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## From the desk of Chairman Contd.....

Our Institute is a little younger than Independent India. During the last 61 years, it has laid foundation for a Strong, Vibrant and Dedicated profession of accountancy and added to its cap a number of feathers. The number of members as well as students has been rising steadily and today we are amongst the top second Largest Accounting Body in the world after UK.

We, at branch level, have a perception that our 1/3<sup>rd</sup> professional colleagues, who are not in practice, are not able to effectively contribute in the professional development due to their limitations. Many of such members have the experience and expertise in the lately emerging areas such as Insurance services, IT services, Risk management, KPO, Mutual funds, International banking, BPO, etc.. We heartily desire to integrate these members in the professional activities of our branch and request them to provide valuable suggestions for, their expectations from the profession and the efforts required at branch level to assimilate them in the main stream of the profession. Their valuable contribution would help us to excel the quality of professional activities.

Friends, HOLI is a beautiful occasion, a time for lots of celebration when the atmosphere is filled with laughter and cheer and lots of colour in the air, we hope that this HOLI is a wonderful and special one for you, may it be filled with the love of family, the warmth of friends and beautiful moments to treasure.

*“Time Lapses, Trends Change, Generations pass but wisdom endures-----*

*The only Limit to your impact is your imagination and commitment and your Power is the capacity to translate intention into reality and sustain it.”*

Friends, I am open to suggestions from all our members, therefore, please feel free to give your valuable suggestions, come forward and join hands for the progress and prosperity of the profession. Looking for your support and cooperation and wishing you a very colourful Holi,

With warm regards,

**CA. C L YADAV**

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# REVIEW OF ACTIVITIES DURING FEBRUARY-2010

Compiled by CA. Deepika Agarwal, Secretary

It's my immense pleasure to communicate with all of you as the Secretary of Jaipur Branch of CIRC of ICAI. I am really thankful to all the members of my professional fraternity for showing their trust in me. And I would like to assure them that we here in the management Committee will try our level best to add to the vitality and vigor of the institute and the profession.

Election for the new Managing Committee were held on 27<sup>th</sup> of Jan 2010 and the New Management Committee for the year 2010-2011 was declared on 17<sup>th</sup> of February 2010.

## Presentation of State Budget proposals to the Chief Minister of Rajasthan.

The branch presented the State Budget Proposals to the Honourable Chief Minister. Then an addendum to this state budget proposal was presented by CA. Deepika Agarwal, Secretary along with CA. Yashashvi Sharma and CA. Mukesh Khandelwal. The addendum emphasized on removing the exemption from VAT Audit if a person files his return in the electronic format or in soft copy mode. A comparative data of 5 states has been given in the addendum to the proposal showing that only Rajasthan has exempted VAT Audit in cases where it is filed electronically. None of the other states has exempted the VAT Audit whether returns have been filled electronically or manually. We explained them that all the corporate dealers and others dealers whose tax liability is more than Rs. 10 Lac in a year are required to file their returns electronically. Thus they are automatically exempted from VAT audit and the law makers purpose of VAT audit has been defeated as the big dealers have escaped from its purview. And we hope that the Chief Minister will look forward and take the appropriate steps.

## Visit of CA. Vinod Jain, Chairman Board of Studies, ICAI

CA. Vinod Jain, Chairman, Board of Studies visited the branch on 20<sup>th</sup> February 2010. Luckily that day was Saturday, and we had Study Circle Meeting on Carbon Credit. He communicated with the members present in the Study Circle Meeting and gave his vision for the year 2010-2011. It was an interactive session between him and the members. He invited suggestions from the members which they want them to incorporate for the betterment of the students and the profession.

## STUDY CIRCLE MEETINGS

### 1. Study Circle Meeting on Personal Professional Excellence (6.2.2010)

The Jaipur Branch organized a Study Circle Meeting on Personal Professional Excellence on 6.2.2010 at ICAI Bhawan. Sh. Satish Batra, Deputy Director, Bhartiya Vidhya Bhawan, Jaipur was the eminent speaker.

### 2. Valediction of GMCS Batch No. 56 (5.2.2010)

Jaipur Branch organized Valediction function for Batch No. 56 of GMCS course for CA students on 5<sup>th</sup> February 2010. CA. K L Jhanwar was the Chief Guest. The participants were given the

certificates and mementoes on that occasion.

### 3. Study Circle Meeting on NSDL Credits (13.2.2010)

The Jaipur Branch organized a Study Circle Meeting on NSDL Credits (Procedure, Problems & Precautions) under Income Tax on 13.2.2010 at ICAI Bhawan. CA. H M Singhvi and Sh. Sitesh Verma, Income Tax were the eminent speaker.



### 4. Orientation Programme for CAs appearing in the Campus Interview

An orientation programme was conducted by the Branch for the new upcoming Chartered Accountants. This programme aimed at training them for appearing in the Campus Interviews scheduled on 23, 25 and 26<sup>th</sup> March 2010 at various places in the country.

