged to profit and loss statement.	Same
	12	The amount refundable in respect of a Government grant related to a depreciable fixed asset or assets shall be recorded by increasing the actual	Same

Content Title	Para	ICDS requirement	AS requirement
		cost or written down value of block of assets by the amount refundable. Where the actual cost of the asset is increased, depreciation on the revised actual cost or written down value shall be provided prospectively at the prescribed rate	
Disclosures	14	Following disclosure shall be made in respect of Government grants, namely :- (a) nature and extent of Government grants recognised during the previous year by way of deduction from the actual cost of the asset or assets or from the written down value of block of assets during the previous year; (b) nature and extent of Government grants recognised during the previous year as income; (c) nature and extent of Government grants not recognised during the previous year by way of deduction from the actual cost of the asset or assets or from the written down value of block of assets and reasons thereof; and (d) nature and extent of Government grants not recognised during the previous year as income and reasons thereof.	The following disclosures are required: (i) the accounting policy adopted for government grants, including the methods of presentation in the financial statements; (ii) the nature and extent of government grants recognised in the financial statements, including grants of non-monetary assets given at a concessional rate or free of cost.
ICDS VIII – Securities			**AS 13**
Scope	1	This ICDS deals with securities held as stock-in-trade.	AS 13 deals with Accounting for Investments. Shares, debentures held as stock in trade are not investments. However, provisions of AS 13 relating to current investments are applicable to securities held as stock-in-trade with suitable modifications.
	2	This ICDS does not deal with: (a) the bases for recognition of interest and dividends on securities which are covered by the ICDS on revenue recognition; (b) securities held by a person engaged in the business of insurance securities held by mutual funds, venture capital funds, banks and public financial institutions formed under a Central or a State Act or so declared under the Companies Act, 1956 or the Companies Act, 2013.	Same

Content Title	Para	ICDS requirement	AS requirement
Definitions	3(1)	(a) "Fair value" is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction. (b) "Securities" shall have the meaning assigned to it in Section 2(h) of the Securities Contract (Regulation) Act,1956 [other than derivatives referred to in sub-clause (1a) of that clause].	No such definitions
Recognition and Initial Measurement of Securities	4	A security on acquisition shall be recognized at actual cost.	Same
	5	The actual cost of a security shall comprise of its purchase price and include acquisition charges such as brokerage, fees, tax, duty or cess.	Same
	6	Where a security is acquired in exchange for other securities, the fair value of the security so acquired shall be its actual cost.	If an investment is acquired, or partly acquired, by the issue of shares or other securities, the acquisition cost is **the fair value of the securities issued** (which, in appropriate cases, may be indicated by the issue price as determined by statutory authorities). The fair value may not necessarily be equal to the nominal or par value of the securities issued.
	7	Where a security is acquired in exchange for another asset, the fair value of the security so acquired shall be its actual cost.	If an investment is acquired in exchange, or part exchange, for another asset, the acquisition cost of the investment is determined by reference to the **fair value of the asset given up. It may be appropriate to consider the fair value of the investment acquired if it is more clearly evident.**
	8	Where unpaid interest has accrued before the acquisition of an interest bearing security and is included in the price paid for the security, the subsequent receipt of interest is allocated between pre acquisition and post acquisition periods; the pre-acquisition portion of the interest is deducted from the actual cost.	Same
Subsequent measurement of Securities	9	At the end of any previous year, securities held as stock-in-trade shall be valued at actual cost initially recognized or net realisable value at the end of that previous year, whichever is lower.	Current investments are carried at lower of cost and fair value.
	10	For the purpose of para 9, the comparison of actual cost initially recognized and net realizable **value shall be done category wise and not for each individual security.** For this	Valuation of current investments on overall (or global) basis is not considered appropriate. Sometimes, the concern of an enterprise may be with the value

