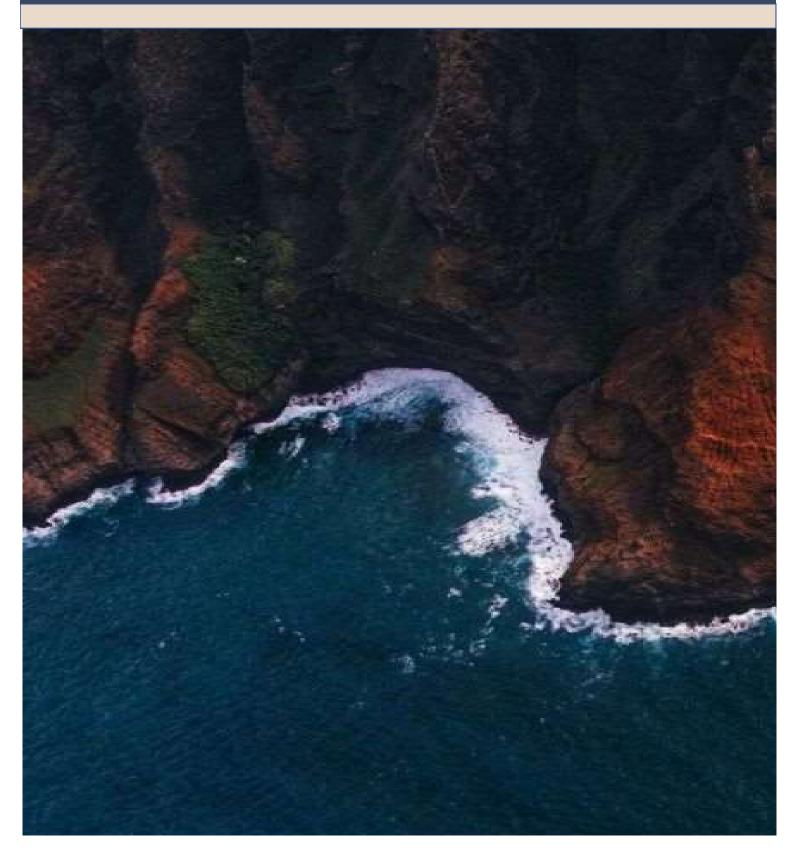
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Greetings!

We proudly present the fourth edition of the PKP newsletter. With the everchanging trends in industry, our team brings to light issues that are relevant now, more than ever. We hope that our team's efforts bring to you both knowledge and understanding in these emerging and important areas. As always, your suggestions are welcome.

> Regards PKP Presentation Team

Audit and technology



Robotic Process Automation

G.G. Prabhakaran Partner

Innovation is the name of the game for businesses trying to stay one step ahead of their competitors.



Finance functions are under significant pressure across all industries but specifically in Financial services sector. Some of the major challenges are to shrink costs and support decreasing margins, to improve speed, volumes and quality of information provided, to focus on delivery of value adding insights to the business.

Robotic process automation (RPA) is quickly evolving to a new hot topic in the Finance world. Its significant potential to become a differentiator also in Finance functions has become evident. And most of large players in the Financial services sector are either assessing possibilities to benefit from this new solution or even proceeding with the first implementations.

The RPA implementation burdens (costs and timelines) are relatively insignificant, compared to major IT platform updates. And therefore it is likely that RPA will quite quickly convert from a differentiator delivering a competitive advantage to a standard practice, that needs be followed for survival.

What is RPA (Robotic Process Automation)

The institute for Robotic Process Automation (IRPA) defines RPA as, "the application of technology that allows employees in a company to configure computer software or a 'robot' to capture and interpret existing applications for processing a transaction, manipulating data, triggering responses and communicating with other digital systems". RPA mimics a person's actions on top of existing systems. RPA works in the same way that a human worker reads and interprets data from a physical document and transfers this to multiple applications on their computer.

RPA is not a physical "robot" but a configurable software, that sits on top of a company's existing IT infrastructure, pulling data, performing algorithms, and creating reports. The "robot" is configured to complete the same process steps, follow the business rules, and use the same systems that a human does today. RPA makes the most significant impact on manual work processes, that are repetitive and recurring, and often have high human error rates. A single "robot" can be configured to performed a variety of processes enabling multi-use robots, and variability as your business needs change.

Robots can seamlessly move data across boundaries, from one application to another, mimicking activities such as clicking, typing, and moving between windows. In addition, these robots can use native and add-on Artificial Intelligence and Machine Learning models to enhance overall capability and learn from experience.



Which process needs to be automated?

The fitness criteria for choosing which process to automate are:

- \checkmark It must be a repetitive and high volume process
- ✓ It must be a rule-based process
- \checkmark It must have a low exception rate (low variation between processes)
- \checkmark The inputs must be electronic or machine readable
- \checkmark The processes and their underlying Applications must be stable
- \checkmark Involve highly manual process with high error rates

Benefits of RPA (Robotic Process Automation)



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Potential application of automation in the finance function:

In the finance function, **RPA** can automate tasks that are of a repetitive nature and require tedious manual efforts here is the list of the processes in finance and accounting that are highly suited to **RPA**. Though the listing is not comprehensive, it provides a good suggestion of Finance & Accounting sub-processes that can be explored by any organization that is embarking into driving **RPA**-led digital transformation of its Finance & Accounting function.

Financial & External Reporting	Tax Planning & Accounting	Payables Management Cross-checking between	Inventory Management Verification of inventory received			
Financial reporting Statutory Reporting Regulatory Reporting	Tax accounting & Tax Data management	documents to verify the accuracy of payments	and performing three- way matching			
Regulatory Reporting	management		Calculating price and			
	Tax accounting &	Compilation of payables listings	quantity variances			
	analysis		Generate reports in			
	Tax accounting , preparation & review	Monitoring of outstanding balances	multiple formats Automatic shipping			
	Tax compliance	Preparation and posting of year-end adjustment	process Calculation and posting of year end adjustment entries			

Bank Reconciliation Process

Automatic login to multiple bank accounts Automatic login to ERP system

Extraction of relevant general ledgers by the Bot

Cross referencing of balances from bank statement to General Ledgers

Preparation of bank reconciliation statement on predefined format Sales Ordering & Invoicing

