

Indore Branch of Central India Regional Council  
of The Institute of Chartered Accountants of India



# NEWSLETTER

► August - 2020



*Independence Day  
Celebration*



# Chairman's Communiqué



*Respected members*

*The month of August commemorates the Independence of our country and we should resolve on this occasion to free ourselves from all negativity. I salute our corona warriors who are striving day and night to get us independence from the Pandemic.*

*This month hosts numerous technical programs for our members to sharpen their technical acumen and skills.*

*I would like to caution members to be careful as now there is unlock and the pandemic is expanding its ambit in leaps and bound and request all members to strictly follow Covid protocol in their offices.*

*This month we will be stating celebration of our Golden jubilee year from August 18, 2020 to August 18 2021. Every month we will celebrate in unique style.*

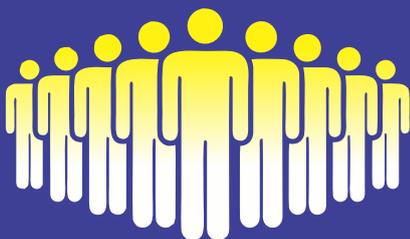
*The boldest reform has been launched by our Prime minister on 13Th august by revamping the Tax assessment Procedure. Now all assessment shall be faceless through National E assessment Centre without any need to visit the tax office physically.*

*Thank you*

*Stay Home Stay Safe*

**CA. Harsh Firoda** (Chairman)

[chairman\\_indore@icai.org](mailto:chairman_indore@icai.org)



## MANAGING COMMITTEE

CA. Kirti Joshi (Vice-Chairman)

CA. Gaurav Maheshwari (Secretary)

CA. Ankush Jain (Treasurer)

CA. Samkit Bhandari (CICASA Chairman)

(Executive Member) CA. Pankaj Shah, CA. Anand Jain

Ex. Officio Member : CA. Kemisha Soni (CCM) CA. Churchill Jain (RCM) CA. Nilesh Gupta (RCM)



## USE OF JURISPRUDENCE IN TAX AUDIT HARMONIOUS APPROACH

Reporting requirements in Form 3CD are designed to enable self assessment of disallowances and additions to the income of assessee in line with various provisions of the Income tax Act. Such provisions in turn have been widely litigated and divergent views have been taken by various judicial forums which creates question on the tax treatment of transactions. In such cases if the auditors were of the view that the judicial precedent is open to judicial review and not binding precedent then he may indicate such addition or disallowance in Form 3CD which did not prevent the Assessee to claim deduction thereof in the return of income. However Section 143(1) of the Act was amended with effect from Assessment Year 2017-18 to provide in newly inserted clause (iv) that disallowance of expenditure indicated in the audit report but not taken into account in computing the total income in the return would be adjusted in the summary processing of return under Section 143(1) of the Act. Due to this amendment now auditee have adopted a restraining approach in agreeing to indication of disallowance in Form 3CD based on legal views taken by them. Such action by the auditee is possible since the Guidance note on tax audit also provides in Para 16.2 that particulars in Form No. 3CD have to be authenticated and signed by the auditee first and such authentication by auditee may tantamount to his acceptance may cause prejudice to his claim in judicial process. In such situation it is advisable that the auditor indicates his view and disagreement of auditee along with basis of auditee in Form 3CA/3CB.

With regard to the importance of jurisprudence in the tax audit it is pertinent to refer to the Para 16.2 of the Guidance note which allows an auditor to rely upon the judicial pronouncements while taking any particular view about inclusion or exclusion of any items in the particulars to be furnished under any of the clauses specified in Form No.3CD. Further if there is a conflict of judicial opinion on any particular issue, he may refer to the view which has been followed while giving the particulars/reporting under any specified clause. In the present e-filing format any view taken on reporting made on any clause can be disclosed in Form 3CA/3CB or can be separately be attached in 'pdf' file along with the audit report. This article mainly deals with the jurisprudence on various important provisions which require reporting in Form 3CD and have unsettled judicial position.