CA. C L Yadav, our branch chairman gave the welcome speech and welcomed the chief guest CA. Sunil Goyal, past president ICAI. CA. Sunil Goyal shared his valuable experience with the new Chartered Accountants and showed them the path of success in life and parameters of success in his terminology. After that the Branch Secretary CA. Deepika Agarwal gave the vote of thanks and guided the students for appearing in the Campus Interviews. All the Managing Committee Members were present in the meet to inspire the budding Chartered Accountants.

### 5. Study Circle Meeting on Carbon Credit (20.2.2010)

The Jaipur Branch organized a Study Circle Meeting on Carbon Credit on 20.2.2010 at ICAI Bhawan. CA. M C Maheshwari, New Delhi was the eminent speaker. Mr Maheshwari has worked with several large organisations at the senior position heading Finance and Secretarial Functions including Birla Group, Modis, Jaypee Group, Dunlop Group etc.

### 6. BUDGET (26.2.2010)

The Jaipur Branch arranged Live Telecast of Union Budget 2010 at ICAI Bhawan on 26.2.2010. Sh. N M Ranka, Sr. Advocate, Supreme Court, Sh. Jay Singh Kothari, MD, Nafa Nuksan, CA. O P Agarwal & CA. Sameer Jain were the eminent speakers. CA. C L Yadav, Chairman welcomed the guests and the CA members. The members vibrantly participated in the Live Budget Telecast 2010. As the budget speech by the Finance Minister ended the session chairman Sh. N M Ranka, Sr. Advocate took his charge and invited CA. O P Agarwal to present his views regarding the direct tax bill. He welcomed the Budget for the common man and said the government has taken appropriate steps to reduce the direct tax burden on the common man. CA. Sameer Jain expressed his views on indirect tax bill. He explained the after effect of this bill. Sh. Jay Singh Kothari, MD, Nafa Nuksan expressed his views on the budget speech and said that this budget is a status quo budget. CA. Deepika Agarwal, Secretary expressed her gratitude to the senior members for giving their valuable time and making the programme a success. CA. Pramod Kumar Boob was the Convenor of this programme.

# BRIEF MEANING OF BUDGET 2010-11 FOR .....

Compiled by **CA. Pramod Kumar Boob**  
B.Com., FCA, ICWA

Year after year, we see the Finance Minister begin their speeches with “I rise to present the Budget for the year....” And end on “with these words, I commend the Budget on the house.” Between these customary opening and closing, is the statement of department/government accounts and plenty of bland stuff that reflects the government's vision and signals the shape of things to come.

The Hon'ble Finance Minister Shri Pranab Mukherjee formally presented the budget for 2010-11 in an upbeat mood citing high GDP growth rates, improved manufacturing performance, revival of the export sector and robust capital markets that would pave the way for a 9% plus growth rate in the not too distant future. At the same time, he remains cautiously wary of the high fiscal deficit and reminds the listeners of India's vulnerability to global shocks.

The impact of the budget on various sectors can be highlighted as follows:

## WHAT IT MEANS FOR THE INVESTOR

### ☞ INFRA BONDS - ANY TAKERS?

**Infrastructure bonds** are not a great product with interest as low as 5.5-6% and money locked in for 5-10 years. But that's the only option over Rs 1-lakh tax-saving investments. Go for it if you have Rs 20000 extra cash left. It will be a forced investment.

### ☞ SERVICE TAX TO HIT HOME BUYERS

**Service tax** will be charged if the builder does not produce the 'completion certificate'. Booking an Rs1-crore apartment before its 'complete', will mean a Rs-3lakh tax over and above the value-added tax (VAT) collected by states. Genuine home buyers should insist on the certificate.

### ☞ E-LOAN DATA REGISTRY TO END FRAUDS

**A new** electronic registry to store title details and borrower details will curb home-loan frauds. When a bank processes a home loan, it can find out whether the title deed is clear and no other lender has a claim on it. Good for home buyers.



### ☞ LESS GOVT BORROWING FINE FOR DEBT

**No pressure** to hike interest rates. Short-term plans (with 1-2 year maturity) look good for a 6-month investment since bond prices may rise, post March. Income funds may give decent returns if the govt. does not front load its borrowing.

### ☞ TAX REJIG TO INCREASE ULIP RETURN

**Service tax** on charges levied by life insurers on Ulip investors has been reworked. Returns will rise a little as more money out of premium gets invested. Property and overseas mediclaim premium may rise due to service tax on non-life insurance companies.

### ☞ SERVICE TAX ON MEDICLAIM PREMIUM

**Service tax** on health claim will be settled by insurers directly with hospitals. Insurers will recover the money from policyholders. Health Insurance costs may rise if insurers are not allowed to offset the tax against service tax on premium.

## WHAT IT MEANS FOR THE CONSUMER

### ☞ MOODY BLUES ON STREET AUTO

**Car companies** announce price hikes ranging from Rs 3000 to Rs 26000 after a 2-10% excise hike. Consumer sentiment could take a hit. All this, at a time when companies are facing rising raw material costs.