Automatic entry of sales inquiries

Updating of details for new customers by the Bot

Initiation of delivery process and updating of inventory records

Preparation of sales invoice from sales order

Posting of revenue entry into the system Fixed Asset Management Acquisition of quotations from prescribed vendors

Automatic preparation of report comparing multiple quotations

Preparation of fixed asset budgets

Preparation of additions and disposal reports

Fixed asset register reconciliations Receivables Management Automated monitoring of receivables

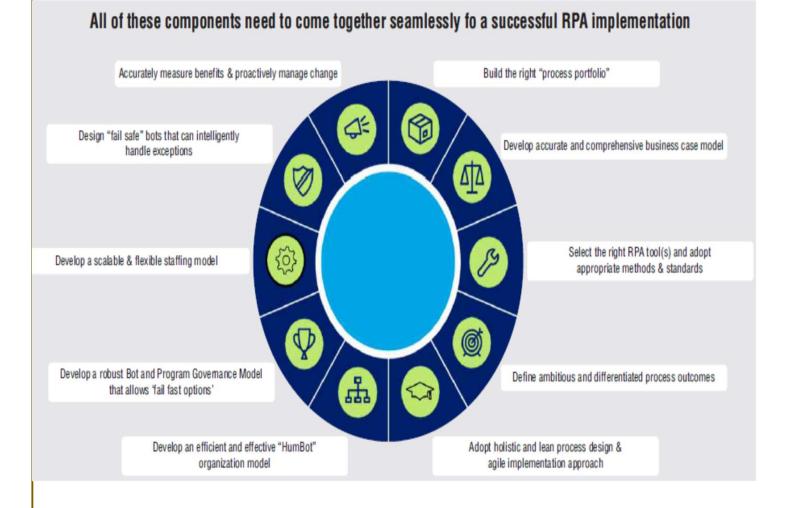
Sending of reminders to customers for long outstanding balances

Calculation of provision for doubtful debts, in accordance with the company's policy

Posting of journal entries related to payments and provisions

Key considerations for a successful RPA implementation

RPA implementation, burdens costs and timelines, which are relatively insignificant, compared to Big IT platform updates. It is likely that RPA will quite quickly convert from a Standard Practice to Robotics Process delivering a competitive advantage that are essential for growth and survival. For a successful RPA Implementations the following components need to come together seamlessly:



Embracing RPA by Auditors:

RPA can be used for recording financial transactions which are routine in nature, parking and posting entries, performing reconciliation, getting confirmation, creating master, provision entries, etc. Auditing of Robotic Process Automation requires auditor to -

- Understand the governance process of RPA;
- Reviewing of process of identification of need, areas to be automated, KPI for automation and process of RPA tool implementation;
- Review of system change management control, i.e., how changes were identified, approved, tested, signoff of testing was given, pre and post migration review and approvals;
- Analysing robotic controller to see how instructions are scheduled in RPA tool, and monitoring of the same;
- Reviewing of system blueprint and exception handling process;
- Reviewing process of exception handling log and Review of RPA transaction logs.
- Analyse periodic update and monitoring mechanism implemented by client for monitoring of BOTS.
- Audit access control implemented in RPA, that is who can approve access to RPA administrator, who has access to administer BOT, who have access to manage exception, Re-run or make changes in RPA tool, etc.
- Perform testing of edit, validation check, error check, etc., configured in RPA and re-perform few calculation and transaction reviews to ensure that results are consistent.

Conclusion:

Robotic Process Automation (RPA) is not replacing accountants but rather evolving their role and augmenting their effectiveness through automation. It is a progressive, positive, and necessary shift that is creating the digital workspace for accounting and finance professionals to focus on the greatest value they can provide to their organisation.

ICAEW's document "The Future of the Profession" states that new ways of doing business, shaped by technology and shifting regulatory environments, mean accountants in business and practice are facing tough challenges and exciting opportunities.

Professional accountants will also be required to operate and manage BOT for efficient delivery of accounting, taxation and finance work. Besides, rendering services on automation, ERP implementation and analytics, professional accountants may enhance their service offering to RPA. To conclude, RPA has huge potential and auditors have to improve themselves which will bring the new changed efficient way of delivering value-added services efficiently.



Base erosion and profit shifting

K. Venkatesh Partner

Introduction:

BEPS is a concern in the context of the digital economy. The actions will help address these concerns, However, there are the specifications that need to be taken into consideration. This will require a thorough analysis of the different business models, the ever-changing business landscape and a better understanding of the generation of value in this sector. Moreover, indirect tax aspects should also be considered. Drawing on the other actions included in this plan, a dedicated task force on the digital economy will be established.

Actions Plan 1 Address the tax challenges of the digital economy

Identify the main difficulties that the digital economy poses for the application of existing international tax rules and develop detailed options to address these difficulties, taking a holistic approach and considering both direct and indirect taxation. Issues to be examined include, but are not limited to, the ability of a company to have a significant digital presence in the economy of another country without being able to taxation due to the lack of nexus under current international rules, the attribution of value created from the generation of marketable location relevant data through the use of digital products and services, the characterization of income derived from new business models, the

application of related source rules and how to ensure the effective collection of VAT/GST with respect the cross border supply of digital goods and services. Such work will require a through analysis of the various business models in this sector.

i) Establishing international coherence of corporate income taxation

Globalization means that domestic policies, including tax policy cannot be designed in isolation. Tax policy is at the core of countries sovereignty and each country has the right to design its tax system in the way it considers most appropriate. At the same time, the increasing interconnectedness of domestic economics has highlighted the gaps that can be created by interactions between domestic tax laws. Therefore, there is need a complement rules to prevent double taxation with a fundamentally new set of standards designed to establish international coherence in corporate income taxation.

BEPS

The BEPS report calls for the development of "Instrument to put an end to or neutralize the effects of hybrid mismatch arrangements and arbitrage". Hybrid mismatch arrangements can be used to achieve unintended double non taxation or long-term tax deferral by for instance, creating two deductions for one borrowing, generating deductions without corresponding income inclusions or misusing foreign tax credit and participation exemption regimes. Country rules that allow taxpayers to choose the tax treatment of certain domestic and foreign entities could facilitate hybrid mismatches. While it may be difficult to determine which country has in fact lost tax revenue, because the laws of each country involved have been followed, there is reduction of the overall tax paid by all parties involved as a whole, which harms competition, economic efficiency, transparency and fairness.