### **Turnover with respect to F&O and Derivative transactions**

Transactions in derivative instruments have increased significantly and Section 43(5)(d) treats the same as normal business income. On the other hand the ambit of Section 44AD has been widened to cover any business which would include such

derivative trading transactions. Application of Section 44AD stipulates that if the actual profit is less than the presumptive profit, the books of accounts would be required to be audited. Guidance note on tax audit prescribes methodology to aggregate the absolute figures of gains and losses in case of derivatives to compute the turnover. However in following judicial pronouncements the trading in derivatives is not considered as 'turnover' in absence of any delivery based on Section 18 of Sale of Goods Act providing that no property in the goods is transferred to the buyer unless and until the goods are ascertained and in legal sense no turnover can be said to have effected by the assessee:-

- ▶ Growmore Exports Ltd vs. ACIT (2001) (78 ITD 95)(Mum)
- ▶ Babulal Enterprises [ITA No. 6031/Mum/1996]

Based on the proposition upheld by the Tribunals that the transactions in derivatives is not turnover, the foundation of applicability of presumptive provisions which is profit as a percentage of turnover becomes unworkable and a view can be taken that the derivative transactions may not be covered under the ambit of Section 44AD of the Act and would not be subject to tax audit.

### **Valuation of Inventory**

Clause 14(a) required reporting of method of valuation of closing stock employed in the previous year. Section 145A has been retrospectively amended to inter alia provide in clause (i) that the valuation of inventory shall be made at lower of actual cost or net realisable value. This amendment made in Finance Act 2018 is applicable even for current year tax audits and therefore the reporting in clause 14(a) of Form 3CD would now permit only above method of valuation. In past it was seen that certain entities were valuing the inventory at cost which was permissible based on certain judicial pronouncements, however with express provision in the Act the same stands overruled. Needless to mention that the practice of disclosing that 'inventory has been accepted as certified by the management' is not acceptable as it creates deficiency in audit procedures which mandate the auditor to ensure existence of inventory as well as condition as per (SA-501)- "Audit Evidence – Additional Considerations for Specific Items".

### **Section 14A : No disallowance in absence of any exempt income**

This is one of the most litigated provisions of the Income tax Act which provides to disallow any expenses incurred in relation to earning of exempt income. The phrase 'expenses incurred in relation to exempt income' contemplates that once a proximate cause for disallowance is established which is the relationship of the expenditure with income which does not form part of the total income, a disallowance u/s 14A has to be made. Guidance note in Para 37 has clarified that the Rule 8D is not mandatory to be followed by Assessee for computing disallowance and can be invoked by Assessing Officer however the auditor for reporting in

Clause 21(h) will have to verify the amount of inadmissible expenditure as determined by the assessee with reference to established principles of allocation of expenditure based on logical parameters like proportion of exempt and taxable income recorded, turnover, man hours spent to earn the relevant income etc. An interesting issue arises in view of following decisions pronounced recently which lay down the proposition that no disallowance under Section 14A is called for in absence of any exempt income received during the year under consideration:

- ▶ Cheminvest vs. CIT 378 ITR 33 (Delhi High Court)
- ▶ CIT vs. Shivam Motors (230 Taxman 63) (Allahabad High Court)

In light of aforesaid judicial decisions, the Auditor may accept a view that in absence of any exempt income no amount has to be considered as disallowable under Section 14A of the Act.

#### **Section 40(a)(ia): Effect of second proviso on reporting**

Clause 21(b) of Form 3CD requires auditor to report amount inadmissible under Section 40(a)(ia) for non deduction or non payment of deducted tax at source from payments made to residents. Recently to reduce hardship caused by this provision, a remedy is provided in second proviso of that provision that no disallowance would be made if the payer is not considered as 'assessee in default'. He may not be considered an assessee in default if the resident recipient furnishes his return of income under section 139 taking into account such sum for computing his income in said return and has paid the tax due on the income declared by him in such return of income. These facts have to be furnished in a certificate obtained from an accountant in Form No. 26A.

The auditor has to consider such amounts for reporting under this clause as disallowable on which tax is not deducted at source or on which such deducted tax is not deposited till specified time. However if the auditee furnishes copy of aforesaid certificate to the auditor before completion of his audit, he may consider the amounts paid as not disallowable under such section.