## ✎ GROCERY LIST GETS A BIG TAG

**Prices** of common household items and consumer durables are set to rise on across-the-board excise hikes and increase in fuel prices. LCD TV sets may cost Rs 500-1000 more, air conditioner prices to go up by 2-5%. Liquor prices to rise by 5%. Goggles, flash, hard disk, CD/DVD combo drives to become more expensive.

## ✎ CHINK IN THE JEWEL BOX

**Gold** to cost Rs 200-Rs 300 per 10gm. Silver prices set to rise by 2%-3% after import duty is increased by Rs500 to Rs 1500 per kg.

## ✎ FRESH AIR AND TALKATHONS

**Excise cuts** spread the cheer with deodorants and perfumes set to cost 5% less. Cellphone prices will also fall. CFL bulbs and beetlenut products like supari will become cheaper.

## ✎ AIRFARES REACH FOR THE SKIES

**Airfares** will go up, with the economy class being brought under the service tax net. Health checkups ordered by business firms and health service under insurance schemes will cost more once they are brought under the service tax net. Coaching classes, firms engaged in brand promotion and sponsorship service for sports will fork out more service tax. You will also pay more if you are renting a house, renting a vacant land for business purposes and transporting goods by rail.

## ✎ PUFF AND HUFF

**Cigarette prices** are set to go up after the government changes excise duty structure and increases rates.

## WHAT IT MEANS FOR NEW ECONOMY

### ✎ TECH FIRMS' TAX RATES TO GO UP

**No proposal** to extend the STPI tax holiday, which is

set to expire by March next year, is a dampener for India's \$50-billion IT industry. A 3% hike in MAT is expected to impact tech firms' profitability, especially that of smaller companies.

### ✎ IT COS TO RIDE ONE-GOVT. PROJECTS

**IT-powered** projects, enabling tax administration, National Pension Scheme, treasury. Goods & services tax will bring new business for tech vendors including TCS, Infosys and Wipro.

### ✎ CORPORATE R&D GETS A BOOST

**Increased weighted** deduction of up to 200% for R&D will encourage Indian pharma companies to shift focus from pure generics business to high-end drug discovery and innovation.

### ✎ CLEAN ENERGY PLAN TO CUT EMISSIONS

**The FM** announced specific incentives for India's renewable energy mission. While The National Clean Energy Fund, with a corpus of around Rs2000 crore, will fund research projects in clean technologies, the government will also provide a 5% concession on customs duty for solar products.

### ✎ SIMPLER TAX STRUCTURE FOR IT

**IT/BPO** firms will get service tax refunds worth Rs 3000 crore owing to the new structure.

### ✎ MOBILE ACCESSORY COS TO RING LOUD

**Extension of** special additional duty (SAD) exemption on mobile phone accessories will boost local manufacturing of battery packs, hands-free and chargers. Global phone majors are likely to increase sourcing of these components from India.

## WHAT IT MEANS FOR BUSINESS

### ✎ LOSE SOME WIN SOME

**Rise in MAT** to increase tax liability of infrastructure

companies. But this can be partially offset by the likely gains from cheaper funding to be made available though higher refinancing limit at IIFCL.

✎ ALTERNATE FUNDS

**Funding avenues** and flow of funds to infrastructure projects to increase, as individuals pour cash into infra bonds to avail of tax deduction of up to Rs 20000.

✎ ROAD RUNNER

**The increase** in allocation will boost public-private investments in roads. The ambitious target of 20km a day may, however require more private investment. Cost of road building may rise due to higher cement prices caused by the hike in excise duty to 10%. Steel prices will go up due to higher excise duty.

✎ COSTLIER COAL TO PINCH

**The higher** price of coal due to the clean energy cess will raise the cost of power generation by Re 0.03a unit, or kilowatt hour, which may be passed on to consumers, hiking electricity bills.

✎ THE COPENHAGEN EFFECT

**Investments in** wind and solar energy plants will get a boost. Excise exemption on components for wind energy to benefit Suzlon Energy and Shriram EPC. Setting up of the National Clean Energy Fund will give an impetus to the sector.

✎ POWER PLAY

**Equipment makers** such as ABB, L&T and Crompton Greaves may see a surge in order flow, as the government more than doubles allocation to the power sector. State-owned BHEL may also benefit.

**WHAT IT MEANS FOR INDIAN COMPANIES**

✎ SURCHARGE LESS TAXING

**The cut in surcharge** for domestic companies will

bring down their overall tax rate by 0.7725%. Not a major reduction, but welcome relief. The cut in surcharge, meant to be a temporary levy, will be phased out once the Direct Taxes Code kicks in.

✎ HIKE IN MAT SOME GRUMBLING

**For companies** under the MAT regime, the net increase after accounting for the reduced surcharge will be 2.9355%. Companies are grumbling, but Mr. Mukherjee says it will promote equity among corporate taxpayers.

✎ NO EVASION UNDER GARB OF GIFT

**Unlisted companies** will have to pay income tax on shares that they get as gifts. The measure is meant to counter tax evasion and prevent money laundering in the form of gifts. But it could restrict Indian companies from reorganizing their ownership within a group.

