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NEWS LETTER

JAGRUTHI

THE ANANTAPUR BRANCH OF SIRC OF ICAI

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EDITORIAL



Editor Speaks...

Today it is said that our Indian economy is sound enough to face any financial eventuality and ranked as a sound economy when compared to economies of the other countries in the world. The reasons for such stabilized economy are basically the reforms from the year 1990's Globalization, Liberalization and Privatization continuation and refinement of such policies by the various governments in the centre. Further the fiscal and monetary policies followed by the Indian premier bank in balancing the pressing needs of the government on the one side and the strict financial discipline followed in implementation of such government's requirements on the other side. In many situations, the RBI has cautioned, guided and advised the government in its interference in the functioning of the various number of banks. On different occasions, though there were many differences between the Finance Ministry and RBI, fortunately wisdom prevailed on both the stake holders and now, the financial position of the country is reasonably sound which is measured by the growth in GDP and control over the Inflation. The most alarming issue now a days is the increase in the quantum of NPAs in all the Financial Institutions. The figures of NPAs available are based on the statistics furnished by various banks which are duly audited by the respective auditors. But still there is doubt as far as the correctness of the figures that are concerned. Drastic steps have to be taken by the management of various banks to control the growth of NPAs and to restrict the increase in such NPAs. Mere pumping of funds by government into the bank is not a sound solution. All the Chartered Accountants who are concerned with the banks' financial statements may take a special care in reducing the quantum of present NPAs and to make efforts not to go beyond the existing rate of NPAs. Chartered Accountants who act as Auditors of the banks can continuously update their knowledge in audit of banks by attending certification course of Concurrent Audit and other Seminars. This will help the auditors to gearup with present operating environment of the banks for example core banking system followed by banks can be better audited by attending certificate course offered by ICAI.

With Best Wishes,

CA D.ARAVIND RAMA

CHAIRMAN

NEWSLETTER COMMITTEE

ANANTAPUR BRANCH OF SIRC OF ICAI

CHAIRMAN'S MESSAGE



Dear Members,

I hope Members might have completed their Statutory Bank Branch Audit works by this time. The branch audit is a Challenging task because the time available at our disposal is very limited within which we have to complete the audit without compromising quality and satisfaction. I am sure all of our Members who got audit might have completed their work within the stipulated time.

Unlike the other professions of Medicine or engineering, CA has some Uniqueness. It is unique in the sense, that it has to cater to the diverse, different and at times opposing needs or expectations of different groups/ services recipients like the government, clients and the public at large at the same time. At times, a CA may be called upon to report against his clients from whom he takes fees as remuneration which is his livelihood. This requires grit, determination and an inner zeal to uphold the professional ethics. Let us resolve to uphold the highest integrity in discharging our professional assignments. Let us also resolve to upgrade our professional skills and knowledge which is essential to raise the standard of our professional services.

We have conducted Mock Test I & II for IPCC and Final for MAY 2016 Exam on 14.03.2016 to 22.03.2016 and 11.04.2016 to 21.04.2016 respectively and the students response was good. We are also planning to conduct Mock Test for CPT on 28.05.2016 for JUNE,2016 Exam. We are also going to conduct ITT 26th,27th and 28th batches from 19.05.2016

To 22.06.2016, OP from 26.06.2016 To 01.07.2016 and GMCSI from 26.06.2016 To 11.07.2016

I request all the members to take active part in the institute programmes, as your presence will encourage us to organize many more programmes of professional interest.

**“Use what talents you possess, the woods will be very silent if no
- Birds sang there except those that sang best”,** says Henry
Van Dyke and hence it is important the talent possessed in
used effectively in all possible manner though it may
not be the best.