Action Plan 2 Neutralize the effects of hybrid mismatch arrangements

Develop model treaty provisions and recommendations regarding the design of domestic rules to neutralize the effect (E.g. Double non taxation, double deduction, long term deferral) of hybrid instrument and entries. This may include (i) Changes to the OECD Model tax Convention to ensure that hybrid instruments and entities (as well as dual resident entities) are not used to obtain the benefits of treaties unduly (ii) domestic law provisions that prevent exemption or non-recognition for payments that are deductible by the payor (iii) domestic law provisions that deny a deduction for a payment that is not includible in income by the recipient (and is not subject to taxation under controlled foreign company (CFC) or similar), (iv) domestic law provisions that deny a deduction for a payment that is also deducible in another jurisdiction and (v) where necessary guidance on co ordination or tie breaker rules if more than one country seeks a apply such rules to a transaction or structure. Special attention should be given to the interaction between possible changes to domestic law and the provisions of the OECD model tax conversion. This work will be co ordinated with the work on interest expense deduction limitations, the work on CFC rules, and the work on treaty shopping.



E-invoicing

CA Venin raj Manager

Introduction:

The GST Council, in its 37th meeting held on 20th Sept 2019, has approved introduction of 'Electronic Invoicing' in a phased manner for reporting of business to business (B2B) invoices to GST System, starting from 1st January 2020 on voluntary basis



E-invoicing

Need for E-Invoicing:

Difficulty that is faced in the current invoicing system is that the Invoice generated by different software (SAP / TALLY / ORACLE etc.,) cannot be understood by the GST System. All these software uses their own formats to store information electronically and so the data on such invoices can't be understood by the GST System if reported in their respective formats. Hence a need was felt to standardize the format in which electronic data of an Invoice will be shared with others to ensure there is interoperability of the data. Standardizing the format will not impact the way the user would see the physical (printed) invoice or electronic (pdf version) invoice.

All these accounting & Billing software would adopt the new e-Invoice standard by making some changes and re-align their data access and retrieval in the standardized format suggested by GST Council. However, users of the software would not find any change since they would continue to see the physical or electronic (PDF) output of the invoices in the same manner as it was existing.

Steps Involved:

The various stages involved in generation of e-invoices and their reporting in the Invoice Registration Portal (IRP) is as follows,

Step 1 :

The seller generate invoice in his own accounting / billing software system. The software should be capable to generate a JSON file of the final invoice that is ready to be uploaded to the Invoice Registration Portal (IRP) The IRP can only take the JSON of the e-invoice.

(The invoice must conform to the e-invoice standards set by GST council. Seller should have an ERP / Software that will output invoice data in JSON format. Those who do not use such ERP / Software will be provided with an offline tool to key-in data of invoice and to generate the JSON file. The small and medium size taxpayers (having annual turnover below Rs 1.5 Crores) can avail accounting and billing system being offered by GSTN *free of cost)*



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E-invoicing

Step 2:

Seller uploads the JSON file of the e-invoice into the IRP.

(Multiple modes are available to upload the JSON file to IRP - web / Application Program Interface (API) / SMS / Mobile App / Offline tool / GST Suvidha Provider (GSP))

About IRP

IRP is an entity authorized by Government of India (Gol) to accept JSON file submitted by the Registered Person through an online portal, to verify whether the document is valid as per the e-Invoice schema and to check for duplication with the central system of GST. The IRP will then generate a unique Invoice Reference Number (IRN), digitally sign the e-Invoice, and generate QR Code that contains the details of the invoice and provide it to the Registered Person. Once IRP validates an e-invoice it forwards the details to the GST system & E-Way Bill System to automate the filing of returns in GST system & to create E-way bill respectively. Hence, the website of an IRP and that of the GST portal is separate. The first IRP authorized by the Government of India is National Informatics Centre (NIC). However, there could be more IRPs in future to handle the increasing workload.

Step 3:

The IRP hashes the invoices based on various parameters such as seller's GSTIN, Document Number and Financial Year etc., in order to eliminate duplication in invoice.

Step 4:

IRP will digitally sign the JSON file, generate QR code & generate Invoice Reference Number (IRN) and return it back to the Supplier (Seller). E-Invoice will be valid only if it has IRN.

(All the information regarding the invoice will be transferred from this portal to both the GST portal and e-way bill portal in real-time thereby eliminating the need for manual data entry while filing ANX-1 / GST returns as well as generation of Part-A of the e-way bill)

Myth Buster:

Myth:

Businesses will now be required to generate einvoices on the GST portal or the e-invoice portal or the IRN portal

Fact:

Businesses will continue to generate e-invoices on their own billing systems. The e-invoicing mechanism only specifies the invoice schema and standards to be adopted. Existing software of the organization are required to adopt the new e-invoice standards wherein they would re-align their data access and retrieval in the standard format to generate Einvoices. Invoice Registration Portal (IRP) will NOT provide facility to generate invoices. IRP is only to report the invoice data.

Rollout Timeline:

On trial basis for taxpayers having aggregate T/o <u>></u> Rs 500 Cr in previous Fin Year.	From 1 st Jan 2020
On trial basis for taxpayers having aggregate T/o <u>></u> Rs 100 Cr in previous Fin Year.	From 1 st Feb 2020
Mandatory rollout for taxpayers having aggregate T/o <u>></u> Rs 100 Cr in previous Fin Year.	from 1 st April 2020

Goods & Services Tax

E-invoicing

Anticipated Benefits:

To Registered Persons:

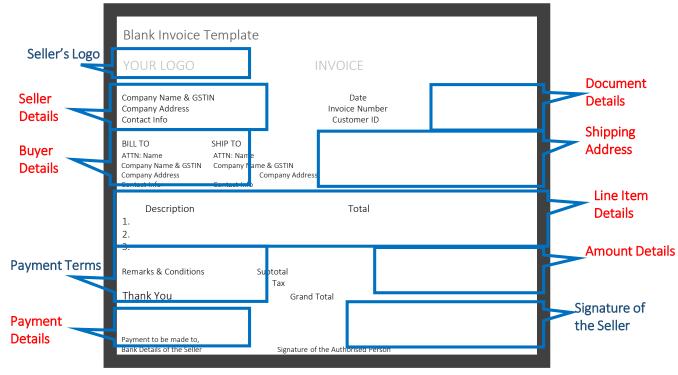
- The B2B invoices once reported in IRP can be filled in across the entire GST system.
- Auto-filling of the B2B details in the GST returns.
- Auto-filling of the Part-A of the e-way bills at the time of e-way bill creation.
- E-invoices created in one software can be read by another, allowing interoperability and reduction of data entry errors.
- Ability to pre-populate the GST return and reduce the reconciliation problems of output liability with the input credit.
- E-invoice resolves and plugs a major gap in data reconciliation under GST to reduce mismatch errors.

