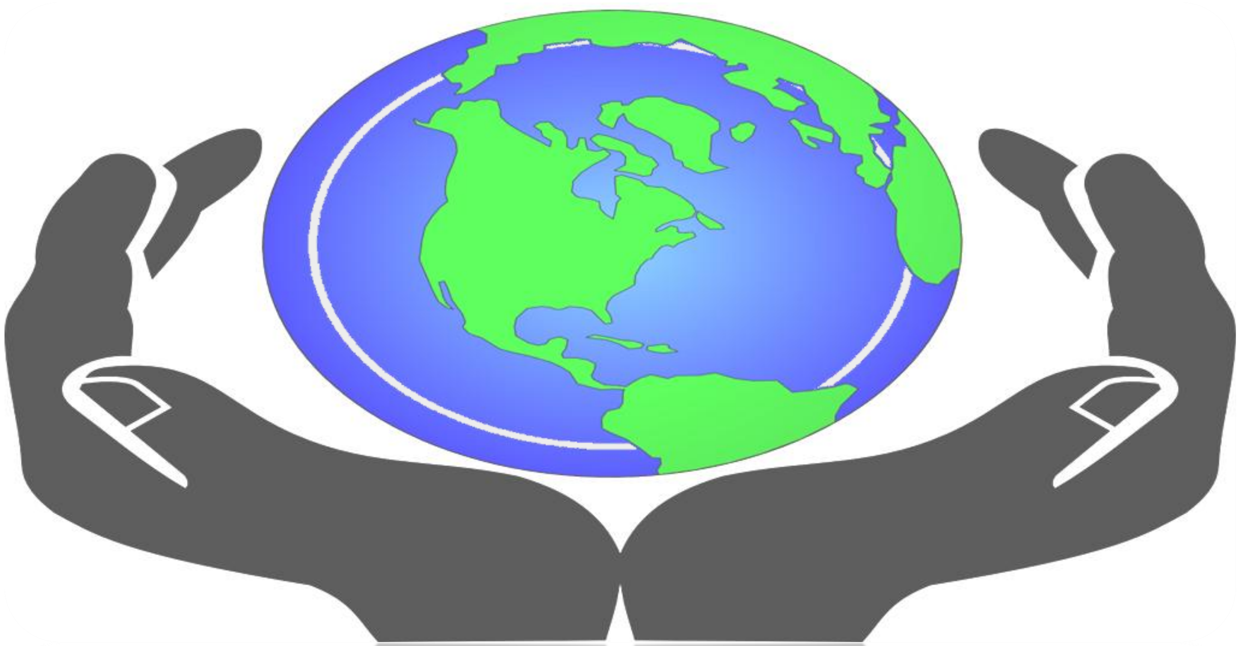
SURAT BRANCH OF WIRC OF ICAI



E-NEWSLETTER

AUGUST 2020

CHAIRMAN's MESSAGE

Dear Professional Colleagues,

Month of August is full of festivities and the same will continue to several coming months. This year let us celebrate 'Rakshabandhan' with one more motive of keeping ourselves and people around us safe in this pandemic time. Let's create a vibrant environment of being a responsible citizen over and above being the torch bearer in nation building. Past several months have been very tough times for everyone and this has shown us that economic stability is priority in the current times. Government have made some reformative changes for revival of the economy and it is our duty to make it successful.

ICAI has been always at the forefront of adapting the economic and technological changes and Surat Branch of WIRC of ICAI has walked the miles with same motive. Surat branch have been organising virtual programmes since the beginning of the pandemic and have covered range of topics considering professional updates and development along with CPE hours. Another moment of honors that I would like to share with you is that Surat branch's Chartered Accountants fraternity has been honored by receiving the letter from the Office of the Assistant Commissioner of Police Administration and Planning, Surat city requesting our branch member to participate in their online test of IFOLLOW Campaign.

I am overwhelmed with response that has been given by you for the e-Newsletter of our branch. Further, I would like to thank all the team member of the e-Newsletter committee of the Surat Branch of WIRC of ICAI and all the contributors of the article in the e-Newsletter. On closing note I would like to say that 'One can only survive by resisting the change, but thrives by becoming the change.