#### **Section 40A(3) : Disallowance of Genuine Cash Payments**

Clause 21(d) of Form 3CD requires reporting of payments made otherwise than by an account payee cheque above specified limit i.e. Rs.10,000 as disallowable under Section 40A(3) unless the same are exempted under Rule 6DD. The provision was introduced to counter evasion and prohibit circulation of black money. However the harshness of this provision covers within its ambit even admittedly genuine payments and call for their reporting in tax audit report. For instance cash payment of electricity bills to Electric companies which are now independent corporations are undoubtedly genuine but if reported under this clause would get disallowed under amended Section 143(1) of the Act even if the same is not considered disallowable in return of income. In this scenario since the requirement is to report amount disallowable under the provision, the auditor may accept a view that genuine payments like payment of electricity bill in cash is not disallowable under Section 40A(3) based on following judicial pronouncements-

- } M.R. Soap 32 TTJ 505 (Del)
- } PadigelaRajeshwar Ginning Ind. ITA 1137/Hyd/2011
- } Trivedi Corporation (ITA 2844/Ahd/2006)

If such view is taken it is advisable that the auditor refers to such

judicial pronouncements in his report for his view in reporting under the clause.

#### **Section 2(24)(x) : Delay in deposit of Employee's contribution**

In clause 20(b) of Form 3CD the auditor is required to report the details of payment made vis-à-vis due date as per relevant statute and actual date of payment of PF / ESIC. Though this clause does not require the auditor to provide the disallowance consequent to delay, however instances are seen where any amount paid after the relevant due date is automatically considered for addition under Section 2(24)(x) of Act while processing the return under Section 143(1) as the provision deems delayed deposit of contribution of employee as income of Employer even if the delayed payment is not beyond the due date of filing of return of income. Judicial position is unsettled on this issue due to divergent decisions of various High Courts. While Special Leave petition of department against favourable decision of Rajasthan High Court in case of Rajasthan State Beverages Corporation Ltd.[TS-268-SC-2017] has been dismissed by Supreme Court holding it devoid of merits, Kerala High Court in decision reported in [TS-378-HC-2018(KER)] and Gujarat High Court in Gujarat State Road Transport Corporation(366 ITR 170)(Guj.) have taken a contrary stand considering any delayed deposit beyond statutory due date as income u/s 2(24)(x) of the Act.

As regards this provision, the reporting requirement is to report the due date and actual date and not the tax treatment therefore the auditor has to give such information which are a matter of fact and do not involve taking any legal view. Against any adjustment made in the processing of return under Section 143(1) of the Act the remedy available to the Auditee is to file an appeal as the intimation is an appealable order. The auditor cannot disclose the fact that there are delays in Form 3CA/3CB as observations as an alternative to reporting facts in Form 3CD.

#### **Section 40A(2)(b) : Related Party Transactions**

Clause 23 requires reporting of particulars of payments made to persons specified under section 40A(2)(b). At the outset the details of parties covered under said section has to be obtained in Management representation from the auditee. Also the provision requires reporting of all payments made to relatives irrespective of the fact that the same are allowable or not. Another interesting aspect related to reporting in respect of 'persons holding substantial interest' is that only direct interest is to be considered and not indirect interest. For eg. Transactions with subsidiary are covered for reporting but any transaction with subsidiary of subsidiary is not to be covered.

#### **Section 50C/43CA : Deemed Sale consideration**

Clause 17 requires reporting of transactions of transfer of immovable property being 'land or building or both' for a consideration lesser than their stamp duty value. The reporting requirement is with regard to transfer of 'land' or 'building'. It would be relevant to consider that whether 'land or building' would include any rights therein for eg. leasehold rights, tenancy rights, floor space area rights, transferable development rights and transfer of such rights at a value lesser than their stamp duty value would require reporting. Section 50C is held not applicable on such rights in various ruling given below:

Leasehold rights – CIT vs. Greenfield Hotels and Estates P Ltd

[2016] 389 ITR 68 (Bombay)

Tenancy rights - Fleurette Marine Novelle Hatam vs. ITO [2015] 70 SOT 203 (Mumbai - Trib.)

FSI and TDR – ITO vs. Shri Prem Rattan Gupta (ITA No.5803/Mum/2009)

On the other hand there are some contrary views also expressed by other courts. In such conflicting cases the auditor has to take a view and refer to the relevant judicial pronouncements which he has followed in forming his view.