To Government:

• Complete trail of B2B invoices.

Optional Fields in E-Invoice

- Elimination of fake invoices. (GST officers have booked 535 cases of fake invoices involving a total fraudulent claim of ₹2,565 crore of Input Tax Credit (ITC) and arrested 40 persons so far in the financial year 2019-20. In 2018-19, 1,620 cases of fake invoices were registered involving fraudulent ITC claim of ₹11,251 crore under the GST. As many as 154 persons were arrested)
- Real-time tracking of invoices prepared by the supplier is enabled through e-invoicing system.
- Lesser possibility of audits / surveys by the tax authorities since the information they require is available at transactional level.
- System level one-to-one matching of input tax credit with the corresponding output tax liability.



Mandatory Fields in E-Invoice (Extract)

Other Key Points from FAQs:

Amendment / cancellation of invoices:

• IRP also allows cancellation of the invoices in the portal. However, the cancellation has to be done in IRP within 24 hours of the invoice being reported. Any cancellation after 24 hours could not be possible in IRP as the IRP does not store the details of the invoices beyond 24 hours. However, one can manually cancel the same on GST portal before filing the returns for that Tax Period. E-Invoice can't be partially cancelled. It has to be fully cancelled.

• Amendments to the e-invoice are allowed only on the GST portal as per the provisions of GST Act.

For Small Taxpayers:

Small taxpayers can use one of the eight accounting / billing software currently listed by GSTN free of cost.

Also, GSTN will provide Offline Tools where data of an invoice can be keyed in. It, in turn, will create JSON file that could be uploaded in the IRP.

Sample e-invoice:

2. Name GSTN Lt 3. Address Godrej, Mahara 4. Invoice Number GSTN00 5. Invoice Date 18/01/2	vikhroli, Mumi htra - 400076 l		Sampl	e E-invoice			[Origina	l for	Recipient		
2. Name GSTN Lt 3. Address Godrej, Mahara 4. Invoice Number GSTN00 5. Invoice Date 18/01/2	l vikhroli, Mumi htra - 400076 l											
3. Address Godrej, Mahara 4. Invoice Number GSTN00 5. Invoice Date 18/01/2	vikhroli, Mumi htra - 400076 l											
Mahara 4. Invoice Number GSTN00 5. Invoice Date 18/01/2	htra - 400076 1											
4. Invoice Number GSTN00 5. Invoice Date 18/01/2	1											
5. Invoice Date 18/01/2												
		GSTN001			Dispatch from: 05AAACG2207L1ZT, GSTN LTD							
5. IRN No. OSAAAC	18/01/2020			Address: Godrej, Vikhroli, Mumbai								
	32207L1ZT/G5	TN001/2019	-20		N	Aaharashtra	- 40	0076				
Details of the Receivers (Billed to			1	De	tails	of the Cons	igne					
Name	ABC India L	td	1	Name			114	ABC I	ndia Ltd			
Address	Mumbai				dress				Mumbai			
Pin Code	400011				Pin Code				4000			
State	Maharashtr	e.			State					irashtra		
State Code (Place of Supply)	MH				State Code (Place of Supply)				MH			
SSTNIN / Unique ID	05AAACG22	207L1ZT		GS	GSTNIN / Unique ID				05AAACG2207L1ZT			
S.No. Description HS		Rate /	GST	Taxable		CGST		SGST		IGST	-	Cess
Col		Unit	Rate	Value	96	Amount	96	Amount		Amount	96	Amou
1. Laptop 870	3 2	50000	18%	1,00,000	9	9,000	9	9,000	-	(a)	-	
			Total	1,00,000		9,000	6	9,000		-		
Eighteen Thousand										1,00,0		
Amount of Tax subject to Reverse Charge No									18,0			
and the second				Final Amo	unt							1,18,0
Payment Information:												
Payee Name: GSTN Ltd Account Number:												
Account Number: Payment Mode:												
Payment Mode: IFSC Code:												
Thousand Amount of Tax subject to Reverse Charge No		Total Taxable Amount 5 Total Tax Amount										

Conclusion :

Even though the word "Invoice" is used throughout the document, it is clarified that all the documents that are required to be reported as per the provision of the Act must be reported in IRP as well. Currently, following documents are to be reported in IRP,

- 1. Invoices by the Supplier (B2B & Exports)
- 2. Credit Notes by the Supplier
- 3. Debit Notes by the Recipient

Initially, e-Invoicing is introduced on a mandatory basis for taxpayers above a certain turnover threshold as specified in the roll out plan. Eventually, the objective is to bring all taxpayers under its gamut in a phased manner.

Separate JSON file must be generated for each of the einvoices which makes the process more tedious. However, the Government of India may bring in certain facilities such as bulk upload option to ease the process.

Also, the entire benefit of e-invoicing can be reaped only when all the documents are reported in IRP. Certain details such as B2C invoices, details of goods sent to job workers etc., cannot be reported in current IRP. Perhaps, to begin with, the government has introduced this practice for key documents as an initial phase of implementation and to rectify the lacunae identified in the course of implementation and in future course it would extend the scope of IRP.

With the change, comes the resistance. However, just like other changes in the current business environment, the entities have to embrace this new procedure as well for the betterment of self and the GST ecosystem in whole.

Citations:

Link to IRP: einv-apisandbox.nic.in/

FAQs: https://www.gstn.org/e-invoice/doc/Updated-einvoice-FAQs-v6.pdf 17

Insolvency & Bankruptcy code



CORPORAT INSOLVENCY

Nithya Murali Article Assistant

What is corporate insolvency ?

A company is declared insolvent if it is unable to pay its debts to its creditors. There are two ways to check for corporate insolvency:

<u>The cash-flow test</u>: is the company currently, or will it in the future, be unable to pay its debts as and when they fall due for payment?