Content Title	Para	ICDS requirement	AS requirement
		purpose, securities shall be classified into the following categories, namely:- (a) shares; (b) debt securities; (c) convertible securities; and (d) any other securities not covered above.	of a category of related current investments and not with each individual investment, and accordingly the investments may be carried at the lower of cost and fair value computed category- wise (i.e. equity shares, preference shares, convertible debentures, etc.). However, the more prudent and appropriate method is to **carry investments individually at the lower of cost and fair value**. **(Refer Case Study No. 15)**
	11	The value of securities held as stock-in-trade of a business as on the beginning of the previous year shall be: (a) the cost of securities available, if any, on the day of the commencement of the business when the business has commenced during the previous year; and (b) the value of the securities of the business as on the close of the immediately preceding previous year, in any other case.	No such para
	12	Notwithstanding anything contained in para 9, 10 and 11, at the end of any previous year, s**ecurities not listed on a recognized stock exchange**; or listed but not quoted on a recognized stock exchange with regularity from time to time, **shall be valued at actual cost initially recognized.**	Current investments are carried at lower of cost and fair value.
	13	For the purposes of para 9, 10 and 11 where the actual cost initially recognized cannot be ascertained by reference to **specific identification**, the cost of such security shall be determined on the basis of **first-in-first-out method**.	It permits **FIFO & Weighted average** method for securities held as stock in trade.
		PART - B	
Scope	1	This part of Income Computation and Disclosure Standard deals with securities held by a scheduled bank or public financial institutions formed under a Central or a State Act or so declared under the Companies Act, 1956 (1 of 1956) or the Companies Act, 2013 (18 of 2013).	No such Para
Definitions	2	(a) "Scheduled Bank" shall have the meaning assigned to it in clause (ii) of the Explanation to clause (viia) of sub-section (1) of section 36 of the Act.	No such Para
Classification, Recognition and		Securities shall be classified, recognised and measured in	No such Para

Content Title	Para	ICDS requirement	AS requirement
Measurement of Securities		accordance with the extant guidelines issued by the Reserve Bank of India in this regard and any claim for deduction in excess of the said guidelines shall not be taken into account. To this extent, the provisions of Income Computation and Disclosure Standard VI on the effect of changes in foreign exchange rates relating to forward exchange contracts shall not apply.”	
Bonus Shares	--	***If bonus shares are held as capital asset, cost shall be Nil u/s 55 of Income-tax Act, 1961.*** ***If bonus shares are held as stock-in-trade, there is no guidance in Income-tax Act, 1961 and ICDS.***	***Valued at average cost in all cases.***
Sale of Right entitlement	--	***Under section 55, Cost is taken at Nil. Hence entire sale proceed shall be taxable as income under Capital Gain head.***	***Deducted from cost of investments (if acquired on cum-right basis), else treated as income.***
ICDS IX – Borrowing Costs			**AS 16**
Scope	1(1)	This ICDS deals with treatment of borrowing costs.	Same
	1(2)	This ICDS does not deal with the actual or imputed cost of owners’ equity and preference share capital.	Same
Definitions	2(1)	“Borrowing costs” are interest and other costs incurred by a person in connection with the borrowing of funds and include: (i) commitment charges on borrowings; (ii) amortised amount of discounts or premiums relating to borrowings; (iii) amortised amount of ancillary costs incurred in connection with the arrangement of borrowings; (iv) finance charges in respect of assets acquired under finance leases or under other similar arrangements.	Same. AS 16 includes exchange difference arising from **foreign currency borrowings** to the extent it can be regarded as adjustment to interest cost.
		“Qualifying asset” means: (i) land, building, machinery, plant or furniture, being tangible assets; (ii) knowhow, patents, copyrights, trade-marks, licenses, franchises or any other business or commercial rights of similar nature, being intangible assets; (iii) **inventories that require a period of 12 months or more** to bring them to a saleable condition.	Qualifying asset is one which takes **substantial period of time** to get ready for its intended use or sale. Land is thus not a qualifying asset as per AS 16.
Recognition	3	Borrowing costs that are directly attributable to the acquisition, construction or production of a	Similar

