



MANGALURU BRANCH
SIRC OF ICAI

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E-SAMAACHAAR

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WITH THE APPROACH OF MONSOON, LET US BEGIN AFRESH SOON



ATMANIRBHAR BHARAT ABHIYAN



SELF-RELIANT INDIA

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Chairman's Message



Dear Professional Colleagues,

Eid Mubarak & Happy Buddha Poornima

A lot of changes have happened over the last couple of months and the events have been giving us optimism that the tough times will be behind us and the economic outlook will be better in the coming months. We have to be careful about the health situation arising out of Covid - 19 but at the same time the precautions and practices that have been put in place since March 2020 hopefully will slow down and ultimately end the pandemic. The news coming out of countries like New Zealand and Eastern Europe gives us a strong hope that unified action and consistent precaution by the public can surely end the spread of the virus. With this, the economic activity which had come to a near halt also will start and slowly get back to normal and with this our role as professionals also come into action. As auditors, consultants or advisers, we will have to understand that society will expect that we carry out our professional obligations with due care and in compliance with the professional ethics and standards.

A debate that has been going on about when the economic situation will start improving after having slowed down to unprecedented levels within such short duration around the globe. I have an optimistic view and believe that the turnaround time may be within a few months. There is no loss of capital, the industries, factories and facilities are still intact and the trained manpower is still there. This will mean that the economic activities can start soon if the demand side of the economy is corrected soon. The displacement of lakhs of migrant workers or the loss of jobs in small units will require focus and attention and the Government is already doing cash and non-cash transfer to this segment of the population so that the normalcy can be restored soon.

Recently, Prime Minister Narendra Modi ji emphasized the need to develop local industries and channelise the supply from local suppliers with a view to ensure that there is growth of local supply chain and also that the country becomes self-reliant to the maximum extent possible. The Honourable Prime Minister has elaborated this through the concept of *Atmanirbhar Bharath Abhiyan* consisting of overall relief package of

Rs.20 lakh crores. The same has been announced in detail by the Finance Minister in 5 Tranches from May 13th to May 17th. Even the TDS/TCS rates have been moderated by 25% reduction, MSME's have also been declared revival/relief viz, Rs.3 lakh crores collateral free emergency credit line, change in the definition of MSMEs, Subordinate debt to MSMEs, Equity infusion, extension of due dates under Income tax, GST etc; EPF benefits & many other Policy decisions to ease the liquidity in the Economy. The RBI has also made a number of announcements on May 22nd , 2020 for where in they have extended moratorium for 3 more months & various other liquidity measures to ease out liquidity in the economy. All these are indeed a welcome step and will insulate our economy and country from unexpected supply disruptions at international level whether due to natural factors or otherwise. The founding fathers of our nation emphasized this soon after independence whereby they stressed for a self-reliant and self-sufficient nation. Mahatma Gandhi, Pandit Jawaharlal Nehru and other great leaders envisioned the concept of an self-reliant India from the period India got independence and we understand the value of their visionary ideas today much more than ever.

I have a firm belief that our country can achieve marvellous growth when a determined effort is made. In early March 2020, our country was still preparing to face the pandemic and had to import PPE and other safety kits for health workers and within 2 months our country became the second largest manufacturer of PPE in the world. This is an extraordinary achievement. Likewise life saving equipment like ventilators, hospital systems and other infrastructure was put up in record time. This proves that we have the capability to face any situation with concerted effort and dedication.

As professionals we have adapted to the new norm of working like work from home, tele-conferences, virtual seminars and use of cloud based servers as our repository. Similarly businesses will have to re-invent themselves and adopt to use of technology and move to electronic platforms to adjust to the needs of the time. The development of e-commerce in China has been attributed to many factors with one of them being their experience in handling SARS which was also an epidemic in the first decade of this century. The development of such large e-commerce operations helped them to effectively implement measures during the current crisis. We have to learn from the experiences of others and also think of how best our country can improve the existing systems. There are many challenges that our metro cities and urban centres are facing like pollution, high density of population, slums etc and the Government and Planning authorities may have to think on resolving these issues through use of renewable/clean energy, development of low cost housing projects, water resource management and de-congestion of cities by moving industries to rural areas by upgrading the infrastructure facilities. We may soon see a lot of reforms in this area as well.

Coming to professional matters, we have concluded the bank branch audits in the previous month and this marks the beginning of the regular audit season for us. The due dates for Income Tax, TDS returns and GST returns have been extended but the extent of compliance remains more or less the same. Therefore, we have to work closely with all stakeholders and ensure that they fulfill their legal obligations. Mangaluru Branch of SIRC of ICAI will also be organising webinars on important issues like taxation and regulatory matters, "Role of CA's in implementing Atmanirbhar Bharath Abhiyan" so that the members get the maximum benefit in terms of knowledge and experience. The Managing Committee invites suggestions and recommendation on these matters from the Members. The Committee will also be conducting programs for students from time to time. Other planned initiatives are being carried out for improvement of facilities at the branch.

Once again I request our members to take advantage of professional opportunities in implementing "Atmanirbhar Bharath Abhiyan". We should act as friend, philosopher and guide to our clients during this tough time to bounce back in their business. The lock down has been eased out. But we have to take more precaution by maintaining social distance & following strictly guidelines of the Government

Wish you all safe and happy living!

Regards

CA S S Nayak

Chairman

Mangalore Branch of ICAI

GST ASPECT OF ADVANCE RECEIVED FOR A SERVICE CONTRACT WHICH GETS CANCELLED SUBSEQUENTLY

In the business world, it is ubiquitous to receive advance for the supply of services or goods to be provided in the future date. Also, common is the fact that in a few cases due to whatsoever reason, these contracts get cancelled before their supply and therefore, the advance received is to be returned back to the customers. Generally, advances received for providing service would be taxable under GST and would be adjusted when the actual invoice is raised for the respective service. This practice is more prevailing in the case of elongated contracts and continuous supply contracts. Recently, the CBIC has issued Circular No 137/07/2020- GST dated 13/04/2020, wherein it is clarified that if the advance is returned for which invoice was not raised, tax paid on advance should be claimed as a refund. The relevant portion of the circular is as under:

Sr. No.	Issue	Clarification
2	An advance is received by a supplier for a Service contract which got cancelled subsequently. The supplier has issued receipt voucher and paid the GST on such advance received. Whether he can claim refund of tax paid on advance or he is required to adjust his tax liability in his returns?	<p>In case GST is paid by the supplier on advances received for an event which got cancelled subsequently and for which no invoice has been issued in terms of section 31 (2) of the CGST Act, he is required to issue a "refund voucher" in terms of section 31 (3) (e) of the CGST Act read with rule 51 of the CGST Rules.</p> <p>The taxpayer can apply for refund of GST paid on such advances by filing FORM GST RFD-01 under the category "Refund of excess payment of tax".</p>

With this background, an attempt has been made to analyse the impact on advances received, cancellations and issue of refunds and the possibility of adjusting the tax paid on advance against the regular liability while refunding the advance.

It is important to note here that w.e.f.15.11.2017, vide Notification No. 66/2017-CT, all suppliers of goods who have not opted for composition scheme, have been exempted from the burden of paying GST on advances received. To put it in simple words, GST needs to be paid on advances received only for the

supply of services; therefore, all our discussions henceforth with regard to 'advance' shall deem to imply only for 'advance on supply of services' and NOT for supply of goods.

It is common to receive an advance in the construction industry, hospitality industry, renting of marriage and function halls, etc., and also it is a common practice to cancel such contracts before

using such services. The GST law has provided the following tax provisions in case of receipt of advance:

1. Pay tax on advances received.
2. Issuing tax invoice is made optional.
3. Issue credit note while refunding in case invoice was issued for advance receipt.
4. Upon cancellation, claim refund in case invoice was not issued for advance receipt.

Let us examine the legal position in detail and the documentation requirement to comply the same.