<u>The balance sheet test</u>: are the value of the company's assets less than the number of its liabilities, taking into account as-yet uncertain and future liabilities?

If the answer to either of these questions is yes, then the company is declared as insolvent.



CORPORATE INSOLVENCY

Steps in Insolvency Resolution Process:

Step 1 : Application to NCLT

A creditor of a company (financial or operational), or the company itself, can apply to the NCLT (National Company Law Tribunal). It is applied in order to admit that company (or "Corporate Debtor" as the IBC calls it) into the CIRP (corporate insolvency resolution process). For this, creditors need to show the default payment of a debt which exceeds 1 Lakh rupees and within 14 days, the NCLT has to pass an order either admitting or denying the application. A financial and an operational creditor have to meet different obligations when making their applications before the NCLT. A financial creditor needs to submit the record of the default. The IBC(Insolvency and Bankruptcy Code, 2016) creates a new class of record keepers. It is known as "Information Utilities".

On the other hand, an operational creditor needs to first make a demand for his unpaid debt. On the basis of an ongoing dispute, it is open to the corporate debtor to defend the claim.

<u>Step 2: CRIP (Corporate Insolvency Resolution Process) starts, Interim Resolution</u> <u>Professional takes over, Moratorium sets in</u>

When a corporate debtor is admitted into the CIRP(Corporate Insolvency Resolution Process), it suspends the board of directors.

Also, the management is placed under an independent "interim resolution professional".

From this point on and until the end of the CIRP (Corporate Insolvency Resolution Process), the management ceases to have any control over the affairs of the company.

- Simultaneously, a moratorium takes effect which prohibits:
- \succ Continuation or initiation of any legal proceedings against the corporate debtor.
- \succ Transfer of its assets.
- Enforcement of any security interest.
- Recovery of any property from it by an owner.
- Suspension or termination of the supply of essential goods and services, the moratorium lasts till the corporate debtor is in CIRP.

But yes, the moratorium does not extend to key business contracts entered into by the corporate debtor.

CORPORATE INSOLVENCY

Step 3: Verification and classification of claims

Now in this step, the interim resolution professional will invite, verify claims made by the corporate debtor's creditors also, classify them. After that, within 30 days of the admission into CIRP (Corporate Insolvency Resolution Process), form the COC (Committee of Creditors), comprising all the financial creditors of the corporate debtor.

Step 4: Appointment of the resolution professional

The COC (Committee of Creditors) appoints an independent person to function as the "resolution professional" for the remainder of the CIRP (Corporate Insolvency Resolution Process) term. The resolution professional may be the same person or the same person as the interim resolution professional. It depends on what the COC wants.

Step 5: Approval of the "Resolution Plan" :

A resolution plan for the revival of the company needs to be approved within 180 days from the start of the CIRP by creditors. They are holding 66.66% of the financial debt. The NCLT can extend this by another 90 days.

Any person, management, the creditors, or a third party can propose such a plan. It is the responsibility of the resolution professional to verify that the plan meets the criteria set out in the IBC(*Insolvency and Bankruptcy Code, 2016*). Although, the Resolution Professional cannot propose this plan. But this is not expressly prohibited under the IBC.

If a plan is approved within this period and is sanctioned by the NCLT:-

It becomes binding on all "stakeholders" involved in the CIRP(Corporate Insolvency Resolution Process). The term "stakeholders" has not been defined. While the IBC(*Insolvency and Bankruptcy Code, 2016*) mentions that this plan helps to bind the employees, creditors, members etc. But it not clear that the point related to the other stakeholders in the resolution plan. If no resolution plan is approved in this period:-

If the resolution plan passes, then NCLT is required to order the liquidation of the corporate debtor. After the approval of liquidation, COC appoints the liquidator to sell the assets of the corporate debtor and distribute them among the stakeholders. The distribution will be made in accordance with the Insolvency and bankruptcy Code 2016.



Gst on Job work

Akshaya Article assistant

As per section 2(68) of the CGST Act, job work means any treatment or process undertaken by a **person** on **goods belonging to another registered person** and the expression "job worker" shall be construed accordingly.

The definition above makes it clear that the ownership at all time should be with the principal and in no case, it should be transferred to another person in order to avail the benefit of the Job work provisions under GST.

Under GST, tax is levied on the taxable supply of goods/services. Tax is applicable on the taxable goods/services supplied in India. Schedule II of the CGST Act, which sets out the activities to be treated as supply of goods or supply of services, it provides that any treatment or process which is applied to another person's goods is a supply of services. Accordingly, the job worker is liable to GST at applicable rates on the processing charges paid by principal.

GST implications on principal and job worker: A registered person / principal subject to conditions may **send any inputs or capital goods, without payment of tax** to job worker for job work and from there subsequently send to another job worker and likewise.

For the purpose of job work **input** includes intermediate goods arising from any treatment or process carried out on the inputs by the principal or job worker. After completion of job work, principal shall bring back inputs or capital goods [except moulds and dies, jigs and fixtures, or tools] within in 1 year / 3 year respectively, of being sent out, to any of his place of business, without payment of tax. The principal would supply the final goods to his end customers on payment of applicable GST.

Time limit for receiving goods back from Job worker

S. 143 of CGST Act provides that the job worker may send any inputs or capital goods without payment of tax to a job worker for job work services and from there subsequently send to another job worker provided the goods has to be received back/supplied from Job worker's place within stipulated time as follows: a. Inputs - within 1 year from the date of its removal for job work b. Capital goods - within 3 years from the date of its removal for job work c. Extension of 1year/ 2 years for inputs/capital goods is possible with prior permission of Commissioner.

After completion of process by job worker, principal has following options:

a. Further send goods to another job worker for further process,

b. Bring back processed goods within time limit and supply them to the customers on payment or non-payment of GST as the case may be,

c. Supply to the customers directly from the job worker's place on payment of applicable GST.

Note: Principal will be able to supply from Job worker's place only in case a. Where principal has declared job worker's place as additional place of business; or

b. Job worker is registered under GST

c. The principal supplies goods which are specifically notified by the Commissioner to be allowed to sell directly from job worker's place.