Content Title	Para	ICDS requirement	AS requirement
		qualifying asset shall be capitalised as part of the cost of that asset. The amount of borrowing costs eligible for capitalisation shall be determined in accordance with this ICDS. Other borrowing costs shall be recognised in accordance with the provisions of Income-tax Act, 1961.	
	4	For the purposes of this ICDS, "capitalisation" in the context of inventory referred to in item (iii) of clause (b) of paragraph 2(1) means addition of borrowing cost to the cost of inventory.	Not specifically in AS, but have same meaning
Borrowing Costs eligible for Capitalisation	5	To the extent the funds are borrowed specifically for the purposes of acquisition, construction or production of a qualifying asset, the amount of borrowing costs to be capitalised on that asset shall be the **actual borrowing costs incurred during the period on the funds so borrowed**.	Borrowing costs to be capitalised is **actual borrowing costs incurred less any income on the temporary investment of those borrowings.** **(Refer Case Study No. 16)**
	6	To the extent the funds are borrowed generally and utilised for the purposes of acquisition, construction or production of a qualifying asset, the amount of borrowing costs to be capitalised shall be computed in accordance with the following formula, namely **:** $$\frac{A \times B}{C}$$ Where **A=** Borrowing costs incurred during the previous year except on borrowings directly relatable to specific purposes;	To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation should be determined by applying a **capitalisation rate to the expenditure on that asset**. The capitalization rate should be the **weighted average** of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalised during a period should not exceed the amount of borrowing costs incurred during that period. **(Refer Case Study No. 17)**
		B = (i) The average of costs of qualifying asset as appearing in the balance sheet of a person on the first day and the last day of the previous year; (ii) In case the qualifying asset does not appear in the balance sheet of a person on the first day or both on the first day and the last day of the previous year, half of the cost of the qualifying asset; (iii) In case the qualifying asset	

Content Title	Para	ICDS requirement	AS requirement
		does not appear in the balance sheet of a person on the last day of previous year, the average of the costs of qualifying asset as appearing in the balance sheet of a person on the first day of the previous year and on the date of put to use or completion, as the case may be, other than those qualifying assets which are directly funded out of specific borrowings	
		C = The average of the amount of total assets as appearing in the balance sheet of a person on the first day and the last day of the previous year, other than those assets which are directly funded out of specific borrowings;	
Commencement of Capitalisation	7	The capitalisation of borrowing costs shall commence: (a) in a case referred to in paragraph 5, from the date on which funds were borrowed; (b) in a case referred to in paragraph 6, from the date on which funds were utilised.	The capitalization starts at later of the following dates: (a) expenditure for acquisition, construction or production of a qualifying asset is being incurred; (b) borrowing costs are being incurred; and (c) activities that are necessary to prepare the asset for its intended use or sale are in progress.
Cessation of Capitalisation	8	Capitalisation of borrowing costs shall cease: (a) in case of a qualifying asset referred to in item (i) and (ii) of clause (b) of paragraph 2(1), when such asset is **first put to use**; (b) in case of inventory referred to in item (iii) of clause (b) of paragraph 2(1), when substantially **all the activities necessary to prepare such inventory for its intended sale are complete**.	Capitalization of borrowing costs should cease when **substantially** all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. **(Refer Case Study No. 18)**
	9	When the construction of a qualifying asset is **completed in parts** and a completed part is capable of being used while construction continues for the other parts, capitalisation of borrowing costs in relation to a part shall cease:— (a) in case of part of a qualifying asset referred to in item (i) and (ii) of clause (b) paragraph 2(1), when such part of a qualifying asset is **first put to use**; (b) in case of part of inventory referred to in item (iii) of clause (b) of paragraph 2(1), when substantially all the activities	Capitalization of borrowing costs should cease when **substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete**.

Content Title	Para	ICDS requirement	AS requirement
		necessary to prepare such part of inventory for its intended sale are complete.	
Disclosure	11	The following disclosure shall be made in respect of borrowing costs, namely: (a) the accounting policy adopted for borrowing costs; and (b) the amount of borrowing costs capitalised during the previous year.	Same
ICDS X - Provisions, contingent liabilities and contingent assets			**AS 29**
Scope	1	This ICDS deals with provisions, contingent liabilities and contingent assets, except those: (a) resulting from financial instruments; (b) resulting from executory contracts (c) arising in insurance business from contracts with policyholders; and (d) covered by another ICDS	Same
	2	This ICDS does not deal with the recognition of revenue which is dealt with by ICDS Revenue Recognition.	Same
	3	The term 'provision' is also used in the context of items such as depreciation, impairment of assets and doubtful debts which are adjustments to the carrying amounts of assets and are not addressed in this ICDS.	Not specified in AS, but the same principle applies as other AS covers such provisions.
Definitions	4(1)	(a) **"Provision"** is a liability which can be measured only by using a substantial degree of estimation. (b) **"Liability"** is a present obligation of the person arising from past events, the settlement of which is expected to result in an outflow from the person of resources embodying economic benefits. (c) **"Obligating event"** is an event that creates an obligation that results in a person having no realistic alternative to settling that obligation. (d) **"Contingent liability is"-** (i) a possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of the person; or (ii) a present obligation that arises from past events but is not recognised because	Same AS also defines **Possible obligation** as an obligation is a possible obligation if, based on the evidence available, its existence at the balance sheet date is considered not probable. A **restructuring** is a programme that is planned and controlled by management, and materially changes either: (a) the scope of a business undertaken by an enterprise; or (b) the manner in which that business is conducted.