#Be an innovative Indian.

CA. Ishwar Jivani

EDITORIAL MESSAGE

Dear Professional Colleague,

Its time to celebrate this month as full of festival seasons .Since we have now entered in to Third Unlock period, offices and place of businesses being opened phase wise, it's time for us to observe proper guidelines and maintain immunity levels to stay healthy and protect our family.

We are grateful to the overwhelming response given by professional brethren for their valuable contribution and expect to receive the same in coming future also. In this August 2020 issue of e-Newsletter we have covered various professional updates to provide our members a ready reference. For the coming month, we would lay more emphasis on articles covering the topics such as, how to unlock the new opportunities and recent changes in the economic policies and it's after effects, various amendments in Direct as well as Indirect taxes, etc. Further, there are many amendments introduced in different acts, which can be the topic for expressing your writing skills. You may write to us at surat@icai.org.

Stay healthy, wealthy and safe….
CA IP Pradeep Kabra

Section 194N for deduction of tax at source (TDS) on cash withdrawals exceeding Rs. 1 crore

The budget 2020 has reduced the threshold limit for TDS to Rs 20 lakh for taxpayers who have not filed their income tax returns for past three years. Such taxpayers withdrawing cash in excess of Rs 20 lakh have to pay 2% as TDS. Earlier, the Union Budget 2019 has introduced Section 194N for deduction of tax at source (TDS) on cash withdrawals exceeding Rs 1 crore to discourage cash payments.

Let's discuss Section 194N in detail:

1) Why is Section 194N introduced? :-

The government has introduced Section 194N in the Union Budget 2019. In order to discourage cash transactions in the country and promote the digital economy, 'Section 194N – TDS on cash withdrawals over and above Rs 1 crore' has been introduced through the Finance Bill, 2019.

2) What is Section 194N? :-

Section 194N is applicable as per Finance Act, 2019 in case of cash withdrawals of more than Rs. 1 crore during a financial year. This section will apply to all the sum of money or an aggregate of sums withdrawn from a particular payer in a financial year.

As amended by Finance Act, 2020 w.e.f. 01.07.2020, in case of a recipient who **has not filed the returns of income for all of the three assessment years relevant to the three previous years**, for which **the time limit of file return of income under sub-section (1) of section 139 has expired**, immediately preceding the previous year in which the payment of the sum is made to him, the provision of this section shall apply with the modification that—

the sum shall be the amount or the aggregate of amounts, as the case may be, in **cash exceeding 20 lakh rupees** during the previous year.

NOTE : Point to be kept in mind that Income Tax Return should be filed within time limit specified u/s 139 (1). If person has filed return u/s 139 (4) i.e. belated return in that case it is considered as "No Income Tax Return" has been filed and Rs. 20 lakh cash payments/withdrawals limit will be applicable.

3) Rate of TDS under Section 194N :-

The payer will have to deduct TDS at the rate of 2% on the cash payments/withdrawals of more than Rs. 1 crore in a financial year under Section 194N **provided that person is filed all his Income Tax Returns**. **(As per Finance Act, 2019 w.e.f. 01.09.2019)**

In case the person receiving the money has not filed Income Tax Return for three years immediately preceding the year, then the TDS is 2% on the cash payments/withdrawals of more than Rs 20 lakh and up to Rs 1 crore, and 5% for withdrawal exceeding Rs 1 crore. **(As per Finance Act, 2020 w.e.f. 01.07.2020)**

4) Who will deduct TDS under Section 194N?