Treatment of Goods not received back within stipulated time

When inputs or capital goods are not received back from Job workers place within 1 or 3 years as the case maybe, it would be deemed that the goods are supplied by principal to Job worker **on the date of removal**, consequently it makes the principal to issue a tax invoice as on such date. The challan issued for job work shall be treated as tax invoice. Further it provides the principal to pay interest on tax amount from the date of removal till the date of payment of taxes in its GST returns

Interest

The provision requires assessee to pay interest from date of removal. The interest would be payable for a minimum of 1 year for inputs and 3 years for capital goods which is one of the major drawbacks of the job work provision.

It could be said that where job worker's uses its own material along with the goods sent by the principal, the activity could be considered as job work when the own materials used by job worker are minor items, when most of major products are supplied by registered principal it would be considered as a job worker services when price of minor additions are included in job work invoice. Mere addition of few materials by job worker would not detract from treating as job work.

Input tax credit [ITC]

S. 16 of the CGST Act provides that every registered person would be entitled to take ITC on goods or services or both which are used or intended to be used in the course or furtherance of his business and attributable to the extend to taxable supplies subject to conditions and restrictions in blocked credits S. 17(5)

Conditions for availing ITC:

A registered person can claim ITC of tax paid on supply of goods and/ or services or both only if:

a. He is in possession of tax invoice, debit note issued by the supplier, self-invoice in the case of RCM procurements from unregistered vendors, bill of entry in the case of import of goods, ISD invoice in the case of ITC distributed by an ISD or any other taxpaying document;

b. He has received the goods or services or both;

- c. The tax charged by the supplier has been paid to the government; and
- d. The supplier and the recipient have furnished the return.
- e. He has paid the consideration within 180 days of the invoice issued by the vendor

ITC for Job worker

a. S. 19 provides that ITC on goods supplied to job worker by the principal would be entitled to take the credit of input tax paid on inputs/capital goods sent to the job- worker for the job work.

b. Further the principal can take the credit even when the goods have been directly supplied to the job worker without bringing into the premise of the principal.

c. The principal need not wait till the inputs/capital goods are first brought to his place of business.

Documentation

Records: Section 143 mandates the principal to maintain the records of the goods sent, received, supplied from job worker's place

Delivery Challan: The inputs, semi-finished goods or capital goods is required to be sent to job worker for job work under the cover of a delivery challan which is issued by principal. Such delivery challan is required even in case where such goods are sent directly to a job worker.

Contents of DC issued by principal to job worker

- a. serially numbered not exceeding 16 characters, in one or multiple series
- b. date and number of the DC;
- c. name, address, and GSTIN of the consigner, if registered;
- d. name, address, and GSTIN or UIN of the consignee, if registered;
- e. HSN/SAC and description of goods;
- f. quantity (provisional, where the exact quantity being supplied is not known);
- g. taxable value;
- h. tax rate and tax amount -CGST, SGST/UTGST, IGST or cess
- i. place of supply, in case of inter-State movement; and
- j. signature

ITC-04: The principal is required to file statement of records ITC-04 on common portal quarterly basis by 25th of the month following the quarter.

Details to be provided in ITC-04

- a. goods sent for job work by principal;
- b. details of goods sent from one job worker to another job worker of principal;
- c. details of the goods sent directly to the place of customers from the place of job worker; and
- d. The details of the goods received back from the place of job worker.

Due dates for filing of ITC-04

For FY 2017-18 and 2018-19: The requirement to file statement ITC-04 has been waived off for the first 2 years of GST period.

However, if any goods sent to job worker during the period from July 2017 to March 2019 have not been received back (from the job worker) or not supplied from job worker's premises as on 31st March 2019 then, the same needs to be furnished in Table 4 of ITC-04 of Apr-June 2019 quarter.

E waybill for Job worker

E-way bill is an electronic waybill for movement of goods, which has to be generated on the e waybill portal.

Every registered **person who causes movement of goods** of **consignment value** exceeding Rs.50,000/- or limit applicable to that particular state as the case may be, needs to furnish information relating to the movement of goods in e-way bill:

a. in relation to supply, or

b. for reason other than supply such as sale of goods on approval basis, job worker etc., or

c. due to inward supply from an unregistered person excluding exempted goods

The limit of Rs 50,000 for generation of e-way bill is same for both inter-State movement and intra State movement in Karnataka.

a. Goods sent to Job worker

Within State: If goods are sent by a principal to a job worker located in same State or Union territory, the e-way bill shall be generated either by the principal or the job worker (if registered) where consignment value exceeding Rs. 50,000/-.

Outside State: If goods are sent by a principal located in one State or Union territory to a job worker located in any other State or Union territory, the e-way bill shall be generated either by the principal or the job worker (if registered) **irrespective of the value** of the consignment. Here, the threshold limit of INR 50,000 is not applicable.

b. Goods returned from Job worker

When Job worker is returning back goods to principal and where Job worker is registered under e waybill portal, Job worker would generate e way for such movement of goods, and in case where Job worker is not registered then the principal has to generate an e way bill.

Conclusion

The main purpose of job work is to avoid the unnecessary GST cost when goods are sent for further processing. However, the principal has to ensure the proper records of documents, generation of the e way bill by principal or job worker [if registered] It is to be noted that the goods sent for job work is required to be returned back/ sold from the premises of job worker within 1/3 years as the case maybe else the interest on deemed supply has to be paid from the date of removal of the goods which would be cost to the principal thus he has to ensure the proper tracking of the goods from the date of removal and has to ensure goods well receive on time.



ICDS I & II

Mahitha Article assistant

ICDS I & II – Accounting Policies and Valuation of Inventories

Every person irrespective of their Income/turnover must follow ICDS only for computation of taxable income under the heads "Profit & Gains from Business or Profession" and "Income from Other Sources" and it is not for maintenance of books of accounts.

ICDS I Accounting Policies

ICDS-1 relates to significant accounting policies and it deals with the selection of accounting policies to be adopted by enterprise and the considerations to be followed in selecting and changing such accounting policies. If there is a conflict between the act and ICDS while computing taxable income from PGBP and IFOS, the provisions of the act will supersede.

Fundamental Accounting Assumptions:

Fundamental accounting assumptions namely Going concern, Consistency and Accrual are same as those mentioned in AS-1.

Considerations in the Selection of Accounting Policies:

Accounting policies adopted by a person shall represent a **true and fair view** of the state of affairs and income of the business, profession or vocation. For this purpose,

- ✓ the treatment and presentation of transactions and events shall be governed by their substance and not merely by the legal form; and
- ✓ marked to market loss or an expected loss shall not be recognized unless the recognition of such loss is in accordance with the provisions of any other Income Computation and Disclosure Standard.