Content Title	Para	ICDS requirement	AS requirement
		(A) it is not reasonably certain that an outflow of resources embodying economic benefits will be required to settle the obligation; or (B) a reliable estimate of the amount of obligation cannot be made. (e) **"Contingent asset"** is a possible asset that arises from past events the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the person. (f) **"Executory contracts"** are contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent. (g) **"Present obligation"** is an obligation if, based on the evidence available, its existence at the end of the previous year is considered reasonably certain.	
Recognition of Provisions	5	A provision shall be recognised when: (a) a person has a present obligation as a result of a past event; (b) it is **reasonably certain** that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of obligation. If these conditions are not met, no provision shall be recognized	A provision shall be recognized when all of the following conditions are met: (a) an enterprise has a present obligation as a result of a past event; (b) it is **probable** that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation.
	6	No provision shall be recognised for costs that need to be incurred to operate in the future.	Same
	7	It is only those obligations arising from past events existing independently of a person's future actions, that is the future conduct of its business, that are recognised as provisions	Same
	8	Where details of a proposed new law have yet to be finalised, an obligation arises only when the legislation is enacted.	Same
Recognition of Contingent Liabilities	9	A person shall not recognise a contingent liability	Contingent liabilities may develop in a way not initially expected. Therefore, they are **assessed continually** to determine whether an outflow

Content Title	Para	ICDS requirement	AS requirement
			of resources embodying economic benefits has become probable. If it **becomes probable that an outflow of future economic benefits will be required** for an item previously dealt with as a contingent liability, **a provision is recognised** in the financial statements of the period in which the change in probability occurs (except in the extremely rare circumstances where no reliable estimate can be made).
Recognition of Contingent Assets	10	A person shall not recognise a contingent asset.	Same
	11	Contingent assets are assessed continually and when it becomes **reasonably certain** that inflow of economic benefit will arise, the asset and related income are recognised in the previous year in which the change occurs.	Contingent assets are assessed continually and if it has become **virtually certain** that an inflow of economic benefits will arise, the asset and related income are recognised in the financial statements of the period in which the change occurs.
Measurement - Best estimate	12	The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the previous year. The amount of a provision shall **not be discounted to its present value**.	Same
	13	The amount recognised as asset and related income shall be the best estimate of the value of economic benefit arising at the end of the previous year. The amount and related income shall not be discounted to its present value.	No specifically dealt with in AS, but will have same interpretation.
Reimbursement	14	Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when it is **reasonably certain** that reimbursement will be received if the person settles the obligation. The amount recognised for the reimbursement shall not exceed the amount of the provision.	Similar but AS **requires virtual certainty** of reimbursement.
	15	Where a person is not liable for payment of costs in case the third party fails to pay, no provision shall be made for those costs.	Same
	16	An obligation, for which a person is jointly and severally liable, is a contingent liability to the extent that it is expected that the obligation will be settled by the other parties.	Same