The person (payer) making the cash payment will have to deduct TDS under Section 194N. Here is the list of such persons:

Every person, being,—

(i) a banking company to which the Banking Regulation Act, 1949 (10 of 1949) applies (including any bank or banking institution referred to in section 51 of that Act); **(Any Private or Public Sector Bank)**

(ii) a co-operative society engaged in carrying on the business of banking **(Co-Operative Bank)**; or

(iii) a post office,

APPLICABILITY :

This section will apply to withdrawals made by any taxpayer including:

- An Individual
- A Hindu Undivided Family (HUF)
- A Company
- A Partnership Firm or an LLP
- A Local Authority
- An Association of Person (AOPs) or Body of Individuals (BOIs)

NON – APPLICABILITY:

There are certain categories of person (payee) to whom the provision of this section will not apply. They are listed below:

- Any Government body
- Any Bank including co-operative banks
- Any Business correspondent of a banking company (including co-operative banks)
- Any White label ATM operator of any bank (including co-operative banks)
- Other Persons notified by the Govt. in consultation with the RBI

•Farmers – Central Government specifies the commission agent or trader operating under Agriculture Produce Market Committee (APMC)– **Notification No. 70/2019-Income Tax Dated 20th September, 2019**

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• CBDT exempts cash withdrawal by the authorised dealer and its franchise agent and sub-agent; and Full-Fledged Money Changer (FFMC) licensed by the Reserve Bank of India and its franchise agent from TDS under Section 194N subject to conditions specified in **Notification No. 80/2019-Income Tax dated 15th October, 2019**.

5. When tax shall be required to be deducted?

TDS under Section 194N tax shall be required to be deducted only when the aggregate amount of cash withdrawal during the previous year by a person from one or more of his bank or post office account, as the case may be, exceeds Rs. 1 crore. Further, the tax shall be required to be deducted only on the amount exceeding Rs. 1 crore.

Note : The limit of Rs 1 crore in a financial year is with respect to per bank or post office account and **not a taxpayer's individual account**.

A person having one savings and one current account in same bank then both the accounts are considered for calculating threshold limit

Let's understand the all Scenarios with below table:

Payers :- Bank / Post Office / Co -operative Societies			
Mr. X – Filed all his Returns		**Mr. Y -Not Filed his returns for 3 preceding Assessment years** AY [2019-20, 2018-19 & 2017-18] FY [2018-19, 2017-18 & 2016-17]	
Cash Withdrawal upto Rs 1 crores	**Cash Withdrawal more than Rs 1 crores**	**Cash Withdrawal 20 Lakhs to 1 Crore**	**Cash Withdrawal more than Rs 1 crores**
No TDS	TDS @ 2%	TDS @ 2%	TDS @ 5%

Further , Mr Y has saving and current account with 2 Branches of the same bank. The details of total cash withdrawn from both the accounts / branches are as follows:

Date of Cash Withdrawal	Cash Withdrawn from saving Bank of Branch1	Cash Withdrawn from saving Bank of Branch 2	Cash Withdrawn from Current Account – Branch 1	Total Withdrawn	TDS
2019-20	20,00,000	25,00,000	1,25,00,000	1,70,00,000	1,40,000
2020-21	0	25,00,000	0	25,00,000	10,000
2020-21	20,00,000	25,00,000	1,25,00,000	1,70,00,000	3,50,000

For FY 2019-20 TDS will be deducted as follows :
Since Amendment is w.e.f. 01 July 2020 , for FY 2019-20 TDS will be deducted on 70 Lakhs (170 Lakhs -100 Lakhs) @ 2% = 1.40 Lakhs.
For FY 2020-21 TDS will be deducted as follows :
(a) In case total cash withdrawal for the year is Rs 25 lakhs. TDS will be deducted @ 2% on Rs 5 Lakhs (amount exceeding Rs 20 Lakhs) i.e. 10,000/-
(b) In case of total cash Withdrawal is Rs 170 Lakhs. TDS will be deducted @ 5% on Rs 70 Lakhs (amount exceeding Rs 1 Crores)i.e. 3,50,000/-
So for FY 2020-21 Total TDS will be 3,60,000/- (i.e. 10,000 + 3,50,000)

CBDT has issued a Press Release, Dated 30-08-2019 to provide that any cash withdrawal prior to 1st September, 2019 will not be subjected to the TDS under Section 194N. However, since the threshold of Rs. 1 crore is with respect to the previous year, calculation of amount of cash withdrawal for triggering deduction under section 194N shall be counted from 1st April, 2019. Hence, if a person has already withdrawn Rs. 1 crore or more in cash upto 31st August, 2019 from one or more accounts maintained with a banking company or a