- i. **ISSUE RECEIPT VOUCHER:** Whenever an advance for supply of service is received, as per Section 31(3)(d) of the CGST Act, 2017, supplier has to issue an Advance Receipt voucher or any other document containing such particulars as prescribed i.e. showing the description, value, the tax charged thereon and such other particulars as per Rule 50 of CGST Rule, 2017. Even if the invoice is issued in the same month, there is a requirement to issue the receipt voucher.
- ii. **ISSUE REFUND VOUCHER:** For the services which got cancelled subsequently before the initiation of supply, if Receipt voucher was issued and for which invoice was not issued, he shall issue a "Refund Voucher" as per section 31(3)(e) of the CGST Act, 2017 in line with Rule 51 of the CGST Rules, 2017 containing the particulars of number and date of receipt voucher issued in accordance with the provisions of Rule 50 and the amount of refund made, containing the details like rate of tax, amount of tax paid in respect of such advance etc. It is important to note here that if the invoice has been issued for the advance received, a refund voucher should not be issued.
- iii. **TAX INVOICE:** As per Section 13, tax invoice can be issued either before the supply or after the supply of service, but within the time stipulated in Section 13. Interestingly, the law provides to raise the invoice soon after the receipt of advance for which supply will happen in (near) future. Having said that, it is pertinent to note here that legally, issuing a tax invoice is not an alternative for Receipt voucher.

- iv. **CREDIT NOTE:** For the advance received, if the supplier had already issued a tax invoice, but such contract got cancelled subsequently, he is required to issue a Credit note as per Section 34 of CGST Act, 2017 read with Rule 53 of the CGST Rule, 2017 containing the particulars like the number of original tax invoice, value, rate of tax and amount of tax credited and such other information as prescribed. In such case, the credit note should be issued within the time limit specified in Section 34 of the Act and the same should be reported within the time limit specified in Section 39 of the Act.

It is common in the construction industry that the customer will cancel the booking (B to C) and hence, will demand the developer to refund the full amount. The cancellation will happen, say after 2 years of the initial booking and throughout the period, the customer would have paid the amount demanded by the developer. Construction, being the continuous supply of service, as per the provisions of Section 31(5) read with Section 13 of the CGST Act, naturally, the developer would have raised the invoice and hence, generally there will not be any option to issue only receipt voucher and pay the tax on advance without raising the invoice. Hence, in case of cancellation of such contracts, the developer can only issue a credit note for the invoices for which time limit specified under section 34(2) of the Act has not crossed and for the rest of the invoices, he cannot adjust the tax against his regular liability. In such cases, the customer has to claim a refund under section 54(8) of the Act. For any reason, if the developer had not issued the invoice, though the law has not explicitly held that advance returned to the customer cannot be adjusted against the ongoing liability, due to the refund provisions under section 54(8), probably developer has to claim a refund of the tax deposited provided he refunds the tax amount also to the customer.

In case of hospitality industry, it is very common to receive booking advance and refunding on account of cancellation. Here the customer would fall under B to B as well as B to C category. Although the law provides to raise an invoice and issue a credit note for refunding the advance amount, the industry will face the problem of legal compliance. A Credit note issued to B to B customer can be considered for the adjustment of tax, only if the customer has accounted for the credit note and reduced his input tax claim. This aspect is very clear from the provisions of section 43(1), (2) and (5). Further, one can account for the invoice and avail the credit only if he receives the service. In the case of invoice pertaining to the advance received, service would not have been received and hence customer will neither account the invoice and avail the credit and also nor account the credit note. This will create a legal problem for the service provider to claim credit note issued for refunding the advance. In such a case, the supplier cannot claim a refund under section 54(8)(c) as section clearly debar from claiming refund if credit note was issued. The probability of claiming a refund in such a case would be under Section 54(8)(e), wherein the department

might reject the refund due to the explicit provisions of section 54(8)(c). Due to this prohibition, the only way for the supplier is to give credit note only for the basic amount and the customer will have to claim a refund from the government.

Therefore, it is simple to conclude that it is advisable for the industry to issue an invoice in all cases and pay tax on the advance. If an invoice is not issued, the supplier has to claim refund of the tax paid from the government. Based on the above discussion, the following course of action can be taken while returning the advance:

Particulars	By the supplier	By the customer
If invoice issued	Adjust the tax, if Credit Note is within the time limit	No action
	Issue Credit Note only for the basic amount if Credit Note is issued after the lapse of the prescribed time limit	Claim refund of tax component under section 54(8)
If invoice not issued	Claim refund if the advance is returned within the time limit to claim a refund	No action as he will get full refund
If advance returned after the time limit to claim the refund	The Refund cannot be claimed if advance returned with tax	The Refund cannot be claimed if advance returned without tax

The above position is clarified by the Circular.

Let us also examine whether it is possible to adjust the advance returned wherein the invoice has not been raised. Though there is no explicit prohibition as well as provision to adjust the advance returned against the regular tax liability, if one could look at various provisions and the form GSTR3B, a view can be formed that advance returned can also be adjusted against the normal liability and there is no need to apply for a refund. This view is based on the following reasonings:

1. GSTR-1 requires to report the advance received and advance adjusted on account of the issue of the invoice. It nowhere explicitly provides that advance returned cannot be adjusted in table 11A of GSTR-1. However, if one inspects table 13, it requires to report the number of advance refund vouchers issued. Whether this can be construed to imply the adjustment of tax refunded on account of refund of advance received from the output tax liability needs to be explored?

2. It is important to understand the contents of advance refund voucher. As per Rule 51 of the CGST Rules, 2017, a refund voucher should contain the amount of refund made, rate of tax, amount of tax paid in respect of such goods or service, receipt voucher reference among other things. It is not clear whether this is the tax paid by the supplier to the government or the amount of tax refunded to the customer. Since the document is referred to as 'refund voucher', it can be safely assumed that the amount of tax refunded to the customer should be mentioned.
3. The law enables the supplier to raise an invoice for the advance received and issue a credit note as per Section 34(1) when such service is not provided. As per the provisions of Section 16(2)(b), input credit can be availed only if the underlying service is received. Therefore, even if the invoice is issued for the advance received, the customer cannot avail of the credit until the receipt of the service. Further, as per Section 43(1), (2) and (5), if the customer has not adjusted the credit note, the supplier will not be allowed to adjust the credit note from his output tax liability. Hence, there is an inherent problem if invoices and credit notes are issued for the advance. As per Section 43, tax on credit note will be allowed as a deduction from the output tax only if the customer has reversed the input tax credit. Since the customer has not paid the advance with the tax, invoice issued without the tax cannot be adjusted. Alternatively, whether it would be possible to argue that in the case of services, question of availing the input credit by the customer does not arise as the service is cancelled and hence, the question of issuing a credit note also does not arise.
4. Credit note for service can be issued under the following circumstances;
 - a. Taxable value mentioned in the invoice for supply of service exceeds the actual value or
 - b. Tax charged is more than the tax payable or
 - c. Service supplied is found to be deficient.
5. As could be seen from the above, it can be viewed that credit note can be issued only for the service supplied and not for the services not supplied. Prima facie credit note cannot be issued for refunding of advance for which invoice was raised initially. Whether the deeming provision of service supplied in Explanation (i) to Section 13(2) can be considered as "supplied" for the purpose of section 34?

In our humble view, though table 11A of the GSTR-1 has not explicitly provided for the adjustment of tax, by virtue of contents of the refund voucher and requirement of reporting of the number of refund vouchers in GSTR-1, the tax refunded on account of the return of advance could be adjusted from the tax liability.

However, this view has been overturned by the Circular number 137/07/2020- GST dated 13/04/2020, wherein it is clarified that wherever the taxes are paid on advances for which invoices were not issued and advances are returned, the refund should be claimed under Section 54 of the Act. Section 54(8)(c) specifically takes care of such a situation, the relevant clause is as under:

Notwithstanding anything contained in sub section (5), the refundable amount shall, instead of being credited to the Fund, be paid to the applicant, if such amount is relatable to-

c) refund of tax paid on a supply which is not provided, either wholly or partially, and for which invoice has not been issued, or where a refund voucher has been issued;

Though Section 54(8) has taken care of it technically, we feel it has opened a pandora box on the possible interpretation and applicability of 'relevant date' for claiming the refund. Amongst the various relevant dates provided in Explanation 2 to Section 54, the most relevant one would be *"in any other case, the date of payment of tax"*. Assuming if the refund is made after 2 years along with tax to the customer, how to claim the refund under section 54(8)? This situation arises when the supplier has collected advance along with tax and refunded advance to the customer along with the tax after 2 years. In such situation, the tax paid, if not allowed to be adjusted in table 11A of GSTR-1, will have to be borne as expenses due to the fact that the time limit is crossed for claiming the refund.