✎ REAL ESTATE GETS A BREATHER

**Pending housing** and real estate projects can be completed in five years, instead of four, to claim deduction on profits. The finance minister is compensating the real estate sector for a disastrous year.

✎ RESEARCH AND DEDUCTION

**The weighted** deduction for most manufacturing businesses on in-house research & development spending rises by a third to 200%. Measure will be an incentive to expand R&D expenditure and promote innovation.

✎ PROVIDING ROOMS TO HOTELS

**New hotels** will get a tax holiday till they start making profits. The tax benefit has been linked to investment and companies will be allowed to recover revenue expenditure before they start paying tax.

### ✎ STEEPER COURSE FOR CARS

**Automakers such as** Maruti, Hyundai and General Motors, enjoying resurgent sales after a long lull, as well as consumer durables, steel and cement firms could see demand pocked after a hike in central excise duty to 10% from 8%. For big cars, the duty has been hiked to 22%,

### ✎ WEAKER FOUNDATION

**Government imposes** service tax on construction of complexes, which could hobble demand for real estate projects. Profits of real estate companies such as DLF, Unitech and Parsvanath that are emerging from the slowdown could be under pressure.

### ✎ TIME TO QUIT SMOKING?

**Excise duty** on tobacco products like cigarettes, cigars and cigarillos hiked a blow to cigarette makers such as ITC and Godfrey Phillips. Though a big price hike is unlikely, the market took note with ITC shares falling 6.2% to Rs 232.05 on the BSE.

### ✎ RUNNING OUT OF CONTROL

**Bulk transporters** such as steel, cement and fertilizer companies as well as iron ore and coal miners could see their freight costs rise by about Rs 100 per tonne after service tax in movement of goods, excluding foodgrain, by railways is imposed.

### ✎ CRICKET PITCH LOWERED

**Govt takes** some sheen off the marketing prowess of sports event brands, such as Indian Premier League and Indian Cricket League, by levying a service tax on sponsorships of such events. The move could dampen the enthusiasm of advertisers.

### ✎ OIL MARGINS SLIP

**Margins of oil** refining companies such as RIL, BPCL and Essar, Indian Oil could slip as the government

reimposes a 5% Customs duty on crude oil citing softer crude prices globally. The government, though, cushioned the blow by increasing the prices of fuel.

### WHAT IT MEANS FOR INDIVIDUAL

✎ **Pleasant surprise** on personal Income Tax payers, lightening by Rs. 20600 the tax burden for those with an annual income of Rs. 5 Lacs and a saving of as much as Rs. 51500 for individuals earning Rs. 8 Lacs. For all the individuals hurting from a sharp spike in prices, the concession should compensate for the anticipated increase in the cost of living after he raised the excise duty rate, expanded the ambit of service tax and increased the prices of petroleum products.

✎ **Tax burden** on women will be Rs. 3000 lower than for Men and that of senior citizens will be Rs. 8000 less.

✎ **Saral forms** for tax returns along with lower tax liability should improve compliance levels among individuals.

✎ **Introduction** of infrastructure bonds with a separate ceiling of Rs. 20000 outside section 80C deductions will also increase investment avenues for individuals.

✎ **Bad news** is that the education cess will continue for another year, at least.



# GOODS AND SERVICE TAX: - AN INTRODUCTION

Compiled by CA Yashasvi Sharma  
B. Com (Hons.), LL.B., FCA

## Era of Fiscal Reforms in India:

This is the time of major fiscal reforms in India as we are a country which is speedily and steadily approaching the developed countries. As far as the direct tax reforms are concerned, being professionals, we all know that the Income Tax Act, 1961 is to be subsumed and the Direct Tax Code is to be introduced from April 2011.

As the Hon'ble Union Finance Minister in his budget speech emphasized to introduce a new indirect tax regime in which all the indirect taxes presently levied by the Central Government and State Governments would be subsumed and a new tax will be levied. This tax would be popularly known as GST (Goods and Service Tax). The Central Government was inclined to introduce the Goods and Service Tax from April 2010 but now it has officially deferred for one year.

To prepare the roadmap and to frame the Legislature for GST the Central Government have constituted an Empowered Committee of States' Finance Ministers. This committee is working rigorously on this subject. A JWG (Joint Working Group) is also constituted by the E.C. This group consists of well known Government officials and renowned economists of the country.

## What is GST:

GST is known as Goods and Service Tax. More than eighty eight countries in the world have successfully implemented GST. Most of them are developed countries. GST is basically a consumption based tax, meaning thereby, the state which is going to consume the goods will be given the credit of tax imposed on those goods. It is just opposite

of the current tax regime under which the originating state is taking the credit of the tax on the goods sold by it.



Now the question arises what will happen after introduction of GST and what would be its implications on trade? The answer of this question is that all the indirect taxes viz. Excise Duty, Customs Duty, Additional Excise Duty, Service Tax, Central Sales Tax, Value Added Tax, Entry Tax, Entertainment Tax, Luxury Tax etc would be subsumed and GST will be born. The taxes presently levied by the local bodies will remain in the GST regime as well.