Content Title	Para	ICDS requirement	AS requirement
Review	17	Provisions shall be reviewed at the end of each previous year and adjusted to reflect the current best estimate. If it is no longer reasonably certain that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision should be reversed.	Same
	18	An asset and related income recognised as per paragraph No. 11 shall be reviewed at the end of each previous year and adjusted to reflect the current best estimate. If it is no longer reasonably certain that an inflow of economic benefits will arise, the asset and related income shall be reversed.	No such requirement because contingent assets are recognized only when they are virtually certain.
Use of Provisions	19	A provision shall be used only for expenditures for which the provision was originally recognised.	Same
Disclosure	21(1)	Following disclosure shall be made in respect of each class of provision, namely:- (a) a brief description of the nature of the obligation; (b) the carrying amount at the beginning and end of the previous year; (c) additional provisions made during the previous year, including increases to existing provisions; (d) amounts used, that is incurred and charged against the provisions, during the previous year; (e) unused amounts reversed during the previous year; and (f) the amount of any expected reimbursement, stating the amount of any asset that has been recognized for that expected reimbursement.	Same
	21(2)	Following disclosure shall be made in respect of each class of asset and related income recognized as provided in para 11, namely:- (a) a brief description of the nature of the asset and related income; (b) the carrying amount of asset at the beginning and end of the previous year; (c) addition amount of asset and related income recognized during the year; including increased to assets and related income already recognized; and (d) amount of asset and related income reversed during the previous year.	No such requirement for contingent assets

Content Title	Para	ICDS requirement	AS requirement
Restructuring	***--***	***Not covered by ICDS***	***Contains detailed provisions for restructuring***

CASE STUDIES ON ICDS v/s AS

Case Study No. 1

A ltd has entered into Stock Futures in NSE. As on 31st March, 2016 the position is as follows:

Profit on contacts which has been settled/ expired before 31st March.	20Lakhs
MT M Loss till 31st March on open contracts which will be settled in next year	(11Lakhs)
Net Gain till 31st March 2015	09Lakhs

What will be the treatment as per AS and ICDS?

Case Study No. 2

Mr. X purchased raw material for Rs. 10 Lakhs and paid excise duty of Rs. 2 Lakhs for which Cenvat is available. What will be the value closing stock of raw material.

Case Study No. 3

M/s ABC is a partnership firm with A, B and C as partners. A retired from the firm on 31st March, 2016 and B & C decided to continue the business.

Inventory held by the firm on that date had cost of Rs. 10 Lakhs with NRV of 12 Lakhs. Since business is being continued and therefore going concern assumption is valid, what will be value of closing stock.

Case Study No. 4

M/s ABC provides following information on 31st March, 2016, for one of the contracts:

Original Contract Price	35 Lakhs
Total Estimated Cost	25 Lakhs
Cost Incurred till date	15 Lakhs
Additional Revenue for variation	2 Lakhs

Variation is probable to be realized, but not approved by customer till balance sheet date. What will be Contract Revenue and expense for the year.

Case Study No. 5

On 31st March, 2016, one of the contracts has the following position:

Contract Price	50 Lakhs
Total Estimated Cost	40 Lakhs
Cost Incurred till date	32 Lakhs
Penalty for substandard work	2 Lakhs

What will be Contract Revenue and expense for the year.

Case Study No. 6

M/s XYZ is a contractor engaged in construction of roads. On 31st March, 2016, one of the contracts has the following position:

Contract Price	50 Lakhs (including retention)
Retention Money	5 Lakhs to be paid after rectification of substandard work
Total Estimated Cost	40 Lakhs
Cost Incurred till date	12 Lakhs

As at the end of the year, company is uncertain about recovery of retention money. What will be revenue and expense as well as profit/loss for the year.

Case Study No. 7

A Ltd. is a contractor. On 31st March, 2016, one of the contracts has the following position. What will be Contract Revenue and expense for the year.

Contract Price	100 Lakhs
Total Estimated Cost	80 Lakhs
Cost Incurred till date (excluding Borrowing Cost)	48 Lakhs
Borrowing cost for specific funds for this contract	6 Lakhs
Sale of Surplus material	1 Lakhs
Interest received on idle funds, borrowed for contract	2 Lakhs

Case Study No. 8

M/s ABC is a contractor. On 31st March, 2016, one of the contracts has the following position:

Contract Price	30 Lakhs
Total Estimated Cost	40 Lakhs
Cost Incurred till date	12 Lakhs

What will be revenue and expense as well as profit/loss for the year.

Case Study No. 9

M/s ABC is a Contractor engage in construction of buildings. On 31st March, 2016, one of the contracts has the following position:

Contract Price	50Lakhs
Cost Incurred till date	12 Lakhs
Stage of Completion	26%

However enterprise argues that it is early stage of a contract and outcome of the contract cannot be estimated reliably at present stage, based on this decide how much revenue & cost to be recognized.