CBDT has issued a Press Release, Dated 12-07-2020 provides Utility to ascertain TDS applicability rates on cash withdrawals The Income Tax Department has facilitated a new functionality for Banks and Post offices through which they can ascertain the TDS applicability rates on cash withdrawal of above Rs.20 lakh in case of a non-filer of Income Tax Return(ITR) and that of above Rs. 1 crore in case of a filer of the ITR This functionality has been available as **"Verification of applicability u/s 194N"** on **www.incometaxindiaefiling.gov.in** since 1st July, 2020 and has also been made available to the Banks through web-services, so that the entire process can be automated and be linked to the Bank's internal core banking solution.

Contributed By CA Dharmesh P Nakrani

CA Jignesa Nakrani (F.C.A., B.COM)

Update on MSME Guidelines issued by the Ministry of Micro, Small and Medium Enterprises. (As per Notification, Dated 26th June, 2020. Classification of enterprises under MSME – Revised.)

MSME Category- (Three Category)	Investment in plant and Machinery or Equipment	Turnover
Micro Enterprise	Less than or equal to 1crore	Less than or equal to 5crores
Small Enterprise	Less than or equal to 10crores	Less than or equal to 50crores
Medium Enterprise	Less than or equal to 50crores	Less than or equal to 250crores

1) Registration fees for micro, small or medium enterprise.

- Zero fees or cost in registration for all enterprise. Simple, only with self-declaration and without any requirement of uploading document, person who intends to establish a micro, small or medium enterprise may file Udyam Registration online in the Udyam Registration portal.

2) Criteria of investment and turnover for classification.

- A composite criterion of investment and turnover shall apply for Classification of an enterprise as micro, small or medium.

Contributed By:-
CA. Sanjay Sheladiya

3) Calculation of investment in plant and machinery or equipment.

- Plant and Machinery means the plant & machinery as defined in Income Tax Rules, 1962 under Income Tax Act, 1961 excluding Land & Building and Furniture & Fittings.
- Shall be linked to Income Tax Return (ITR) of the previous years filed under the Income Tax Act, 1961
- In case of a new enterprise, where no prior ITR is available, the investment will be based on self-declaration of the promoter of the enterprise and such relaxation shall end after the 31st March of the financial year in which it files its first ITR.

4) Calculation of turnover.

- Exports of goods or services or both, shall be excluded.
- Information as regards turnover and exports turnover for an enterprise shall be linked to the Income Tax or GSTIN.
- Enterprise which do not have PAN will be considered on self-declaration basis.
- After 31st march 2021, PAN and GSTIN shall be mandatory.

5) Registration of existing enterprises.

- Existing enterprises registered prior to 30th June 2020, shall continue to be valid only for a period up to the 31st day of March 2021.
- Shall register again on the Udyam Registration portal on or after the 1st day of July 2020. All enterprises registered till 30th June, 2020, shall be re-classified.

7) What if, a person has no Aadhaar number?

- Person who is not able to file the Udyam Registration for any reason including for lack of Aadhaar number may approach any of the Single Window Systems(MSME-DI or DICs) for Udyam Registration purposes with his Aadhaar enrolment identity slip or copy of Aadhaar enrolment request or bank photo pass book or voter identity card or passport or driving license.

9) Activities which not included in Micro, Small and Medium Enterprise Development:

- Below would not be included in the manufacture or production of goods or providing or rendering of services in accordance with Section 7 of the Micro, Small and Medium Enterprise Development Act, 2006:- (NIC – National Industrial Classification).

6) Update of information and transition period in classification.

- An enterprise having Udyam Registration Number shall update its information online in the Udyam Registration portal, including the details of the ITR and the GST Return for the previous financial year
- Failure to update the relevant information within the period specified in the online Udyam Registration portal will render the enterprise liable for suspension of its status.
- In case of up-gradation to higher category, Enterprise will still remain in it prevailing category till completion of 1year from the close of the year of registration.
- In case of reverse graduation to lower category, Benefits of lower category will only be available after completion of financial year in which both criteria of lower category are met.