**HAPPY BANK AUDIT AND FESTIVAL DAYS
We are with you**

**CA.Dr.A.G.VENUGOPAL REDDY
CHAIRMAN**

Issues of Interest to Members



CA DR D. HARISCHANDRA RAMA

Contributor is a member of ICAI

1. Profit on transfer of unlisted shares is to be treated as “Capital Gains” for Income Tax purposes, irrespective of the holding period – a step which removes tax ambiguity and gives a fillip to private equity activity. This move by CBDT is expected to provide uniformity in the characterization of income on unlisted shares, thereby avoiding litigation and easing tax payers’ concern. Prior to this, there was uncertainty over whether such gains should be treated as “Capital Gains” (Capital Asset) or “Business Income” (Stock in Trade).
2. Modification of TDS due dates from 1st June 2016

June Quarter	– 31 st July
September Quarter	– 31 st October
December Quarter	– 31 st January
March Quarter	– 31 st May
3. Exemption u/s 10 (23C) [III AB] of the I.T. Act 1961 – In case of Visvesvaraya Technological University v/s Assistant Commissioner of Income Tax – It is mandatory for the assessee to comply / satisfy the following two conditions to avail benefit of exemption.
 - (a) The Educational Institution or the University must be solely for the purpose of education and without any profit motive.
 - (b) It must be wholly or substantially financed by the government.

Both conditions will have to be satisfied before exemption can be granted under the afforded provision of the Act.

4. CBDT notifies new form 35 for e-filing of appeal with CAT(Appeals) – I.T. notification 11/2016.
5. Tips are not salary income but taxable under “Income from other sources” – ITC Ltd., Gurgaon Vs Commission of I.T. (TDS - Delhi) (Supreme Court).
6. Verification of ITR through EVC pending due to non-filing of ITR – V -. Circular No: 13/2016, New Delhi 9th May 2016.

KNOW YOUR ETHICS

1. Can a member who is in part-time / full-time employment apply for Certificate of Practice and do attest functions?
A. Yes, He can apply for Certificate of Practice but cannot do attest function.
Please refer Regulation 190A of the Chartered Accountants Regulations, 1988.
2. Can a member act as a Tax Auditor and Internal Auditor of an entity?
A. No, the council has decided that Tax Auditor of an entity cannot act as an Internal Auditor of the same entity, or vice-versa for the same financial year.
3. Whether the members are required to intimate their website address to the Institute?
A. No, members are not required to intimate the website address to the Institute. However, the member has to comply with the Website Guidelines issued by the Institute in this regard.
4. Can a member or firm advertise his/its services?
A. Yes, a member or firm may advertise his/its services in a restricted manner in compliance with the Advertisement Guidelines issued by the Council on 14th May, 2008.
5. Whether the practice of issuing Auditor's Report on letter head of the firm is correct?
A. The Ethical Standard Board at its 126th Meeting held on 10th January, 2014 approved of the practice of issuing Auditor's Report on Letter Head of the Firm. Accordingly, the Auditor's Report should be issued on Letter Head of the Firm.
6. Can a Chartered Accountant in practice allow any person to practice in his name as a Chartered Accountant?
A. No, Clause(1) of part-1 of the First Schedule to the Chartered Accountants Act, 1949 prohibits a Chartered Accountant in practice to allow any person to practice in his name as a Chartered Accountant unless such person is also a Chartered Accountant in practice and is in partnership with or employed by him.
7. Can a practicing Chartered Accountant secure any professional business through the services of a person who is not his employee or partner?
A. No, Clause (5) of part-1 of the First Schedule to the Chartered Accountants Act, 1949 prohibits a practicing Chartered Accountant from securing any professional business, either through the services of a person who is not an employee of such Chartered Accountant or who is not his partner.

8. Whether member in practice is permitted to respond to announcement for empanelment for allotment of audit and other professional work and quote fees on enquiries being received?
- A. It has been clarified by the council under proviso (ii) to clause (6) of the part-1 of the First schedule of the Chartered Accountants Act, 1949 that if announcements are made for employment by the Government, Corporations, Courts, Co-operative Societies, Banks and other similar institutions, the members may respond to such announcements provided the existence of a panel is within their knowledge. The council has further clarified that the quotations of fees can be sent, if enquiries are received by the members in this regard.