ICDSI& II

It is to be noted that "true and fair view" and "substance over form" are in line with AS-1. But, the concept of Prudence and materiality are not recognized in ICDS-I. Even though the concept of Materiality is not mentioned in this ICDS, it still says about "Significant" accounting policies. So, it means the materiality is hidden somewhere.

Change in Accounting Policies

An accounting policy shall not be changed with **reasonable cause**.

Here, the term 'reasonable cause' is not defined in ICDS. But in AS-5, a change in accounting policy should be made only if

- it is required by statue or accounting standard; or
- if the change helps in better presentation of financial statements

Disclosure of Accounting Policies:

Disclosure of change is required to be made in previous year in which such change is adopted, as well as in the previous year in which such change resulted in material implication for the first time.

ICDS-II Valuation of Inventories Inventory of services Measurement

Inventory to be valued at cost or Net realizable Value(NRV) whichever is lower.

'Inventories' are assets:

- held for sale in the ordinary course of business
- in the process of production for such sale
- in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Cost of inventories

Cost of inventories shall comprise of all costs of purchase, costs of services, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

ICDSI& II

Cost of purchases:

The cost of purchase shall consist of purchase price including duties and taxes, freight inwards & other expenditure directly attributable to the acquisition. Trade discounts, rebates and other similar items shall be deducted in determining the costs of purchase.

AS 2 excludes duties and taxes subsequently recoverable from taxing authorities

Cost of services – includes labour and other costs of personnel directly engaged in providing the service including supervisory personnel and attributable overheads

Cost of conversion

The costs of conversion of inventories shall include costs directly related to the units of production and a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods.

Methods for ascertaining cost of inventories

- Specific identification of cost
- FIFO
- Weighted average
- Retail method

Methods for ascertaining cost of inventories as per ICDS are in line with AS-2 except Standard cost method which is not permitted in ICDS.

Scope:

This ICDS shall be applied for valuation of inventories except

- Work-in-progress arising under 'construction contract' including directly related service contract which is dealt with by the Income Computation and Disclosure Standard on construction contract
- Work-in-progress which is dealt with by other Income Computation and Disclosure Standard
- Shares, debentures and other financial instruments held as stock-in-trade which are dealt with by the Income Computation and Disclosure Standard on securities

ICDSI& II

- Producers' inventories of livestock, agriculture and forest products, mineral oils, ores and gases to the extent that they are measured at net realizable value
- Machinery spares, which can be used only in connection with a tangible fixed asset and their use is expected to be irregular, shall be dealt with in accordance with the Income Computation and Disclosure Standard on tangible fixed assets.(Not in AS 2)
- Work in progress arising in the ordinary course of business of service providers. (Not in AS 2)

Value of Opening Inventory

The value of the inventory as on the beginning of the previous year shall be

- 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
- the value of the inventory as on the close of the immediately preceding previous year, in any other case.

Change of Method of Valuation of Inventory:

The method of valuation of inventories once adopted by a person in any previous year shall not be changed with reasonable cause.

Valuation of Inventory in case of certain dissolutions

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 realizable value. (No such provision in AS-2)

To conclude, ICDS will have to be mandatorily followed by all persons for computing their income. One should know the comparison of ICDS from AS to get clarity of computing such income.



Harthik.T Article Assistant

Introduction:

The Banning of Unregulated Deposit Schemes Ordinance, 2019 (for brevity 'Ordinance') was Promogulated by Honourable President of India on 21st Feb 2019.

The main objective of the Ordinance is to provide for a comprehensive mechanism to ban the unregulated deposit schemes and to protect the interest of depositors and for matters connected and incidental thereto.

The Banning of Unregulated Deposit Schemes Bill, 2019 was passed on 13th Feb 2019 in Lok Sabha and since the bill could not be taken up for consideration and passing in the Rajya Sabha, the President has promogulated the Ordinance in light of powers vested in him vide Article 123 of Constitution.



Journey:

Report of Standing Committee on Finance:

The Standing Committee on Finance (SCF) presented its 21st Report on the subject of 'Efficacy of Regulation of Collective Investment Schemes, Chit Funds etc to the Lok Sabha after meeting and considering the views of representatives of Ministry of Finance (Department of Financial Services), Ministry of Corporate Affairs, Reserve Bank of India and SEBI. The key recommendations made by SCF is to strengthen the regulatory framework for unauthorised deposit taking activities.

Inter-ministerial Group:

Post the SCF report, the Government of India has constituted an Inter-Ministerial Group (IMG) for identifying the gaps in the existing regulatory post the SCF report, The Government of India has constituted an Inter-Ministerial Group (IMG) for identifying the gaps in the existing regulatory framework for deposit-taking activities and to suggest administrative/legal measures, including formulation of new law, to cover all aspects of deposit taking.

Introduced in Lok Sabha:

The Banning of Unregulated Deposits Schemes Bill, 2018 has been introduced in Lok Sabha on 18th July 2018 and made some changes and recommendations of SCF and has been **passed**.

Ordinance:

Since the Rajya Sabha was not seated, the Bill has been promogulated as Ordinance by the **President**

OBJECTIVES

The Ordinance is to provide for a comprehensive mechanism to ban Unregulated Deposit Schemes and to protect the interest of the depositors and for matters connected therewith. It aims to prevent such unregulated deposit schemes or arrangements at their inception and at the same time makes soliciting, inviting or accepting deposits pursuant to an unregulated deposited scheme as a punishable offence.