Taking a leaf out of the erstwhile service tax regime, it can be seen that service tax was payable on advance also, however, there was a clear provision to adjust the amount refunded upon return of advance. There was no time limit prescribed to adjust the service tax paid on advance. The relevant erstwhile Rule 6(3) of Service Tax Rule, 1994 is as under:

[(3) Where an assessee has issued an invoice, or received any payment, against a service to be provided which is not so provided by him either wholly or partially for any reason, [or where the amount of invoice is renegotiated due to deficient provision of service, or any terms contained in a contract] the assessee may take the credit of such excess service tax paid by him, if the assessee -

[(a) has refunded the payment or part thereof, so received for the service provided to the person from whom it was received; or]

(b) has issued a credit note for the value of the service not so provided to the person to whom such an invoice had been issued.]

As can be understood from the above provision, in the erstwhile law there was a clear provision for the availment of credit in case of return of advance without any time limit attached to it. Further, one may refer to the following decisions ruled during the service tax and excise regime, wherein it was held that permission of the department is not required to adjust and that self-adjustment on account of refund of advance received is permissible.

Case law	Reference	Judgment
Aakash the Place TO Celebrate Versus Commr. of S.T., Ahmedabad	2013 (31) S.T.R. 251 (Tri. - Ahmd.)	Rule 6(3) of Service Tax Rules, 1994 applicable - Assessee entitled to Cenvat credit where services not rendered and amount collected refunded along with Service Tax paid - Also, sealing of plots lifted by Gujarat High Court - No time-limit prescribed in Rule 6(3) <i>ibid</i> - Assessee entitled to utilize Cenvat credit of excess Service Tax paid for Service Tax liability arising in future - Lower authorities erred in not sanctioning claims - Impugned order set aside - Section 11B of Central Excise Act, 1944 as applicable to Service Tax vide Section 83 of Finance
		Act, 1994 - Rule 6(3) of Service Tax Rules, 1994. [paras 8, 9, 10, 11]
Central Mine Planning and Design Institute Ltd. Versus C.C.E., Bhopal	2014 (36) S.T.R. 328 (Tri. - Del.)	HELD: Excess payment of Service Tax can be adjusted against tax liability for subsequent period - Appellant refunded excess service tax to its customers - Rule 6(3) <i>ibid</i> not dependent on Rule 6(4) <i>ibid</i> - No time-limit prescribed for making adjustment - Impugned order set aside - Matter remanded to adjudicating authority for consideration of claim under Rule 6(3) <i>ibid</i> - Section 11B of Central Excise Act, 1944 as applicable to Service Tax vide Section 83 of Finance Act, 1994. [paras 2, 5, 6]
Punjab National Bank Versus Commissioner of C. EX. &S.T., Chandigarh-II	2016 (43) S.T.R. 471 (Tri. - Del.)	Demand - Adjustment of excess paid Service Tax towards Service Tax liability for subsequent period - In view of statutory provisions allowing such adjustment, impugned order demanding Service Tax, set aside - Rule 6(3) of Service Tax Rules, 1994. [para 5]
Dell India Pvt. Ltd. Versus Commissioner of Service Tax, Bangalore	2016 (42) S.T.R. 273 (Tri. - Bang.)	Demand, interest and penalty - Adjustment of payment of Service Tax - Suo motu adjustment of excess paid Service Tax - Combined effect of provisions of Rules 6(3), 6(4A), 6(4B) and 6(1A) of Service Tax Rules, 1994 implies that appellant has to be given benefit of adjustment of excess paid Service Tax paid during relevant period, i.e., April, 2009 to September, 2009 - Liberal interpretation and generous view of Rules 6(3), 6(4A), 6(4B) and 6(1A) <i>ibid</i> needs to be taken - Adjustment of excess Service Tax paid

		would be allowed during later period to appellant
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Considering the history of the treatment of return of advances during the erstwhile laws, it appears that the intent of the legislation was to provide the benefit of tax during the return of advances. As the GSTR-1 specifically requires the reporting of the number of refund vouchers returned and tax adjustment will not be possible unless the Credit Note is reported by the customer, which will not be possible due to legal issues, it appears that one can always adjust the tax paid on return of advance against the output tax when the invoice was not issued against the advance. All the above supports that the circular issued needs revisit. It may be advisable that the board clarifies the position on possible adjustment of such amount against the outward tax liability.

-CA Dayananda K, FCA, CPA and CA Suprita Shetty, B Com ACA.

Vishnu Daya & Co LLP

Chartered Accountants.,

Disclaimer: The opinions expressed within this article are the personal opinions of the author. The facts and opinions appearing in the article do not reflect the views of the Managing Committee and ICAI does not assume any responsibility or liability for the same.

Health In your hands

To protect yourself and others against COVID-19, clean your hands frequently and thoroughly. Use alcohol-based hand sanitizer or wash your hands with soap and water. If you use an alcohol-based hand sanitizer, make sure you use and store it carefully.



- ✓ *Keep alcohol-based hand sanitizers out of children's reach. Teach them how to apply the sanitizer and monitor its use.*
- ✓ *Apply a coin-sized amount on your hands. There is no need to use a large amount of the product.*
- ✓ *Avoid touching your eyes, mouth and nose immediately after using an alcohol-based hand sanitizer, as it can cause irritation.*
- ✓ *Hand sanitizers recommended to protect against COVID-19 are alcohol-based and therefore can be flammable. Do not use before handling fire or cooking.*
- ✓ *Under no circumstance, drink or let children swallow an alcohol-based hand sanitizer. It can be poisonous.*
- ✓ *Remember that washing your hands with soap and water is also effective against COVID-19.*

WHY COMPANY IS A BETTER FORM OF BUSINESS STRUCTURE!

Entrepreneurship and start up culture are getting stronger momentum with the fall in job sector. When starting an enterprise, one of the most fundamental and preliminary questions raised by an entrepreneur is what kind of an entity would be most suitable to their business, whether Sole Proprietorship, Partnership, Hindu Undivided Family (HUF) Business, Limited Liability Partnership (LLP), Co-operative Societies, one person company (OPC), private limited company or a public limited company.

Choosing a form of business entity is crucial for a successful organization. The choice of a business entity will depend on an object, benefits, size of the business of such entity and many other factors including short term and long-term objectives of the entities. It could be seen that individuals with varied backgrounds are joining hands for the innovative ideas, new ventures, & novel concepts, as against individual based proprietary concept, so to speak it could be said that there are no sole entrepreneurs anymore. Every entrepreneur makes a conscious effort to choose a business partner, partnering with whom the business can be grown to its full potential.

Essentially, companies could be either private or public company. Public company could be unlisted or listed. An entrepreneur must carefully consider all the advantages and disadvantages of each type of entity before choosing one form of entity which is best suited to the nature and size of the business which the entrepreneur / business owner desire to undertake. Let us understand the major difference between a Company, Partnership Firm and an LLP by referring the following comparative chart.

Company Vs Partnership Firm Vs. Limited Liability Partnership

Features	Company	Partnership Firm	Limited Liability Partnership
Registration	Compulsory registration required with the Registrar of Companies. Certificate of Incorporation is a conclusive evidence.	Not compulsory.	Compulsory registration required with the Registrar of Companies. Certificate of Incorporation is a conclusive evidence.
Governing Act	Companies Act, 2013	Partnership Act, 1932	Limited Liability Partnership Act, 2008
Name	Name of a public company to end with the word "limited" and a private company with	No guidelines.	Name to end with "LLP" (Limited Liability Partnership)

	the words "private limited"		
Perpetual succession	Yes	No	Yes
Legal entity status	Is a separate legal entity	Not a separate legal entity	Is a separate legal entity
Liability	Limited to the extent of unpaid capital.	Unlimited, can extend to the personal assets of the partners.	Limited to the extent of their agreed contribution to the LLP.
Ownership of assets	The company being independent of its members has ownership of assets	Partners have joint ownership of all the assets belonging to the partnership firm	The LLP being independent of the partners has ownership of assets
Minimum number of persons	Two in case of private company and Seven in case of public company.	Two	Two
Maximum number of persons	200 in case of a private company and a public company can have unlimited number of members.	100 partners	No maximum
Mandatory Meetings	Board Meetings and General Meetings are required to be conducted at prescribed intervals.	There is no provision with respect to holding of any meeting	There is no mandatory provision with respect to holding of any meeting
Annual Filing	Annual Accounts and Annual Return to be filed with Registrar of Companies every year.	No returns to be filed with the Registrar of Firms.	Annual statement of accounts and solvency & Annual Return has to be filed with Registrar of Companies every year.
Audit of accounts	Companies are required to get their accounts audited annually as per the provisions of the Companies Act, 2013.	Partnership firms are only required to have tax audit of their accounts as per the provisions of the Income Tax Act.	All LLP except for those having turnover less than Rs.40 Lacs or Rs.25 Lacs contribution in any financial year are required to get their accounts audited annually as per the provisions of LLP Act 2008.