Compiled from the Institute's Journal

"THE CHARTERED ACCOUNTANT"

BY **CA. DR. D. HARISCHANDRA RAMA**

LATEST CASE LAWS IN INCOME TAX

SECTION 11

Charitable trust – Computation of income – Depreciation on asset, cost of which claimed as application of income

Assessee-trust claimed depreciation on assets, cost of which was claimed as applicable of income. AO disallowed the same on the ground that it amounted to double deduction.

Held: when assessee had acquired an asset from the income of the trust and thereafter the amount that was claimed was the depreciation on the use of the assets, such depreciation claim did not mean double deduction. The deduction earlier claimed was towards application of funds of the trust for acquiring assets. The latter was depreciation and it was permissible deduction considering the use of the assets.

Followed: CIT v. Institute of Banking (2003) 264 ITR 110 (Born).

DIT v. Shri Vile Parle Kelavani Mandal 2015 TaxPub(DT) 4996 (Born-HC) : (2015) 378 ITR 593 (Born).

SECTION 14

Head of Income – Business income or income from house property – Rental income from letting out of commercial complex.

Assessee-company was deriving rental income from letting out of commercial complex. It had declared the said income under the head 'Business'. While completing the assessment, the AO completed the rental income under the head 'Income from house property' on the ground that the assessee had not engaged in any business activity but had given its premises on rent. The CIT(A) confirmed the action of AO. The Tribunal also dismissed the appeal of assessee. The High Court held that since the assessee had not engaged in any business activity, income received from letting out of the property was rightly assessed by the AO as 'Income from house property'. Assessee filed special leave petition against the order of High Court.

Held: The Special Leave Petitions filed by assessee were dismissed.

Keyaram Hostels (P.) Ltd. v. Dy. CIT, 2015 TaxPub(DT) 5505 (SC) : (2015) 235 Taxman 512(SC).

SECTION 14

Head of income – Income from house property or Business income – Rental income from letting out terrace to telephony company.

The assessee had let out terrace of the building and a small portion of ground floor to M/s. Reliance Infratel to erect a telephone tower. The assessee received rental income and declared the same as business income. However, the AO assessed the same under the head "Income from house property".

Held: The telephone towers are essential for a telephone company to provide communication services to its customers. The installation of towers involves phone company or the company providing services to the telephone company, could not have accepted installation of the same for a shorter period. Further, the assessee had let out the terrace, which means, it had let out the space which was not required for it. Hence, the claim of

letting out on a temporary basis, did not apply to the facts surrounding the rental receipt. The intention of the assessee in letting out the terrace to a telephone company for enabling it to erect a tower could only be with the intention to earn rental income. Hence, AO was justified in assessing the rental income received under the head "Income from house property".

Dy. CIT v. Sameera Electronics (P) Ltd. 2015 TaxPub(DT) 4692 (Mum 'E'-Trib)

SECTION 36(i)(iii)

Business deduction under section 36(1)(iii)–Interest on borrowed capital – Disallowance out of interest expenditure – Assessee having sufficient fund to cover interest-free loan.

Assessee claimed interest and finance charges which included interest on term loan for its two projects. Though, it had reserve and surplus, but it had given interest free loan to four parties. Since assessee had diverted the borrowed funds in interest free loans, AO had disallowed the interest and finance charges, against which an appeal was filed before CIT(A) with the submission that the borrowed funds from the bank was utilized in the business activities of assessee. Therefore, the payment of interest and finance charges to bank be allowed as it was incidental to the business of assessee. CIT(A) deleted the addition made by AO observing that the interest was paid on the borrowed funds used for the business purposes. Moreover, AO had not brought out any material on record to prove that the borrowed funds from the bank on which interest and finance charges were paid, was diverted by assessee in providing interest free loans.

Held: When assessee was having sufficient reserve and surplus and AO could not establish that assessee had diverted the borrowed funds for non-business purposes and in advancement of interest-free loans, no disallowance of interest payment could be made.

SECTION 37(1)

Business expenditure – Ad hoc disallowance – Vouchers not verifiable

AO made ad hoc disallowance of 20 per cent of the repair expenses on the ground that repair expenditures were not open for verification, as vouchers were not produced. CIT(A) restricted the allowance to 10 per cent.