Another important issue to be considered while reporting is when the difference between the actual value and stamp value is meager and within tolerance limit of 10 percent wherein it is held by various courts that the deeming provision would not be applicable in such cases. It is advisable that the reporting requirement is with respect to values i.e. actual and assessed/assessable which is a matter of fact.

### **Section 269SS/T and 269ST**

#### **Reporting of repayment of loan/advance**

Last year clause 31 was amended to introduce requirement to report any repayment of loan/advance/specified sum received by the lender during the year. This has brought a paradigm change in reporting since Section 269SS or 269T is not applicable on lender and the penalty on contravention of such provisions is leviable only on the borrowers. The intention of this amendment is to catch hold of such borrowers who are not covered under the ambit of audit and contravene the provisions of Section 269SS and 269T, as now information of such borrowers would be reported in the audit report of lenders.

#### **'Specified sum' and Real estate business**

Clause 31(b) requires reporting of each 'specified sum' taken or accepted during the previous year. The term specified sum refers to any sum of money receivable, whether as advance or otherwise, in relation to transfer of an immovable property, whether or not the transfer takes place. Here it is not necessary that the transfer of immovable property should be a capital asset and even transactions of sale of immovable property in a real estate business would be required to be reported. In other words, all the sale transactions in a real estate business would be required to be reported in this clause. This clause has increased the reporting requirement significantly.

#### **Transactions through Journal entries**

Section 269SS and 269T require that loans, advances and specified sum if accepted otherwise than by an account payee cheque are liable to penalty and are required to be reported in Clause 31. Many times it is seen that transactions through Journal entries in books of accounts are also considered for reporting under this clause as taken or accepted otherwise than by an account payee cheque, etc. This now may trigger immediate invocation of penal provisions due to e-processing of returns and audit report and cause great hardship to the Assessee in form of penalty under Section 271D and 271E which may not be in line with the objective of the anti-evasive provision to cover only cash loans and not book entries. The provision has been considered and interpreted by various courts to hold that transaction through book entries would not be contravention and are not liable for penalty in following cases:

- ▶ NatvarlalPurshottamdas Parekh 303 ITR 5 (GUJ.)
- ▶ Noida Toll Bridge Co. Ltd (262 ITR 260) (Delhi HC)
- ▶ Worldwide Township Projects 2014 (6) TMI 47
- ▶ Dinesh Jain - 2014 (6) TMI 140 - ITAT DELHI

If an auditor takes a view that any loan or advance created by way of journal entries have not been considered for the purpose of reporting under this clause, the same is advisable to be disclosed in the Form 3CA/3CB and the aforesaid judicial authorities may also be referred in support of forming such view.

#### **Section 41(1): Remission/cessation of liabilities**

Clause 25 of Form 3CD calls for reporting of amount chargeable to tax under Section 41 of Act which includes any remission, cessation or extinguishment of any liability. Primarily this provision would be triggered in respect of extinguishment of trading liability for which a deduction or allowance is claimed and allowed in any of the earlier year. The reporting requirement under this section is very wide and would require the auditor to exercise his judgment in light of judicial precedents on this issue. For eg. there may be unclaimed trade creditors/liabilities outstanding for a long period in balance sheet of auditee and if on calling of confirmations by Auditor in accordance with (SA-505)-"External Confirmations" no confirmations are received, the amount may be considered as not payable. In such circumstances if the management insists that the same are still payable and the liability has been accepted then auditor must obtain a management representation to this effect. The auditor is not required to consider any outstanding liability as reportable under this clause merely since it is older than 3 years and limitation period is expired as observed in case of Silver Cotton Mills Co Ltd (254 ITR 728)(Guj.). Similar views have been taken in case of Vardhaman Overseas 343 ITR 408 (Del).

#### **CONCLUSION**

Tax Audit involves exercise of judgment by an auditor on various legal issues concerning admissibility and inadmissibility under various provisions of Income tax Act considering existing jurisprudence available. On issues having conflicting views, an auditor is advisable to rely on legal views obtained by auditee from experts in accordance with the guidance provided in (SA) 620 (Revised), "Using the Work of an Auditor's Expert". One needs to keep in mind that the reporting accuracy in Form 3CD is higher as the same has to be "true and correct" as against the audit opinion which has to be "true and fair". Therefore to substantiate the certification of information furnished in Form 3CD as correct one needs to give adequate disclosures on the views taken, basis of such view and available judicial pronouncements thereon.