Case Study No. 10

X Ltd provides financial consultancy for its clients. It has undertaken a contract to arrange a loan of Rs. 50 Lakhs for its client for a fee of Rs. 2 Lakhs. By 31st March, papers etc have been prepared and submitted with bankers, but sanction has not been obtained. It can be said that 70% of the work has been done and expenditure incurred till date is Rs. 1 Lakh. What should be revenue for such service for current year.

Case Study No. 11

Mr. A engaged in finance business has given loan of Rs. 10 Lakhs to Mr. B on 01.04.2015 at 12% rate of interest. Mr. B is in financial difficulty and it is not probable that interest will be received. How much interest income should be recognized for the year ending 31.03.2016.

Case Study No. 12

A company purchased shares of Apple Inc. in foreign currency for US $ 12,000 (exchange rate on date of transaction was 1$= Rs. 60).

On 31st March the fair value of such investments was $10,000 and closing exchange rate was 1$= Rs. 62. What will be valuation of these current investments?

Case Study No. 13

Mr. A entered into foreign currency forward contract for speculation purpose, the details are as follows:

1.1.2016 Long (purchase contract) for 4 months : $5,000 at forward exchange rate 1$= 64

1.1.2016 Spot rate 1$=63

31.3.2016 Spot rate 1$= 67 and forward rate for one month contract is 69

30.4.2016 date of realization/ settlement 1$=62

Calculate Foreign exchange gain/ loss for year ending 31.3.2016 and 31.03.2017.

Case Study No. 14

A company received a Government Grant of Rs. 5 Lakhs under KVIC scheme for setting up an industry outside municipal limits (in village). The grant is in nature of capital subsidy for establishment of business, with no correlation with investment in fixed asset. However total expenditure incurred was 50 Lakhs and out of that fixed assets constituted 20 Lakhs. What will be treatment of grant?

Case Study No. 15

A company holds investments as stock in trade. The details are as follows:

Particulars	Cost	NRV as on 31.3.2016	Loss as Per AS	Loss as per ICDS
Listed Securities (shares)				
A Ltd	25,000	20,000		
B Ltd	50,000	57,000		
C Ltd	38,000	38,000		
Total (A)	**1,13,000**	**1,15,000**		
Listed Securities (Debt)				
M Ltd	40,000	35,000		
N Ltd	25,000	24,000		
O Ltd	15,000	19,000		
Total (B)	**80,000**	**78,000**		
Total (A + B)	**1,93,000**	**1,93,000**		
Unlisted Securities (Shares)				
X Ltd	30,000	25,000		
Y Ltd	40,000	42,000		
Z Ltd	25,000	21,000		
Total (C)	**95,000**	**88,000**		
Total (A + B + C)	**2,88,000**	**2,81,000**		

How much loss can be claimed for the year ending 31.03.2016.

Case Study No. 16

A company is constructing a qualifying asset for which it has taken a specific borrowing of Rs. 100 Lakhs. Borrowing cost for the year was Rs. 11 Lakhs. During the year expenditure incurred on asset was Rs. 70 Lakhs. The surplus borrowed funds were invested resulting in income of Rs. 2 Lakhs.

How much borrowing cost will be capitalised.

Case Study No. 17

A company is constructing a building. Expenditure incurred upto beginning of the year (1.4.2015) was Rs. 30 Lakhs and upto 31.3.2016 was Rs. 80 Lakhs. Assume expenditure during the year was incurred at middle of the year(6 months). There were no specific borrowings. Borrowing cost of general borrowings for the year was Rs. 20 Lakhs. Weighted average rate of general borrowing was 13.25%.

Expenditure on total assets other than those funded by specific borrowings was Rs. 70 Lakhs at beginning of the year and Rs. 160 Lakhs at end of the year.

How much borrowing cost will be capitalised.

Case Study No. 18

A company purchased Building for 50 Lakhs on 1.7.2015 with a specific loan of Rs. 30 Lakhs @ 12%. The building was ready for use at the time of acquisition but was first put to use from 1.2.2016. How much borrowing cost should be capitalised.

With Best Wishes – BM Biyani

For any query / suggestion / criticism, do feel please to contact at <u>9414130248</u>