It will definitely help the trade and industry reason being all the indirect taxes paid by the assessee would be allowed to be set off for determination of the tax liability. We shall analyze this point very carefully as this is the biggest benefit of GST. What is happening under VAT is that the assessee (Manufacturer or Trader) is procuring the goods for trading or raw material, as the case may be, after paying the Excise Duty and VAT. The manufacturer is getting the CENVAT on the Excise Duty paid earlier but the trader is generally not allowed to take the set off of Excise Duty as he is not manufacturing any goods. In that case the amount of Excise Duty becomes part of his purchase price and the cost of the product to the end customer becomes higher. Same as CENVAT the trader is not allowed to take any credit of Service Tax paid by him to various persons. Under the GST regime all these taxes paid even by the trader, would be allowed to be adjusted before determination of the net tax liability of an assessee. By doing so the cost of product will go down and the per capita purchasing power will increase. It will help the nation to go upward in terms of economic development. The applicability of GST

Stage of Supply Chain (1)	Purchase Value of Input Material (2)	Profit Added (3)	Value of goods sold or services rendered (4)	GST Rate (5)	GST payable (6) (4*5)	Input Tax Credit Available (7) (2*5)	Net GST Liability (8) (Difference of 6 & 7)
Industry/ Manufacturer	1000	300	1300	15%	195	150	45
Wholesaler	1300	200	1500	15%	225	195	30
Retailer	1500	100	1600	15%	240	225	15

The cost of the trader has come down considerably as he has availed the set off of the Excise Duty and the Service Tax paid by him which is not allowed under the current VAT regime. The reduction in cost of products will help in international trade. The exports will become more competitive in international market.

**Framework of GST: -**

The Model which has come out and discussed in the meeting held by the Commissioner Commercial Taxes, Rajasthan, and in the literature available, it very much resembles to the present system of VAT but in a wider and comprehensive spectrum. As per this model there will be dual GST in India. Dual GST would consist: -

- a) CGST (Central GST levied by the Central Govt.) and
- b) SGST (State GST levied by the respective States).

This means some of the goods and services would be taxed by the Centre and some would be taxed by the

States. In this model, in the present situation of the Constitution of India, there is a problem and that is the States cannot levy taxes on the services. For this problem a constitutional amendment has to be made.

India is very huge and diversified country and different goods are of different importance in different areas. Now the problem arose related to the rate of tax on various commodities. To overcome this issue the Empowered Committee listed out forty six items which would be exempted throughout the country under GST. In addition to that the States have also made empowered to declare ten commodities as exempted commodities according to their geographical and other considerations.

Now the most important issue of any fiscal law and that is the threshold limit of exemption. In the present model the threshold limit of SGST is likely to be Rs. Ten Lacs and for CGST would be Rs. 1.5 Crores. The threshold limit under VAT is presently Rs. Five Lacs in our State. It means that the threshold limit would be enhanced in order to avoid unnecessary

pressure of compliance of various formalities under GST on small traders. This is a welcome step.

Another important matter is what happened to the Inter State transaction? How these transactions would be dealt with? It is not yet very clear but for this also one model

called IGST is under scrutiny and will shortly be finalized with the help of State Governments.

The present scenario of introduction of GST reminds me the time somewhere in September 2005, when the currently levied VAT was about to be introduced after a delay of three years. At that time as well the states were not in favour of its implementation. Still most of the states introduced it and sooner or later all other states had to introduce the same due to many conditions of compensation from the Central Government etc. Why I touched this topic, just because the VAT could have been implemented in phases because of its nature and framework. Meaning thereby the transaction related to one state were not affected by the sale or purchase from/ of another state due to non allowability of such transaction for ITC. What will happen in GST? Under the GST regime the rate of tax will be same for all the states of the country and it will be known as Uniform Floor Rate. Now if an assessee purchases some goods from one state under and sells the same to the state in which GST is not introduced. In that case the concept of GST will be defeated.

#### **Procedural aspects under GST:**

As the dual GST model will be implemented the procedural part would be dual as well. The assessee would have to file returns separately for CGST and SGST.

Each assessee would be given an identification number which would be related to the PAN of the assessee.

The tax related to the Centre and State would be deposited in two different accounts of Centre and State.

The assessment, enforcement, scrutiny and audit would be undertaken by the authority which is collecting the tax and the required information would be shared by the Central and State GST governing authorities.

Another important issue is that the cross utilization of GST input credit would not be allowed. Meaning thereby, the input credit of SGST would be allowed to be set off against the SGST liability only and the input credit of CGST would be allowed to be set off against the CGST liability only. These cannot be cross utilized. It has been done considering that the GST would be deposited in two different accounts of Central and State Governments and if the cross utilization is permitted it may hamper the interest of the Centre or State in terms of revenue.

#### **Introduction of First Discussion Paper on GST: -**

I was in middle of my article when the much awaited first discussion paper of GST was made public by the Empowered Committee of the States' Finance Ministers. The basic features of GST have been summarized in the paper along with the background of VAT, preparation of GST and the FAQs.