**By CA. Manoj Gupta**



**CA. Pankaj G. Shah**

The authors can be reached at

[manoj.g.ca@gmail.com](mailto:manoj.g.ca@gmail.com) and [pankajghshah@gmail.com](mailto:pankajghshah@gmail.com)



# GST ON IMPORT OF SOFTWARE

CA. RITESH MEHTA

Whether supply of Software will constitute as supply of Service or Supply of Goods?

### **Understanding:**

Generally, organizations enter into licensing agreements under which software is imported for using the same for business purposes. There are generally two ways of importing the software either by downloading it electronically or by loading it on CD.

### **Indirect Tax Implication:**

If supply of software in the physical form (i.e. CD, DVD Packages) of Information Technology Software (branded as well as tailor-made) shall apply as goods under the Customs Tariff Act with HSN Code 8523 80 20. The GST rate for software sold in physical form is also 18%.

The above stand on software has been clarified and confirmed by various Courts. In the case of Tata Consultancy Services v. State of Andhra Pradesh, it has been held that canned software which is sold in packages or CDs or DVDs or USB Drivers will be classified as goods. Though the copyright of the program would remain with the development company, the moment copies are made and marketed, it would be termed as goods.

### **As per FAQ on IT/ITES–**

Question 1: Whether software is regarded as goods or services in GST?

Answer: In terms of Schedule II of the CGST Act 2017, development, design, programming, customisation, adaptation, upgradation, enhancement, implementation of information technology software and temporary transfer or permitting the use or enjoyment of any intellectual property rights are treated as services.

But, if a pre-developed or pre-designed software is supplied in any medium/storage (commonly bought off-the-shelf) or made available through the use of encryption keys, the same is treated as a supply of goods classifiable under heading 8523.

For the software downloaded directly from the website or made available through any electronic medium, then study of following provision is required:

As per Entry No 5(h) of Schedule-II to CGST Act, 2017, temporary transfer or permitting the use or enjoyment of any intellectual property right shall be treated as supply of Service, thus software is covered under the above entry specifically.

Then, import of software from outside India will be considered as Import of Service, further definition of same is extracted thereafter:

As per Section 2(11) of the IGST Act

Import of services means the supply of any service where –

1. The supplier of service is located outside India;
2. The recipient of service is located in India; and
3. The place of supply of service is in India.

Further, as per Section 7(4) of the IGST Act, 2017

“Supply of services imported into the territory of India shall be treated to be supply of service in the course of inter-state trade or commerce.”

If the services are covered within the scope of 'import of service' then tax would be payable by the recipient of service under GST as per Notification No-10/2017IGST (Rate) dated 28th June, 2017

### **Conclusion:**

For the Software downloaded directly from the website or made available by way of any electronic medium shall constitute as supply of service as transfer or royalty payment received for transfer of IPR relating to software and GST at the rate of 18% under SAC-99733 shall be applicable and liability under RCM shall arise.

In case if software is imported in the form of DVD, CD or pendrive packages then it shall be classified as goods for the purpose of Import Duty and IGST rate shall be 18% as mentioned above.

### **Applicability of Research & Development Cess:**

Research & Development Cess Act, 1986: As per section 3 of Research & Development Cess Act, 1986, a cess is leviable by Central Government at a rate not exceeding 5% on all payments made towards import of technology.

According to section 2(h) of Research & Development Cess Act, 1986, “technology” means any special or technical knowledge or any special service required for any purpose whatsoever by an industrial concern under any foreign collaboration and include designs, drawings, publications and technical personnel.

To check the applicability of above, prior consideration of the definition of technology is must.