Legal Proceedings	A company can sue and be sued in its own name.	Only registered partnership can sue third party.	LLP can sue and be sued in its own name.
Taxability	Income of Company is Taxed at a Flat rate of 30% Plus surcharge as applicable.	Income of Partnership is taxed at a Flat rate of 30% plus education cess as applicable.	Income of LLP is taxed at a Flat rate of 30% plus education cess as applicable.
Principal/Agent Relationship	The directors act as agents of the company and not of the members	Partners are agents of the firm and other partners.	Designated Partners act as agents of LLP and not of the other partners.
Transfer / Inheritance of Rights	Ownership is easily transferable.	Not transferable. In case of death the legal heir receives the financial value of share.	Regulations relating to transfer are governed by the LLP Agreement.
Transfer of Share / Partnership rights in case of death	In case of death of a member, shares are transmitted to the legal heirs	In case of death of a partner, the legal heirs have the right to get the refund of the capital contribution + share in accumulated profits, if any. Legal heirs will not become partners	Regulations relating to Transfer of Share / Partnership rights in case of death are governed by the LLP Agreement
Director Identification Number / Designated Partner Identification Number (DIN / DPIN)	Each director is required to have a Director Identification Number before being appointed as Director of any company.	The partners are not required to obtain any identification number	Each Designated Partners is required to have a DPIN before being appointed as Designated Partner of LLP.
Cost of Formation	Minimum Statutory fee for incorporation of Company is Relatively High	The Cost of Formation is negligible	The cost of Formation is statutory filling fees, comparatively lesser than the cost of formation of Company.
Charter Document	Memorandum and Article of Association is the charter of the	Partnership Deed is a charter of the firm which denotes its	LLP Agreement is a charter of the LLP which denotes its scope of

	company that defines its scope of operations.	scope of operation and rights and duties of the partners	operation and rights and duties of the partners vis-à-vis LLP.
Formalities of Incorporation	Various eforms along with the Memorandum & Articles of Association are filed with Registrar of Companies with prescribed fees	In case of registration, Partnership Deed along with form / affidavit required to be filed with Registrar of firms along with requisite filing fee	Various eforms are filed with Registrar of LLP with prescribed fees
Dissolution	Voluntary or by order of National Company Law Tribunal.	By agreement, mutual consent, insolvency, certain contingencies, and by court order.	Voluntary or by order of National Company Law Tribunal.
Admission as partner / member	A person can become member by buying shares of a company.	A person can be admitted as a partner as per the partnership Agreement	A person can be admitted as a partner as per the LLP Agreement
Cessation as partner / member	A member / shareholder can cease to be a member by selling his shares.	A person can cease to be a partner as per the agreement	A person can cease to be a partner as per the LLP Agreement or in absence of the same in the agreement by giving 30 days prior notice to the LLP.
Requirement of Managerial Personnel for day to day administration (Management of the concern)	Directors are appointed to manage the business and other statutory compliances on behalf of the members.	No requirement of any managerial; personnel, partners themselves administer the business	Designated Partners are responsible for managing the day to day business and other statutory compliances.
Maintenance of Minutes	The proceedings of meeting of the board of directors / shareholders are required to be recorded in minutes.	There is no concept of any minutes	An LLP by agreement may decide to record the proceedings of meetings of the Partners/Designated Partners

Voting Rights	Voting rights are decided as per the number of shares held by the members.	It depends upon the partnership Agreement	Voting rights shall be as decided as per the terms of LLP Agreement.
Remuneration of Managerial Personnel for day to day administration	Company can pay remuneration to its Directors subject to law.	The firm can pay remuneration to its partners	Remuneration to designated partner will depend upon LLP Agreement.
Maintenance of Statutory Records	Required to maintain books of accounts, statutory registers, minutes etc.	Required to maintain books of accounts as per Tax laws	Required to maintain books of accounts.
Share Certificate	Share Certificates are proof of ownership of shares held by the members in the Company	The ownership of the partners in the firm is evidenced by Partnership Deed, if any.	The ownership of the partners in the firm is evidenced by LLP Agreement.
Compromise / arrangements / merger / amalgamation	Companies can enter into Compromise / arrangements / merger / amalgamation	Partnership cannot merge with other firm or enter into compromise or arrangement with creditors or partners	LLP's can enter into Compromise / arrangements / merger / amalgamation
Credit Worthiness of organization	Due to Stringent Compliances & disclosures under various laws, Companies enjoys high degree of creditworthiness.	Creditworthiness of firm depends upon goodwill and creditworthiness of its partners	Will enjoy Comparatively higher creditworthiness from Partnership due to Stringent regulatory framework but lesser than that of a company.

SCENARIO'S UNDER WHICH COMPANY IS A BETTER CHOICE AS A BUSINESS STRUCTURE:

A. START-UPS:

Start-ups are the entities which are started just with an idea and not much investment. One of the criteria for registration under start-up India is that the starts-ups should work towards development or improvement of a product or process or service and /or have scalable business model with high potential for creation of wealth and employment. In summary, the start-ups are starting with minimum capacity having objective of growing the business with the help of external financial resources. Though the

start-ups can start as registered partnership or Limited liability partnership, the most ideal form is corporate structure for the following reasons:

1. In general, the start-up entities are looking for external funding and such funding would be by venture capital or private equity sources which prefer share capital model of the Corporate structure due to the free transferability nature of shares and also separation of management and investment.
2. The investors have limited liability since they will not be liable for the liabilities of the start-ups including bank liabilities.
3. Start-ups requires smarter brains to materialise the idea but retaining such highly qualified or experienced manpower would cost heavily during the initial years of the start-ups. Alternatively, such start-ups can issue ESOP (employees stock option) so that the employees would get the scaling up valuation of the start-ups for the services rendered by them.
4. With respect to Branding, the corporate structure has got worldwide recognition, which is extremely beneficial for start-ups. The requirement of transparency and compliance norms applicable to corporate structure makes the start-ups which opts for the same more globally recognised entity while comparing to other types of entities
5. Valuation becomes easy and the promoters can transfer the shares partially or as a whole and realise the amount whenever required.

B. FOR EXISTING BUSINESS WHICH PROPOSE TO RAISE ADDITIONAL FUNDS: Fast-growing business that will require funding from venture capitalists (VCs) needs to register as private limited companies. In a company there is always an option of diluting equity making it is easier to convince investor to make investment in the company, which would be difficult in any other form of business.

C. RISK-TAKING LARGE-SCALE PROJECTS: Businesses often need to borrow money when they look for bigger projects. In structures such as General Partnership, partners are personally liable for all the debt raised. If, in case of any unforeseeable future it cannot be repaid by the business, the partners would have to sell their personal possessions to do so. In case of a private limited company the liability of the business will not extend to the personal assets of the investors.

D. FOR GLOBAL RECOGNITION: corporate structure is well recognised globally, helping businesses to reach every corner of the world. Most of the export houses are grown with the corporate structure and leading the global market within the short span of time.

E. MINIMUM TAX

The corporate structure, specifically the manufacturing Companies which are started after 2nd October 2019 are coming under the lowest Income tax rate. Since during the initial stages of business, the Companies are using maximum profit generated internally for the purpose of expansion, this is a greater advantage for such Companies since the share of the profit is taxable in the hands of the receiver only in case of distribution of dividend. If no dividend is declared Companies can enjoy the low-income tax rates.

GREATER COMPLIANCE – BETTER DISCIPLINE

There is always a concern that the Company need to comply with more compliance under Companies Act 2013, but we tend to look past the fact that all such Compliances are not only helping the company grow at a larger scale but also to protect the valuable investment made by the investor. Though adherence to the Compliance is costings lightly, the management discipline resulted from such compliance would take the Company to the next level not only in numbers but also would again social reputation and goodwill. Today we can see that all the business which is grown at multinational level have started business under corporate structure and has created the foot prints globally within a short span of time.

HOW TO CHOOSE A SUITABLE FORM OF BUSINESS ENTITY.

A business enterprise can be owned and organized in several forms. Each form of organization has its own merits and demerits. The ultimate choice of the form of business depends upon the balancing of the advantages and disadvantages of the various forms of business. The right choice of the form of business is very crucial because it determines the power, control, risk and responsibility of the entrepreneur as well as the division of profit and loss. Being a long-term commitment, the choice of the form of business should be made after considerable thought and deliberation.