It has been drafted keeping in view all the big and minute issues related to the fiscal still some issues remain ambiguous and unanswered. The first discussion paper is summarized hereunder which provides the glimpses of the forth coming GST: -

1. As was expected that to maintain the federalism of the country dual GST would be introduced. One part of which is CGST and the another is SGST. The CGST would be imposed by the Central Government and the SGST would be levied by the State Governments. These would be levied on all the transactions of goods and services simultaneously. The assessee would have to deposit the two GSTs separately to Central and State Governments' accounts by affixing appropriate code numbers through prescribed challans.
2. All the indirect taxes of the States and the Centre would be subsumed in GST. This is basically very dangerous for the fiscal autonomy of the states. All the powers to levy tax would go out of the hands of the States. In my opinion the states must keep the power of levy of cess or surcharge.
3. One important thing in this is the cross utilization would not be allowed. Meaning thereby, the liability of CGST could be set off only against the ITC of CGST and the ITC available of SGST will not be allowed to be adjusted against CGST. The same provisions would apply mutatis mutandis in case of SGST.
4. The paper does not specify the rates of the goods and services. It is very clear that there would be more than one rate. Lower rate of tax for goods/ services of necessities and of special importance and higher rate for all other goods/ services. Yet the rate of tax is a mystery.
5. The threshold limits are proposed at Rs. 10 Lacs for the SGST and Rs.1.5 Crores for the CGST. Composition scheme is also proposed having a cut off of Rs. 50 Lacs.
6. Alcohol, petrol, diesel, gases, tobacco products etc. are kept out of the GST purview. In case the alcohol items are available in some States, here is no objection for doing so.
7. The states would be allowed to tax the services as well. For giving this power to states, constitutional amendment is proposed.
8. The main area of concern is the Inter State transactions. How these transaction are to be taxed and how the input tax credit would be utilized by the dealers as well as by the states and centre? This issue is not properly elaborated in this paper. It only touches this issue. A model called IGST has been introduced to deal with these inter state transaction. More clarity is required on this issue.
9. The paper states that the cash refund scheme would be introduced for the special industrial area scheme. This would be for the units which are availing the benefits of incentive/ remission schemes and the period of such incentives would continue even after the introduction of GST. It is clear that no new incentives/ remissions would be allowed under GST.

10. The dealers would be given PAN linked identification Nos.

11. One issue which is not very clear from this paper and that is very important as well and that is related to the CENVAT credit of the Excise Duty and the Input

Tax credit of VAT. What would be the fate of such Input Taxes and how these would be allowed to be set off.

**Recommendations of the Task Force appointed by the Thirteenth Finance Commission: -**

However, the Task Force appointed by the Thirteenth Finance Commission has recently submitted its recommendations in which it differs on some issues, from the Empowered Committee of the states' Finance Ministers. Some of the important recommendations are summarized as under: -

☞ Most importantly, the rate of tax for SGST and CGST should be one may be 5% or 7% and formula must be devolved for the justified distribution of the revenue between the states centre.

☞ Other important recommendation is related to the threshold limit under the new law, the Force recommended that the limit must be same for State and Central GST.

☞ All public services of Governments, Railways,

PSEs, Educational Services provided by the non Governmental agencies, health services provided by the non Governmental agencies. Importantly no exemptions shall be given to the developers of or units in SEZ.

☞ The option of composition fees under GST must be given to the dealers having turnover between 10 Lacs to 40 Lacs and that too @ 1%. Dealers dealing in high value products like gold etc., must be given composition fees option irrespective of the turnover.

☞ As far as the administration is concerned it will be uniform for CGST as well as SGST.

☞ Payment must be made combined.

These were the basic issues related to the GST which is the most talked about subject nationwide these days. According to the sources it seems more than difficult to implement this new legislature from April 2010 and now it is clear that this would not be introduced from the deadline set initially as the F.M. started his budget speech for the Year 2010-11 stating that the GST and DTC would be introduced from 2011-12.



**BACKGROUND**

India has announced to adopt IFRSs w.e.f. the accounting period beginning from 01/04/2011 i.e.(2011-12) to remain at par with global standardization process despite criticalities involved in fair value accounting and reporting of financial information based on unstable market determined fair value . The Table below explains the IFRSs adoption time frame.