8) What if, a person intentionally misrepresents or attempts to suppress any information?

- Intentionally misrepresents or attempts to suppress the self-declared facts and figures appearing in the Udyam Registration or update process shall be liable to such penalty as specified under section 27 of the Act - and it is rupees one thousand to ten thousand

NIC Code	Activity
02	Forestry and logging
03	Fishing and aquaculture
45	Wholesale and retail trade and repair of motor vehicle and motorcycles
46	Wholesale trade except of motor vehicles and motor cycles 47
47	Retail Trade Except of Motor Vehicles and motor cycles
97	Activities of households as employees for domestic personnel
98	Undifferentiated goods and services producing activities of private households for own use.
99	Activities of extraterritorial organization and bodies

10) Other Important point.

- An enterprise crosses the ceiling limits in either of the two criteria of investment or turnover, it will **cease to exist** in that category and be placed in the next higher category.
- No enterprise shall be placed in the lower category unless it goes below the ceiling limits specified for its present category in both the criteria of investment as well as turnover.
- All units with Goods and Services Tax Identification Number (GSTIN) listed against the same Permanent Account Number (PAN) shall be collectively treated as one enterprise and the turnover and investment figures for all of such entities shall be seen together and only the aggregate values will be considered for deciding the category as micro, small or medium enterprise.
- **In case of a new enterprise**, where no prior ITR is available, the investment will be based on self-declaration of the promoter of the enterprise and such relaxation shall end after the 31st March of the financial year in which it files its first ITR.
- The purchase (invoice) value of a plant and machinery or equipment, whether purchased first hand or second hand, shall be taken into account **excluding Goods and Services Tax (GST)**, on self-disclosure basis, if the enterprise is a new one without any ITR.

IND AS 103 – Business Combinations

"Stronger Together"

Introduction:

Business combination is a process of coming together or absorbing an entity or group of entities to take benefit of economies of scale and to create synergy that will give an organisation an edge over others in the industries. Every organisation has their own strengths and weaknesses and this can be overcome by combining two or more organisation. When a strategic combination of entities is made by detailed analysis of entities strengths and weaknesses, a business combination will be achieved that compensates each other's weakness and create a synergic effect that brings more benefits to later combined entity.

In wake of the business combination activity it arises numerous transactions that needs to accounted for financial reporting purpose. IND AS 103 – Business Combination, provide a generalised base for recording of this transaction maintaining the exclusivity of other IND AS. Business Combination covers transaction of taking over all kinds of liabilities and assets of the organisation in exchange of share capital of the acquiring entity or new entity. There are broadly two kinds of Business Combinations an entity acquire or absorb other entity (ies) or multiple entities come together and form a new entity. The former is widely known as Acquisition method and the later is known as Merger method.

Objective of IND AS 103 – Business Combinations:

The objective of this Indian Accounting Standard (Ind AS) is to improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. To accomplish that, this Ind AS establishes principles and requirements for how the acquirer:

(1) Recognises and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree;

(2) Recognises and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and

(3) Determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

Scope of IND AS 103 – Business Combinations:

This Ind AS applies to a transaction or other event that meets the definition of a business combination. This Ind AS does not apply to:

(a) The accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself

(b) The acquisition of an asset or a group of assets that does not constitute a business. In such cases the acquirer shall identify and recognise the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, intangible assets in Ind AS 38, Intangible Assets) and liabilities assumed. The cost of the group shall be allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction or event does not give rise to goodwill.

The requirements of this Standard do not apply to the acquisition by an investment entity, as defined in Ind AS 110, Consolidated Financial Statements, of an investment in a subsidiary that is required to be measured at fair value through profit or loss.

Identifying a Business Combination:

An entity shall determine whether a transaction or other event is a business combination by applying the definition in this Ind AS, which requires that the assets acquired and liabilities assumed constitute a business. If the assets acquired are not a business, the reporting entity shall account for the transaction or other event as an asset acquisition.

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