As an Entrepreneur, it can be confusing to decide the type of business registration to go for. Considering the above differences between all the three forms of business, it is always beneficial to go for a Company form of entity if you have a long-term business plan. A word of advice would be that one should be well informed before selecting the type of entity in the initial level itself since changing of one entity to another entity at later point of time would be quite expensive. Also, one has to consider change in business environment and tax policies, investment model as these also play a major role in deciding the business structure.

-CS Chethan Nayak
Founder Partner
Chethan Nayak & Associates
Company Secretaries

Disclaimer: The opinions expressed within this article are the personal opinions of the author. The facts and opinions appearing in the article do not reflect the views of the Managing Committee and ICAI does not assume any responsibility or liability for the same.

Know the right way to use a Mask

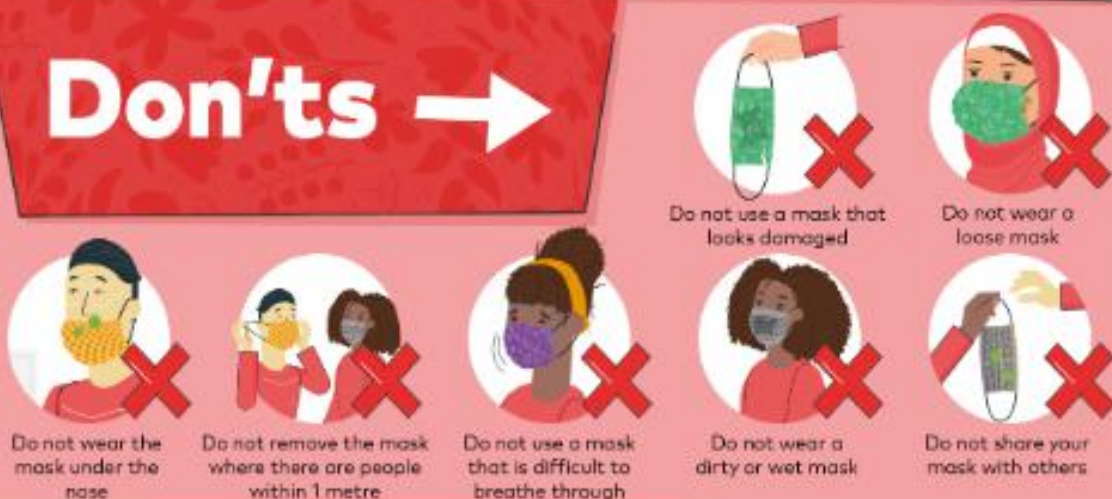
HOW TO WEAR A NON-MEDICAL FABRIC MASK SAFELY

[who.int/epi-win](https://www.who.int/epi-win)

Do's →



Don'ts →



A fabric mask can protect others around you. To protect yourself and prevent the spread of COVID-19, remember to keep at least 1 metre distance from others, clean your hands frequently and thoroughly, and avoid touching your face and mask.



Recent changes in GST amid COVID-19

The Central Board of Indirect Taxes ('CBIC') on recommendation of GST Council has issued series of notifications on 03.04.2019 to implement the measures announced by Honorable Finance Minister, Smt. Nirmala Sitharaman in view of the spread of pandemic COVID-19. Said notifications give relaxations to indirect tax compliances to be made during and after the lockdown period. Gist of said notifications and its implications are explained below.

I. Relaxation in due dates relating to composition scheme:

A proviso is added to Rule 3(3) of CGST Rules 2017 for extending due date as under:

Form	Relaxation for	Original due date	Extended due date
Notification no. 30/2020-CT dated 03.03.2020 – effective from 31.03.2020			
CMP-02	Opting composition scheme for FY 2020-21	31.05.2020	30.06.2020
ITC-03	Payment / reversal of input tax credit in respect of inputs held in stock, in semi-finished / finished goods when composition scheme is opted for FY 2020-21	31.05.2020	31.07.2020
Notification no. 34/2020-CT dated 03.03.2020 – effective from 03.03.2020			
CMP-08	Filing of Statement containing details of self-assessed tax for quarter ending March 2020	18.04.2020	07.07.2020
GSTR-4	Filing Return for FY 2019-20	30.04.2020	15.07.2020

II. Relaxation for complying Rule 36(4) of CGST Rules 2017:

- Rule 36(4) of CGST Rules 2017 restricts claim of input tax credit in respect of invoices or debit notes not appearing in form GSTR-2A to the extent of 10% of the input tax credit reflected in form GSTR-2A. In other words, claim of ITC for a tax period cannot exceed 110% of the ITC appearing in form GSTR-2A for said tax period. Said condition is to be complied on monthly basis at the time of filing GSTR-3B.
- Condition of Rule 36(4) is relaxed by inserting proviso to Rule 36(4) to provide that said condition is to be applied cumulatively for the period February, March, April, May, June, July and August 2020 and Form GSTR-3B for the month of September 2020 shall be furnished with cumulative adjustment of input tax credit for said months.
- In simple words, total claim of ITC for period March to August 2020 cannot exceed 110% of total ITC reflected in form GSTR-2A for the said period. Taxpayers can take full ITC on the basis of invoices / debit notes for the period March to August 2020. Condition of Rule 36(4) has to be seen cumulatively for said period at the time of filing form GSTR-3B for the month of September 2020.
- It is to be noted that aforesaid relaxation is not given for the month of September 2020. Cumulative adjustment can be done only for period March 2020 to August 2020.

Above amendment is effective from 03.04.2020. [Notification no. 30/2020-Central Tax dated 03.03.2020].

III. Waiver of Late fees for filing form GSTR-1 after due date [Notification no. 33/2020-Central Tax dated 03.03.2020]:

Tax period	Late fees	Condition - form GSTR 1 to be filed on or before
March, April, May 2020 and quarter ending March 2020	NIL	30.06.2020

Points to be noted:

- Due date for filing form GSTR-1 for period March 2020 to April 2020 and quarter ending March 2020 is not extended. Only waiver for late fees is given if form GSTR-1 is filed on or before 30.06.2020.
- If GSTR-1 is not filed on or before 30.06.2020, applicable late fees (Rs. 200 per day and maximum Rs. 5,000/-) will be levied.
- Due date for filing GSTR-1 for the month of February 2020 is not extended.

IV. Relaxation in levy of interest and waiver of late fees for filing form GSTR-3B after due-date:

- Levy of Interest and late fees for filing of GSTR-3B after due date for period February 2020 to April 2020 is relaxed as under:

Turnover in the preceding financial year	Tax period	Rate of Interest	Late fees	Condition - return in form GSTR 3B to be filed on or before
Up to Rs. 1.5 crore	February 2020	NIL	NIL	30.06.2020
	March 2020	NIL	NIL	03.07.2020
	April 2020	NIL	NIL	06.07.2020
Between 1.5 crores to 5 crores	February 2020 and March 2020	NIL	NIL	29.06.2020
	April 2020	NIL	NIL	30.06.2020
More than 5 crores	February 2020, March 2020 and April 2020	Nil for 15 days from the due date and 9% thereafter	NIL	24.06.2020

Points to be noted:

- Due date for filing form GSTR-3B for the months February 2020 to April 2020 are not extended. Due date for said period remains same i.e 20th of next month. Only relaxation is provided in payment of interest and late fees for delayed filing in form GSTR-3B due to pandemic COVID-19.
- If GSTR-3B is not filed within dates specified in above table, interest at full rate i.e. 18% and late fees (Rs. 20 for NIL returns and Rs. 50 for other than NIL returns) will be levied.
- Above relaxations are given vide Notification no. 31/2020-CT dated 03.04.2020 and 32/2020-CT dated 03.04.2020. **Both the notifications are deemed to come into force with effect from 20.03.2020.**

V. Extension of due date for filing GSTR-3B for the month of May 2020 [Notification no. 31/2020-CT dated 03.04.2020]:

Turnover in previous financial year	Principal place of business in the State of	Original due date	Extended due date
Up to 5 crores	Chhattisgarh, Madhya Pradesh, Gujarat, Maharashtra, Karnataka, Goa, Kerala, Tamil Nadu, Telangana, Andhra Pradesh, the Union territories of Daman and Diu and Dadra and Nagar Haveli, Puducherry, Andaman and Nicobar Islands or Lakshadweep	20.06.2020	12.07.2017
	Himachal Pradesh, Punjab, Uttarakhand, Haryana, Rajasthan, Uttar Pradesh, Bihar, Sikkim, Arunachal Pradesh, Nagaland, Manipur, Mizoram, Tripura, Meghalaya, Assam, West Bengal, Jharkhand or Odisha, the Union territories of Jammu and Kashmir, Ladakh, Chandigarh or Delhi	20.06.2020	14.07.2017
More than 5 crores	PAN India	20.06.2020	27.06.2020