S. NO.	TIME FRAME	ACTION REQUIRED
1.	<b>01/04/2010 DATE OF TRANSITION TO IFRS</b>	<p><b>1. OPENING STATEMENT OF FINANCIAL POSITION</b> To Prepare The Opening Statement Of Financial Position On The Basis Of Indian Gaap Balance Sheet As On 31/03/2010.</p> <p><b>2. CHANGES IN EQUITY STATEMENT</b> To Prepare A Reconciliation Statement Explaining Changes In Equity Reported In Accordance With Indian GAAP As On 31/03/2010 And Equity Presented In The Opening Statement Of Financial Position In Accordance With IFRS.</p> <p><b>3. MEASUREMENT OF ASSETS &amp; LIABILITIES</b> Shall Be Carried Out On The Basis Of The Condition Prevailing On The Date Of Transition.</p>
2.	<b>2010-11 COMPARATIVE REPORTING PERIOD</b>	<b>PREPARATION OF IFRS FINANCIAL STATEMENTS FOR THE COMPARATIVE PERIOD 2010-11</b>
3.	<b>2011-12 FIRST IFRS REPORTING PERIOD</b>	<b>PREPARATION OF FIRST IFRS COMPLAINT FINANCIAL STATEMENTS FOR THE PERIOD 2011-12</b>
4.	<b>31/03/2012 FIRST IFRS REPORTING DATE</b>	<b>ADOPT IFRS EFFECTIVE AS ON 31/03/2012 FOR ALL ACTIONS STATED ABOVE. A RESPONSIBLE ENTITY SHOULD START PREPARATION FOR IFRS ADOPTION BASED ON PARTICULAR SET OF IFRSs, SAY IFRS AS ON 01/04/2010 AND THEREAFTER TO AMEND THE WORKINGS TO COMPLY WITH CHANGES IN IFRSs.</b>

## 2. IFRS EDUCATION:

It is very important to educate the preparers, the auditors, the investors etc. on the IFRS. In fact the entire commercial education system needs to be revamped.

UGC, AICTE, UNIVERSITIES, MBA INSTITUTIONS etc. should incorporate IFRS as a subject of study as there is urgent need for re looking under & post graduate commerce education curriculum such that Indian graduates become aware of IFRS. Similarly, the leading professional institutes In India like the ICAI, ISCI and the ICWAI should take urgent initiative to include a dedicated subject on IFRS in their **basic curriculum**. Separate certificate course on IFRS is also needed to for updating the qualified professionals as part of continuing education.

Essentially, **India is lagging behind in the academic front even if it is progressing in the IFRS adoption front. There exists Conceptual differences, Accounting differences, Presentation differences & Valuation differences between IFRSs & Indian GAAP.**

For Example , IFRSs talk about different liability accounting, use of present value in accounting measurement, amortised cost concept, comprehensive income, statement of changes in equity ,restatement of statement of financial position, various kinds of intangible assets, ,intangibles with indefinite life, separation of compound financial financial instruments and embedded derivatives ,increasing rate preference shares, fair value through profit or loss and fair value through equity ,hedge accounting, etc.

## 3. PRESSING TIMELINE:

### IFRSs adoption demands ;

- (a) Recognise all assets and liabilities whose recognition is required by IFRSs.
- (b) Not recognize items as assets or liabilities if IFRSs do not permit such recognition.
- (c) Reclassify items that it recognised under previous GAAP as one type of asset, liability or component of equity but are different type of asset, liability or component of equity under IFRSs.
- (d) Apply IFRSs in measuring all recognized assets and liabilities.

Accordingly ,the opening Statement of Financial Position shall be prepared recognizing and measuring assets, liabilities and equity in accordance with the IFRSs.

## 4. GLOBAL DEVELOPMENTS IN IFRSs ADOPTION

**Over 100 Countries** have formally **accepted IFRS** to bring out standardization and greater comparability in presentation of financial statements inspite of criticalities involved in fair value accounting. The below mentioned table summarises the global development of adoption of IFRS :

S. No.	COUNTRY	IFRS ADOPTION TIMELINE & PROCESS
1.	CHINA	<p><b>CONVERGED TO IFRS IN 2007</b></p> <p><b>THERE ARE MAJOR DIFFERENCES BETWEEN CHINESE ADOPTED IFRSs AND IASB ISSUED IFRS.</b></p>
2.	ISRAEL	<p><b>HAS ADOPTED IFRS W.E.F .01/04/2008</b></p>
3.	CHILE	<p><b>ADOPTING IFRS IN 2009-11 IN PHASED MANNER.</b></p> <p><b>BANKS AND OTHER FINANCIAL INSTITUTIONS AND MAJOR LISTED COMPANIES TO ADOPT IFRSs</b></p>
4.	BRAZIL	<p><b>ADOPTING IFRS IN 2010.</b></p> <p><b>THE ACCOUNTING ASPECTS OF THE COMPANY LAW HAS BEEN CHANGED,</b></p>
5.	CANADA	<p><b>ADOPTING IFRS W.E.F 01/01/2011</b></p>
6.	SOUTH KOREA	<p><b>ADOPTING IFRS IN 2011</b></p>
7.	MEXICO	<p><b>ADOPTING IFRS BY 2012.EARLY ADOPTION W.E.F. 2008 PERMITTED.</b></p>
8.	JAPAN	<p><b>TO ADOPT VOLUNTARILY BY 2010</b></p>

#### **4.. MAJOR ISSUES IN FIRST TIME ADOPTION OF IFRSs**

As per Para 10, IAS 1, A Complete Set of Financial Statements comprises of the following:

- (A) A Statement of Financial Position as at the end of the period.
- (B) A Statement of Comprehensive Income for the period.
- (C) A Statement of Changes in Equity.
- (D) A Statement of Cash Flows for the period.
- (E) Notes, Comprising of a Summary of Accounting Policies and Other Explanatory Information.
- (F) A Statement of Financial Position as at the Beginning of the Earliest Comparative Period when an Entity applies an Accounting Policy retrospectively or makes a retrospective restatement of items on its Financial Statements or when it reclassifies items in its Financial Statements.