Salient Features of Banning of Unregulated Deposit Schemes Ordinance, 2019:

- The ordinance contains a substantive banning clause which bans deposit takers from promoting, operating, issuing advertisements or accepting deposits in any unregulated deposit scheme..
- The principle is that ordinance would ban unregulated deposit taking activities altogether, by making them an offence at the inception, rather than existing legislative – cum – regulatory framework which only comes effect ex-post with considerable time lags.
- The ordinance creates three different types of offences, namely, running of Unregulated Deposit Schemes, fraudulent default in Regulated Deposit Schemes, and wrongful inducement in relation to Unregulated Deposit Schemes.
- The ordinance adequate provisions for disgorgement or repayment of deposits in cases where such schemes nonetheless manage to raise deposits illegally.
- The ordinance provides for attachment of properties/ assets by the Competent Authority, and subsequent realization of assets for repayment to depositors.
- Clear-cut timelines have been provided for attachment of property and restitution to depositors.
- The ordinance enables creation of an online central database, for collecting and sharing of information on deposit taking activities in the country
- Amount received in the course of, or for the purpose of business and bearing a genuine connection to such business including

A)Payment, advance or part payment for supply or hire of goods or provisions of services and is repayable in the event the goods or services are not in fact sold, hired or otherwise provided.

b) Advance received in connection with consideration of immovable property under an agreement or arrangement subject to such condition that such advance is adjusted against such immovable property as specified in terms of the agreement or arrangement.

c) Security or dealership deposited for the performance of contract for supply of goods or provision of services .

d) An advance under the long-term projects for supply of capital goods except immovable property transactions.

Provided that if the amounts received above becomes refundable, such amounts shall be deemed to be deposits on the expiry of 15 days from the date on which they become due for refund Provided further that where the said amounts become refundable, due to the deposit taker not obtaining necessary permission or approval under the law for time being in force, wherever required, to deal in goods or properties or services for which money is taken, such amounts shall be deemed to be deposits.

Definition of Regulated Deposit Scheme:

The phrase 'regulated deposit scheme' has been defined vide Section 2(14) of Ordinance. 'Regulated deposit scheme' means:

The scheme specified under column (3) of First Schedule.

The regulated schemes are such which are regulated by following regulators, namely

- ➢ IRDA, M.C.A
- State Governments
- National Housing Bank
- Pension fund regulatory and development authority (PFRDA)
- Employees Provident Fund Organisation (EPFO)
- Central Registrar Multi-state Co-operative Societies

Definition of Unregulated Deposit Scheme:

The phrase 'unregulated deposit scheme' has been defined vide Section 2(17) of Ordinance. 'unregulated deposit scheme' means

A scheme or an arrangement under which deposits are accepted or solicited by any deposit taker by way of business and which is not a Regulated Deposit Scheme, as specified column (3) of First Schedule.

This Ordinance only covers the Deposit Schemes which are unregulated and which are accepted by any deposit taker by way of business such as illicit deposit / Ponzi schemes / unregulated chit funds that hurt small investors.

Banning of Unregulated Deposit Schemes(SEC-3):

On and from date of commencement of this Ordinance:

- The unregulated deposit scheme shall be banned and
- No deposit taker shall, directly or indirectly, promote, operate, issue any advertisement soliciting participation or enrolment in or accept deposits in pursuance of an unregulated deposit scheme. Punishment for Contravention of Section 3 – Section 21.

Fraudulent Default in RDS(SEC-4):

No deposit taker, while accepting deposits pursuant to an RDS, shall commit any fraudulent default in the repayment or return of deposit on maturity or in rendering any specified service promised against such deposit.

Punishment for Contravention of Section 4 – Section 22:

Shall be punishable with imprisonment for a term which may extend to 7 years or with fine which shall not be less than Rs 5 lakhs but may extend to Rs 25 Crores or 3 times the amount of profits made out of the fraudulent default, whichever is higher, or with both.

Wrongful Inducement in relation to URDS(Sec-5):

No person shall knowingly make any statement, promise or forecast which is false, deceptive or misleading in material facts or deliberately conceal any material facts, to induce another person to invest in or become a member or participant in any URDS. It

shall be punishable with imprisonment for a term which shall not be less than 1 year, but which may extend to five years and with fine which may extend to Rs 10 lakhs.

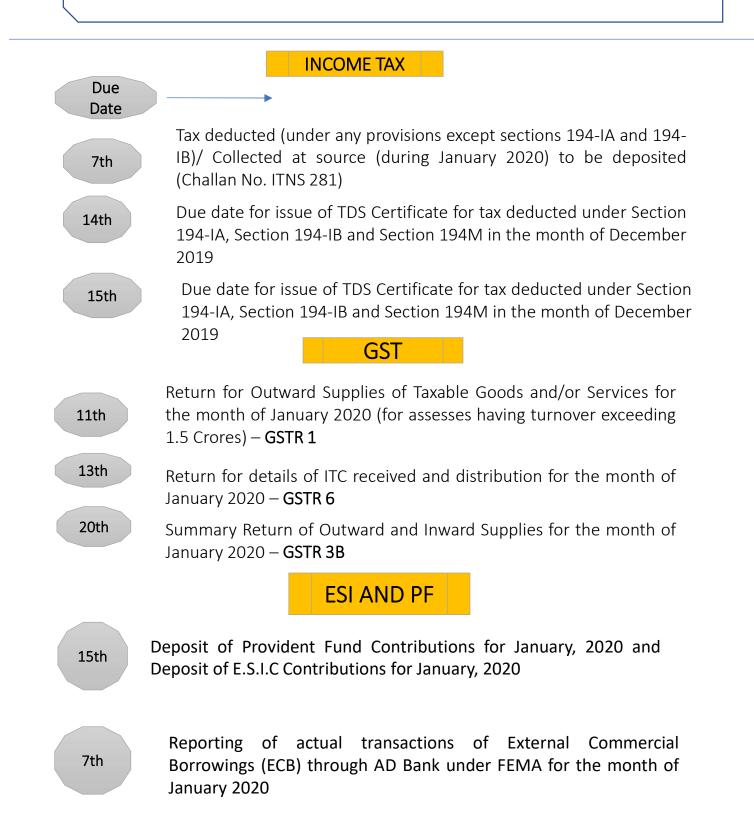
Role of Competent Authorities:

Where Competent Authority (as notified by Appropriate Govt) has reason to believe, on the basis of information and particulars as may be prescribed <u>that any depositor is soliciting deposits in</u> <u>contravention of Section 3, he may, by order in writing, provisionally attach the deposits held by</u> <u>deposit taker and the money or other property acquired either in the name of the deposit taker or in</u> <u>the name of any other person on behalf of the deposit taker from the date of order, in such manner</u> <u>as may be prescribed</u>

Role of Designated Courts:

Appropriate Govt shall with concurrence of Chief Justice of High Court concerned, constitute one or more courts known as Designated Courts. No court other than Designated Court shall have jurisdiction in respect of any matter to which the Ordinance apply.

COMPLIANCE CALENDAR – FEBRUARY, 2020



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