VI. Relaxation in other compliances under GST [Notification no. 35/2020-CT dated 03.04.2020 – effective from 20.03.2020]:

Nature of compliance / action undertaken by any authority or any person	Original time limit / expiry period falling within:	Time limit/ expiry period extended to:	Extension will not apply to following provisions and Rules made there under:

Completion of any proceeding or passing of any order or issuance of any notice, intimation, notification, sanction or approval by any authority, commission or tribunal	20.03.2020 to 29.06.2020	30.06.2020	<ul style="list-style-type: none"> • Time of supply and value of supply [chapter IV of the Act] • lapsing of composition scheme if T/O crosses the limit specified for composition scheme [sec 10(3)]; • Registration [sec 25] • Casual / non-resident taxable person [sec 27] • Tax invoice [sec 31] • Form GSTR-1 [sec 37]
Filing of any appeal, reply or application or furnishing of any report, document, return, statement or such other record	20.03.2020 to 29.06.2020	30.06.2020	<ul style="list-style-type: none"> • Return in form GSTR-3B [sec 39] • Levy of late fee [sec 47] • Levy of Interest [sec 50] • Power to arrest [sec 69] • Liability of Partners of firm to pay tax [sec 90] • Penalty for certain offences [sec 122] • Detention, seizure and release of goods [sec 129] • E-way bill [sec 68]
E-way bill validity	20.03.2020 to 15.04.2020	30.04.2020	-

VII. Relaxation in time limits under indirect tax laws other than GST [The Taxation And Other Laws (Relaxation Of Certain Provisions) Ordinance, 2020]:

Time limits under Central Excise Act 1944, the Customs Act 1962 (except sections 30, 30A, 41, 41A, 46 and 47), the Customs Tariff Act, 1975 and Chapter V of Finance Act 1994 i.e. service tax legislation are extended as under:

Nature of compliance / action undertaken by any authority or any person	Original time limit / expiry period falling within:	Time limit/ expiry period extended to:
Completion of any proceeding or passing of any order or issuance of any notice, intimation, notification, sanction or approval by any authority, commission or tribunal	20.03.2020 to 29.06.2020	30.06.2020 or such other date after 30.06.2020 as may be notified
Filing of any appeal, reply or	20.03.2020 to 29.06.2020	30.06.2020 or such

application or furnishing of any report, document, return, statement or such other record

other date after 30.06.2020 as may be notified

VIII. Extension of due dates for Sabka Vishwas (Legacy Dispute Resolution) Scheme, 2019 [The Taxation And Other Laws (Relaxation Of Certain Provisions) Ordinance, 2020]:

The Sabka Vishwas (Legacy Dispute Resolution) Scheme, 2019 was introduced *vide* Finance (No. 2) Act, 2019 as a dispute resolution-*cum*-amnesty scheme for the resolution of the cases of erstwhile tax laws. The Ordinance 2020 also provides the following relief related to the said Scheme:

Particular	Section of Finance (No. 2) Act, 2019	Extended due date
Issue of form SVLDRS-3	127(1) - where amount estimated to be payable in form SVLDRS-1 matches with amount determined by Designated Committee	On or before 31.05.2020
Issue of form SVLDRS-2	127(2) - where amount estimated to be payable in form SVLDRS-1 is lesser than the amount determined by Designated Committee	On or before 01.05.2020
Issue of form SVLDRS-3	127(4) - Amount determined to be payable by designated committee after issue of SVLDRS-2 and grant of hearing	On or before 31.05.2020
Payment of amount	127(5) - electronic payment through internet banking, the amount payable as estimated in SVLDRS-3	On or before 30.06.2020

CA. Shraddha Sanghvi
M/s. Ballakuraya & Associates

Disclaimer: The opinions expressed within this article are the personal opinions of the author. The facts and opinions appearing in the article do not reflect the views of the Managing Committee and ICAI does not assume any responsibility or liability for the same.

COVID 19 Myth Busters

Can shoes spread the COVID-19 virus?



11 June 2020

The likelihood of COVID-19 being spread on shoes and infecting individuals is very low.

As a precautionary measure, particularly in homes where infants and small children crawl or play on floors, consider leaving your shoes at the entrance of your home. This will help prevent contact with dirt or any waste that could be carried on the soles of shoes.

#Coronavirus

#COVID19



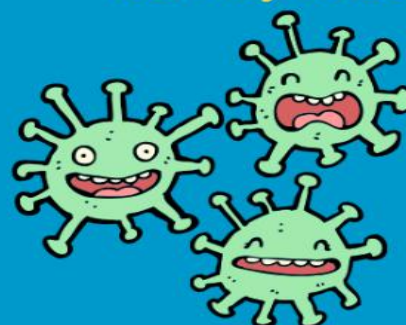
The virus that causes COVID-19 is in a family of viruses called Coronaviridae. Antibiotics do not work against viruses. Some people who become ill with COVID-19 can also develop a bacterial infection as a complication. In this case, antibiotics may be recommended by a healthcare provider. There is currently no licensed medication to cure COVID-19. If you have symptoms, call your health care provider or COVID-19 hotline for assistance.



#Coronavirus

#COVID19

FACT:
COVID-19 is caused
by a virus,
NOT by bacteria



9 June 2020

The prolonged use of medical masks can be uncomfortable. However, it does not lead to CO2 intoxication nor oxygen deficiency.

While wearing a medical mask, make sure it fits properly and that it is tight enough to allow you to breathe normally. Do not re-use a disposable mask and always change it as soon as it gets damp.

* Medical masks (also known as surgical masks) are flat or pleated; they are affixed to the head with straps or have ear loops.



#Coronavirus

#COVID19

FACT:
The prolonged use of
medical masks* when
properly worn,
DOES NOT
cause CO2 intoxication
nor oxygen deficiency



5 June 2020

FACT:
Drinking alcohol does not
protect you against COVID-19
and can be dangerous.

The harmful use of alcohol
increases your risk of health
problems.



#Coronavirus #COVID19

27 May 2020

Thermal scanners are effective in
detecting people who have a fever (i.e.
have a higher than normal body
temperature). They cannot detect people
who are infected with COVID-19.

FACT:
Thermal scanners
CANNOT detect
COVID-19

There are many causes of fever. Call
your healthcare provider if you need
assistance or seek immediate medical
care if you have fever and live in an area
with malaria or dengue.



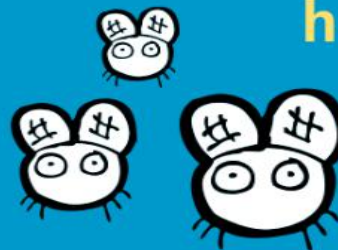
#COVID19 #Coronavirus

27 May 2020

To date, there is no evidence or information to
suggest that the COVID-19 virus is transmitted
through houseflies.

The virus that causes COVID-19 spreads
primarily through droplets generated when an
infected person coughs, sneezes or speaks.
You can also become infected by touching a
contaminated surface and then touching your
eyes, nose or mouth before washing your hands.
To protect yourself, keep at least 1-metre
distance from others and disinfect frequently-
touched surfaces. Clean your hands thoroughly
and often and avoid touching your eyes, mouth
and nose.

FACT:
COVID-19 IS NOT
transmitted
through
houseflies



#COVID19 #coronavirus

5 April 2020

Source:WHO

Words of the wise

- ✧ *Great minds discuss ideas, average minds discuss events and small minds discuss people*
- ✧ *Life gives two gifts -chance and choice-the chance to meet people in life and the choice to select the best ones as friends for life*
- ✧ *Never hold your head high with pride or ego even the winner of gold medal gets his medal only when he puts his head down*
- ✧ *Failure is not falling down but not getting up after you have fallen*
- ✧ *Courage is not the absence of fear but the ability to act inspite of fear.*

- Compiled by CA S S Nayak
Chairman,
Mangaluru Branch of ICAI

Business tonic is a popular show telecasted in Namma Kudla 24*7 channel where many of our CA members have taken part as resource persons for various topics such Income Tax, GST, Companies Act, RERA etc. The show is telecasted every Sunday from 10:00 a.m to 11:30 am and re-telecasted every Wednesday from 09:30 p.m. to 11:00 p.m

Business Tonic episode links

1. Effect of COVID 19 on Income Tax, GST, Companies, Banking and other laws:

<https://www.youtube.com/watch?v=PGJ5vJ2-IkQ>

2. Impact of COVID 19 on Economy & Revival and Relief:

<https://www.youtube.com/watch?v=7GVFe58KHKs>

3. COVID affected Economy Revival and Relief package for various sectors:

<https://www.youtube.com/watch?v=KT-3JeaFr6I>

4. Aatma Nirbhar Bharath Relief Package: <https://www.youtube.com/watch?v=VVkPTsqdwrI>

5S for workplace

5S is a Japanese technique for organising a workplace to enable efficient, effective and safe working conditions.