The above requirements are discussed in detail :

##### **(1) CLASSIFICATION OF ASSETS AND LIABILITIES INTO CURRENT AND NON CURRENT:**

This difference arises due to Schedule VI to the Companies Act, 1956. Action to be taken are:

- (i) Classification of financial assets into current and non-current.
- (ii) Classify trade debtors, trade creditors and inventories into Operating Cycle Concept.
- (iii) Classify Fixed Assets into Property, Plant and Equipment (PPE).
- (iv) Classification of PPE into held for Sale and for Discontinued Operations and carrying them out at FAIR VALUE LESS COSTS TO SELL and NO DEPRECIATION is to be charged on such block of assets.
- (v) Separation of Investment Property (Land and Building which are not Owner Occupied ) from PPE.
- (vi) Separation of Leasehold Property out of PPE in accordance with IAS 17 Leases and accounting it as a Prepaid Leases (IAS 19

classifies leasehold land as operating lease).

- (vii) Classification of Goodwill into Intangible Assets in accordance with IFRS 3 Business Combinations if those intangible assets require recognition in accordance with IAS 38 on the date of transition.
- (viii) Classify instalment due within 12 months from the reporting date as Current Liability out of Non-current Liability.
- (ix) Take cognizance of breaches of loan conditions and discretion to roll over while classifying current/non current liability.
- (x) Evaluating preference shares and classifying as liability if the definition of equity is not satisfied.
- (xi) Accounting preference dividend as borrowing cost if it is classified as Liability.
- (xii) Deferred Tax Asset (Liability) is not classified as current.

##### **(2) A STATEMENT OF COMPREHENSIVE INCOME :**

The following items are included:

- (a) Unrealised gain or loss on revaluation of PPE and Intangible Assets.
  - (b) Unrealised gain or loss on Currency translation reserves.
  - (c) Fair Value gains or loss of Financial Assets ( Financial Assets available for Sale).
  - (d) Actuarial gain of loss arising out of applying Corridor Approach in accordance with IAS 19 Employees Benefits.
  - (e) Cash Flow hedge reserve.
- (3) A Statement of Changes in Equity :

Elimination of Appropriation section of the Profit & Loss A/c and introducing Statement of Changes in Equity as provided in IFRSs will improve presentation of financial statements.

- (4) A Statement of Cash Flows for the period.
- (5) Notes- Accounting policies, Changes in Accounting Estimates and Errors.

**ACTIVITIES FOR MARCH - 2010**

<p>Date : 2nd March, 2010  Time : 3 PM to 6 PM  CPE Hours : 3 Hours  Topic : Half Day Seminar on Union Budget 2010 &amp; its Detailed Analysis  Speakers : CA. Sunil H Talati, Ahmedabad  CA. Ravi Holani, Indore</p>	<p>Date : 20th March, 2010  Time : 5 PM to 7 PM  CPE Hours : 2 Hours  Topic : Role of Chartered Accountants in Credit Rating  Speaker : Shri Sailesh Waghmare, Mumbai</p>
<p>Date : 6th March, 2010  Time : 6 PM onwards  Event : Holi Sneh Milan Programme with Kavi Sammelan, Folk Dance etc. followed with Family Dinner.</p>	<p>Date : 21st March, 2010  Time : 9.30 AM to 4 PM  CPE Hours : 6 Hours  Topic : Seminar on Bank Audit &amp; Interaction with President &amp; Vice President of ICAI  Fees : Rs. 200/-  Speakers : CA. Ketan Saiya, Mumbai  CA. Nishith Seth, Mumbai  CA. S C Jain, Jaipur</p>
<p>Date : 9th March, 2010  Time : 11 AM to 2 PM  CPE Hours : 3 Hours  Topic : Live Telecast of State Budget 2010 &amp; its Analysis  Speakers : Adv. R C Agarwal  Dr. Som Deo  CA. Arvind Mathur  Adv. Pankaj Ghiya</p>	<p>Date : 26th March, 2010  Time : 5 PM to 7 PM  CPE Hours : 2 Hours  Topic : Investor Awareness Programme  Speaker : To be announced</p>
<p>Date : 13th March, 2010  Time : 5 PM to 7 PM  CPE Hours : 2 Hours  Topic : State Budget 2010 Analysis  Speakers : Adv. T C Jain  CA. Yashasvi Sharma</p>	<p>Date : 3rd April, 2010  Time : 5 PM to 7 PM  CPE Hours : 2 Hours  Topic : Opportunities for Chartered Accountants in Shares &amp; Commodity Market  Speakers : Col. Ajay Jain</p>

**The Back Ground Study Material of the Study Circle Meetings held from January 2010 onwards is available at the website : [icaijaipur.org](http://icaijaipur.org)**