# INDORE BRANCH OF CIRC OF ICAI



*Some investments never fail,  
Knowledge is one of them..*

*Invest only few hours on VCM  
in AUGUST month and  
have knowledgeable earning  
with Dividend of CPE hrs.*

**10 extraordinary subject in a  
row to enhance your knowledge  
with structured CPE hrs.**

(\*Subject to maximum 10 Virtual CPE hrs. allowed by ICAI)



**CA. Harsh Firoda**  
(Chairman)

**CA. Gaurav Maheshwari**  
(Secretary)

**AUGUST  
2020  
Knowledge  
Mania**

**FREE  
Virtual CPE  
Meetings on  
 ZOOM**

Detailed Programme Overleaf

*For details please visit [indore@icai.org](mailto:indore@icai.org)*

# AUGUST 2020 Virtual CPE Meetings Schedule



<b>01</b> Aug.	<b>Assessment how to prepare and present before AO</b> ▶ CA Anoop Bhatia, (Jaipur) ▶ Sp. Guest : S.S. Mantri (CIT)	4to 6pm
<b>5</b> Aug.	<b>New Rules in Company Formation</b> ▶ CA Vanita Rathi	4to 6pm
<b>8</b> Aug.	<b>Programme with Capacity Building Committee</b> ▶ CA Satish Gupta (Chairman) ▶ CA Prassna Kumar (Vice Chairman)	4to 6pm
<b>11</b> Aug.	<b>RERA Symposium ( Pronouncements - Issues of Allottees - Issues of Promoter)</b> ▶ CA Vishnu Agrawal ▶ Proposed Chief Guest Mr. Anthony De-Sa (RERA Chairman )	4to 6pm
<b>14</b> Aug.	<b>Global Professional Opportunities and Networking Areas for Indian Chartered Accountants</b> ▶ CA Hansraj Chug (Chairman - Committee for Export of CA Services & WTO, ICAI)	4to 6pm
<b>19</b> Aug.	<b>Discussion on Tax Audit</b> ▶ CA Pramod Jain (Chairman, Valuation Standards Board, ICAI) ▶ Session Chairman - CA Manish Dafariya	4to 6pm
<b>22</b> Aug.	<b>Issues in Accounting &amp; Assurance in the Digital World, Security Aspect of Data and Technology</b> ▶ CA. Dayaniwas Sharma ( Chairman, Peer Review Board & VC, Digital Accounting & Assurance Board) ▶ CA Manu Agrawal (Chairman, Digital Accounting and Assurance Board)	4to 6pm
<b>25</b> Aug.	<b>GST Colloquium</b> Opportunities & aspects of GST Refund Speaker ▶ CA Priyank Mohta Compliances, Amendments & Changes in GST ▶ CA Navneet Garg GSTR 9 & 9C for 18-19 ▶ CA Ankit Somani ▶ Sp. Guest CA. Rajendra Kumar P (Chairman, GST & Indirect Taxes Committee)	4to 6 pm
<b>29</b> Aug.	<b>Internal Audit and Assurance</b> ▶ CA Anil Bhandari (Chairman, Committee on Insolvency & Bankruptcy Code)	4to 6pm
<b>31</b> Aug.	<b>Challenges and opportunities in IBC</b> ▶ CA Naveen Khandelwal	4to 6pm

**INDORE BRANCH OF CIRC OF ICAI**



Independence Day Celebration



Registered with the Registrar of Newspaper for India under No. MPBIL 01231/12/1/2008-TC

Printed Book-Post  
ICAI, Indore News Letter  
To,

Printed & Published by CA.Harsh Firoda, Chairman on behalf of the Indore Branch of Central India Regional Council of The Institute of Chartered Accountants of India, Plot No. 19-B, CA. Street Scheme No. 78, Part-II, Indore (M.P) and Printed at Profiles, 639, Sneh Nagar, Indore - 452 001 Ph.: 94250 64293, 0731 - 4061632 and published from Indore.

If undelivered please return to :  
INDORE BRANCH OF CIRC OF ICAI  
19-B, CA. Street, Scheme No. 78, Part-II,  
Indore (M.P) Tel. : 0731-2570052-53, 4298198  
Mail : indore@icai.org www.indore-icai.org

Disclaimer - The views expressed in the articles or contents published in news letter do not necessarily represent the views of office bears the approval of the Council of the ICAI or any of its Committees or the concerned Regional office or its Committees or Branch Managing Committee or Committees.