The 5S process can be described as:

- 1. **Sort (Seiri)**- This involves separating necessary items from unnecessary*
- 2. **Set In Place (seiton)**- All papers , records documents and items should be sorted which means that everything should have its own place.*
- 3. **Shine (Seisko)** - Keep your workspace clean and continue to maintain a clean environment.*
- 4. **Standardise (Seiketsu)**- Establish standards and guidelines for workplace. Maintain consistency, accountability and responsibility for work areas*
- 5. **Sustain (Shitsuke)** - Create a culture that will maintain the improvements by continuing to define and improve processes and regular evaluations*

-Compiled by CA Yashashwini K Amin,

A.C.A

Atmanirbhar Package May 2020

Break up of Rs.20 Lakhs Crores

Part A - Government to Business			
Sl.No	Nature of Support	Amount (Crores)	Remarks
1	EPF Contribution paid by the Government for companies having upto 100 employees, 90% drawing salary upto Rs.15,000 per month	2,500	<ul style="list-style-type: none">• Benefits both employee and Employer.• Cost to Govt
2	Income Tax Refunds (Your money, what is due from the Government is paid)	18,000	<ul style="list-style-type: none">• No Cost to the government.
3	Extension of Due dates of filing	0	<ul style="list-style-type: none">• No Cost to the Govt
4	3 months moratorium on loan repayment (no penalty for delayed payment)	0	<ul style="list-style-type: none">• No cost to the Govt
5	Automatic Collateral Free Loan to business	3,00,000	<ul style="list-style-type: none">• No/ minimum cost to the Govt• Interest subsidy will be borne by Govt
6	Subordinate Debt to MSME	20,000	<ul style="list-style-type: none">• Govt Cost Rs.4,000 Cr
7	Equity infusion	50,000	<ul style="list-style-type: none">• Govt will take share in the company. It is an investment and not cost to Govt
8	TDS rate reduction	50,000	<ul style="list-style-type: none">• No cost to Govt
9	MUDRA Loan (Interest subvention)	1,500	<ul style="list-style-type: none">• Cost to Govt

Part B - Government to People			
1	PM Garib Kalyan Package	1,70,000	<ul style="list-style-type: none">• 5 Kg wheat, Rs.500 to Jan Dhan Account, etc.• Cost to Govt
2	Farmers	17,400	<ul style="list-style-type: none">• Rs.2000 to the account of farmers.• Cost to Govt
3	Emergency Health Response Package	15,000	To meet COVID cost
4	Kisan Card Loan	2,25,000	No Cost to Govt
5	Loan to Farmers	86,600	No Cost to Govt

6	Support to Migrant workers	14,502	Cost to Govt
7	Rural Infrastructure	4,200	Not relief package
8	Street Vendors	5,000	Cost to Govt
9	CAMPA Funds	6,000	Cost to Govt
10	Emergency funds to farmers	30,000	Cost to Govt
11	Housing Loan Interest Subsidy	70,000	Cost to Government

Part C: Government to the Banks and Financial Institutions

1	Reduction in Cash Reserve Ratio (CRR) (resulted in more money in the hands of banks to lend)	1,37,000	No Cost to Govt
2	Targeted Long-Term Repo Operations (TLTRO) and MSF – helped liquidity of Financial Institutions, Mutual Funds.	2,87,050	No cost to Govt (no money outflow)
3	Special Refinance facility and Special Liquidity Facility (SLF)	1,30,000	No/ Min Cost to Govt
4	Partial Credit Guarantee	45,000	No /Min Cost to Govt
5	Payment to DISCOM (Loan)	90,000	No Cost to Govt
6	Working Capital Agri Entities	6,700	No cost to Govt
7	Refinancing NABARD	29,500	No Cost to Govt

Break up (Rs. In Crores)

Cost to Government (subsidy or cash outflow)	3,20,902
Loan and other liquidity measures (no cost or cash outflow to government)	16,60,050

Notes:

1. The above data is compiled from the Press release dated 13th and 14th May 2020
2. The figures maybe correct to the last digit. The above information gives a broad overview.
3. There may be some cost to the Government towards Guarantee fees, interest subvention, etc. But it won't be much. Maybe, out of Rs.20 lakh Crores, Rs.4 Crores will affect the Cashflow of the Government. (20% of Rs 20 Lakh 2020 Scheme)
4. There are other announcements which won't have financial implications. Hence, not considered here.
5. There may be some more schemes to be announced today/tomorrow.

Shubhashitha

दर्शनज्ञानसंस्पर्शैर्मत्सी कूर्मी च पक्षिणी।

शिशुं पालयते नित्यं तथा सज्जनसङ्गतिः।

Chanakya says the way fish always takes care of its younger ones with affectionate look, tortoise takes care of its young ones by watching and like how a bird always take care of its young ones with their affectionate physical contact the same way association with good/noble people helps nurturing good manners and good qualities.

In short a man's character speaks of his upbringing.

उद्योगे नास्ति दारिद्र्यं जपतो नास्ति पातकम्।

मौने च कलहो नास्ति, नास्ति जागरिते भयम्॥

In short what Chanakya tries to say is that there is hard work there is prosperity, there is purity in thoughts where there is meditation, fight can be avoided if silence/tolerance is maintained and vigilance/alertness leads to preparedness for any untoward incident thereby averts fear.

-Compiled by CA S S Nayak, Chairman, Mangaluru Branch of ICAI



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RESERVE BANK OF INDIA

वेबसाइट : www.rbi.org.in/hindi

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Department of Communication, Central Office, S.B.S.Marg, Mumbai-400001

फोन/Phone: 022- 22660502

May 22, 2020

Statement on Developmental and Regulatory Policies

This Statement sets out various developmental and regulatory policy measures to improve the functioning of markets and market participants; measures to support exports and imports; efforts to further ease financial stress caused by COVID-19 disruptions by providing relief on debt servicing and improving access to working capital; and steps to ease financial constraints faced by state governments.

I. Measures to Improve the Functioning of Markets

These measures are intended to ease constraints on market participants and channel liquidity to various sectors of the economy that are impacted by COVID-19 related dislocations.

1. Refinancing Facility for Small Industries Development Bank of India (SIDBI)

The Small Industries Development Bank of India (SIDBI) plays an important role in meeting the long-term funding requirements of small industries. In view of the tightening of financial conditions in the wake of the COVID-19 pandemic, and difficulties in raising resources from the market, the RBI had announced a special refinance facility of ₹15,000 crore to SIDBI for on-lending/refinancing. Advances under this facility were provided at the RBI's policy repo rate at the time of availment for a period of 90 days. In order to provide greater flexibility to SIDBI in its operations, it has been decided to roll over the facility at the end of the 90th day for another period of 90 days.

2. Investments by Foreign Portfolio Investors (FPIs) under the Voluntary Retention Route (VRR)

The regulatory framework for FPI investment in debt has evolved over the years in line with the policy objective of encouraging such flows within the prevailing macro-prudential framework. The Voluntary Retention Route (VRR) introduced in March 2019 facilitates long term and stable FPI investment in debt and offers operational flexibility in

terms of instrument choices and exemptions from certain regulatory requirements. Since its introduction, the VRR scheme has evinced strong investor participation, with investments exceeding 90 per cent of the limits allotted under the scheme. In view of difficulties expressed by FPIs and their custodians on account of COVID-19 related disruptions in adhering to the condition that at least 75 per cent of allotted limits be invested within three months, it has been decided that an additional three months will be allowed to FPIs to fulfil this requirement. Detailed guidelines are being issued separately.

II. Measures to Support Exports and Imports

The deepening of the contraction in global activity and trade, which has become accentuated by the outbreak of COVID-19 and its rapid spread, has crippled external demand. In turn, this has impacted India's exports and imports both of which have contracted sharply in recent months. In view of the importance of exports in earning foreign exchange and in providing income and employment; and of imports in bringing in essential requirements of raw materials, intermediates, finished goods and technology, measures are being taken to support the foreign trade sector.

3. Export Credit

Exporters have been facing genuine difficulties such as delay/ postponement of orders and delay in realisation of bills, which are adversely affecting their production and realisation cycles. It is in this context that the RBI permitted an increase in the period of realization and repatriation of export proceeds to India from nine months to 15 months from the date of export in respect of exports made up to or on July 31, 2020. It has now been decided to increase the maximum permissible period of pre-shipment and post-shipment export credit sanctioned by banks from the existing one year to 15 months, for disbursements made up to July 31, 2020.

4. Liquidity Facility for Exim Bank of India

The Export-Import Bank of India provides financial assistance to exporters and importers with a view to promoting the country's international trade. In view of the COVID-19 pandemic, however, global trade has contracted sharply and global financial markets have turned highly volatile and risk averse, especially to EMEs. As Exim Bank predominantly relies on foreign currency resources raised from international financial markets for its operations, it is facing challenges to raise funds in international debt

capital markets. Accordingly, it has been decided to extend a line of credit of Rs. 15,000 crore to the EXIM Bank for a period of 90 days from the date of availment with rollover up to a maximum period of one year so as to enable it to avail a US dollar swap facility to meet its foreign exchange requirements.

5. Extension of Time for Payment for Imports

COVID-19 related disruptions to cross-border trade have imposed slowdown in manufacturing/sale of finished products, and delay in realisation of sale proceeds, both domestically and overseas. In turn, this has elongated the operating cycle for business entities. In this situation, units find it difficult to pay for their imports within the time stipulated under the Foreign Exchange Management Act (FEMA). At present, remittances for normal imports (excluding import of gold/diamonds and precious stones/jewellery) into India are required to be completed within a period of six months from the date of shipment by the overseas supplier, except in cases where amounts are withheld towards guarantee of performance. It has been decided to extend the time period for completion of remittances against normal imports into India (except in cases where amounts are withheld towards guarantee of performance) from six months to twelve months from the date of shipment for such imports made on or before July 31, 2020. The measure will provide greater flexibility to importers in managing their operating cycles in a COVID-19 environment.

III. Measures to Ease Financial Stress

The intensification of COVID-19 disruptions has imparted priority to relaxing repayment pressures and improving access to working capital by mitigating the burden of debt servicing, prevent the transmission of financial stress to the real economy, and ensure the continuity of viable businesses and households.

6. Moratorium on Term Loan Instalments

On March 27, 2020, the RBI permitted all commercial banks (including regional rural banks, small finance banks and local area banks), co-operative banks, all-India Financial Institutions, and NBFCs (including housing finance companies and micro-finance institutions) (referred to hereafter as “lending institutions”) to allow a moratorium of three months on payment of instalments in respect of all term loans outstanding as on March 1, 2020. In view of the extension of the lockdown and continuing disruptions on account of COVID-19, it has been decided to permit lending institutions to extend the

moratorium on term loan instalments by another three months, *i.e.*, from June 1, 2020 to August 31, 2020. Accordingly, the repayment schedule and all subsequent due dates, as also the tenor for such loans, may be shifted across the board by another three months.

7. Deferment of Interest on Working Capital Facilities

In respect of working capital facilities sanctioned in the form of cash credit/overdraft, lending institutions are being permitted to allow a deferment of another three months, from June 1, 2020 to August 31, 2020, in addition to the three months allowed on March 27, 2020 on payment of interest in respect of all such facilities outstanding as on March 1, 2020.

8. Payment of Interest on Working Capital Facilities for the Deferment Period

In order to ameliorate the difficulties faced by borrowers in repaying the accumulated interest for the deferment period on working capital facilities in one shot, lending institutions are permitted to convert the accumulated interest on working capital facilities over the deferment period (up to August 31, 2020) into a funded interest term loan which shall be repayable not later than the end of the current financial year (*i.e.*, March 31, 2021).

Lending institutions may, accordingly, put in place a Board approved policy to implement the measures announced in para 6,7, 8.

9. Asset Classification

(i) As the moratorium/deferment is being provided specifically to enable borrowers to tide over COVID-19 disruptions, the same will not be treated as changes in terms and conditions of loan agreements due to financial difficulty of the borrowers and, consequently, will not result in asset classification downgrade.

(ii) As earlier, the rescheduling of payments on account of the moratorium/deferment will not qualify as a default for the purposes of supervisory reporting and reporting to credit information companies (CICs) by the lending institutions. CICs shall ensure that the actions taken by lending institutions in pursuance of the announcements made today do not adversely impact the credit history of the borrowers.

(iii) In respect of all accounts for which lending institutions decide to grant moratorium/deferment, and which were standard as on March 1, 2020, the 90-day NPA norm shall also exclude the extended moratorium/deferment period. Consequently, there would be an asset classification standstill for all such accounts during the

moratorium/deferment period from March 1, 2020 to August 31, 2020. Thereafter, the normal ageing norms shall apply.

(iv) NBFCs, which are required to comply with Indian Accounting Standards (IndAS), may follow the guidelines duly approved by their Boards and advisories of the Institute of Chartered Accountants of India (ICAI) in recognition of impairments. Thus, NBFCs have flexibility under the prescribed accounting standards to consider such relief to their borrowers.

10. Easing of Working Capital Financing

(i) In respect of working capital facilities sanctioned in the form of cash credit/overdraft, lending institutions are permitted to recalculate the 'drawing power' by reducing the margins till the extended period, i.e., August 31, 2020. In order to smoothen the impact for the borrowers, lending institutions are permitted to restore the margins to the original levels by March 31, 2021.

(ii) Further, lending institutions are permitted to reassess the working capital cycle of a borrowing entity up to an extended period till March 31, 2021. This will provide necessary leeway to the lenders to make an informed assessment about the impact of the pandemic on the entity concerned.

(iii) Such changes in credit terms permitted to the borrowers to specifically tide over COVID-19's fallout will not be treated as concessions granted due to financial difficulty of the borrower, under Paragraph 2 of the Annex to the Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions, 2019 dated June 7, 2019 ('**Prudential Framework**'), and consequently, will not result in asset classification downgrade.

11. Extension of Resolution Timeline

Under the Prudential Framework, lending institutions are required to hold an additional provision of 20 per cent in the case of large accounts under default if a resolution plan has not been implemented within 210 days from the date of such default. Given the continuing challenges to resolution of stressed assets, lending institutions are permitted to exclude the entire moratorium/deferment period from March 1, 2020 to August 31, 2020 from the calculation of 30-day Review Period or 180-day Resolution Period, if the Review/Resolution Period had not expired as on March 1, 2020.

12. Limit on Group Exposures under the Large Exposures Framework

Under the extant guidelines on the Large Exposures Framework, the exposure of a bank to a group of connected counterparties shall not be higher than 25 percent of the bank's eligible capital base at all times. On account of the COVID-19 pandemic, debt markets and other capital market segments are witnessing heightened uncertainty. As a result, many corporates are finding it difficult to raise funds from the capital market and are predominantly dependent on funding from banks. With a view to facilitating the flow of resources to corporates, it has been decided, as a one-time measure, to increase a bank's exposure to a group of connected counterparties from 25 per cent to 30 per cent of the eligible capital base of the bank. The increased limit will be applicable up to June 30, 2021.

IV. Debt Management

13. Consolidated Sinking Fund (CSF) of State Governments - Relaxation of Guidelines

State Governments maintain a Consolidated Sinking Fund (CSF) with the Reserve Bank as a buffer for repayment of their liabilities. In the light of the Covid-19 pandemic and the consequent stress on State Government finances, the RBI has reviewed the Scheme and has decided to relax the rules governing withdrawal from the CSF, while at the same time ensuring that depletion of the Fund balance is done prudently. This will enable States to meet a larger proportion of their redemption of market borrowings falling due in the current financial year from the CSF. These relaxations to states will release an additional amount of about ₹13,300 crore. Together with the normally permissible withdrawal, this measure will enable the states to meet about 45 per cent of their redemptions due in 2020-21 through withdrawal from CSF. This change in withdrawal norms will come into force with immediate effect and will remain valid till March 31, 2021.

In response to COVID-19, the requirement of fiscal resources has increased with likely implications for market conditions going forward. The RBI shall remain watchful and support the smooth completion of the borrowing programme of the Centre and States in the least disruptive manner.

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