Held: There was no justification to disturb the findings of CIT(A) in restricting disallowance of repair expenditure to 10 percent, therefore, the order of CIT(A) was confirmed.

Dy. CIT v. Commercial Motors Ltd. 2015 TaxPub(DT) 4404 (Luck-Trib)

SECTION 37(1)

Business expenditure – Ad-hoc disallowance – Various business expenses

AO made addition on account of disallowance on various business expenses amounting to Rs. 3,70,502 which was confirmed by CIT(A). Assessee in further appeal contended that addition was unjustified and in any case, very high and excessive.

Held: AO had made addition which was not permissible in law. Accordingly, order of CIT(A) was set aside and addition deleted.

Nav Shakthi Ice & Cold Storage (P) Ltd. v. Dy. CIT 2015 TaxPub(DT) 4224 (Luck 'A'-Trib)

Compiled By C.A. Dr. D. Harischandra Rama,
B.Com, F.C.A. DISA (ICAI), Ph.D.,

RECENT CHANGES IN TAX MATTERS AS PASSED BY LHE LOKSABHA ON 05-05-2016



B. A. Pradeep Kumar
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www.pradeepkumar.net.in

Finance Bill 2016 is passed by the Lokasabha on 05-05-2016 and the changes which will be applicable for Assessment Year 2017-18 and procedural sections will be effective from 1st June 2016 and main issues are as under:

1. Tax Audit and accounts governed by Section 44AA, 44AB, 44AD and 44ADA of Income tax Act and audit will be compulsory in the case of profession if gross receipts exceeds Rs 50 Lakhs and in the case of Business RS 2 Crores. For profession more than 50% to be admitted as income to avoid audit. And in the case of Business more than 8% of turnover to be admitted as Business Income to avoid audit. When an eligible assessee declares profit for any previous year not in accordance with the provisions of Section 44AD and declares profit for any of the five assessment years relevant to the previous year succeeding such previous year, he shall not be eligible to claim the benefit u/s 44 AD for 5 Assessment Years subsequent to the Assessment Year. The Government wants indirectly audit mandatorily since compliances and disclosures will be available in the tax audit and mechanism will help broaden the tax base.
2. Section 50C : Account Payee Cheques/DD, Use of Electronic Clearing System for advances to have made to obtain the benefit of SRO value at the time of agreement entered for immovable properties.
3. Section 80 GG Eligible Deduction Rs. 5000/- Per Month for the rent paid
4. Rebate u/s 87A increase from Rs. 2000 to Rs 5000/-
5. Additional surcharge 3% (12% to 15%) on individual having total income exceeds Rs. 1 crore. Companies incorporated after 01.03.2016 are to be given an option to use Corporate Tax Rate 25% plus surcharge & cess provided they do not claim the benefit of accelerated depreciation & investment linked deduction. Corporate tax rate for companies having turnover upto 5 Crore in the financial year ending March 2015 reduced from 30% to 29% plus surcharge & Cess as applicable.
6. With a view to encourage "HOUSING FOR ALL" project it is proposed to provide 100% tax exemption limit for the assessee engaged in developing & building affordable housing provided if such project is approved by competent authority before 31.03.2019 & completed within 3 years from the date of approval under new inserted section 80IABA.
7. Addition deduction of Rs 50000/- under new section 80EE on account of Interest on home loan for "First Home Buyers" provided amount of Loan & Value of property does not

exceeds Rs 35 Lacs & 50 Lacs respectively .This benefit is over & above benefit specified u/s 24(b).

8. Gross dividend received by Individuals, HUF & a Firm resident in India is taxable @10% if amount of such dividend exceeds Rs.10 Lacs.
9. Belated Return u/s 139(5) must be filled before the end of relevant AY & completion of assessment whichever is earlier & belated return can also be revised
10. Advance tax like corporate and so for all Assesses i.e. for the Assessment Year 2017-18 as under:

a. One or before 15 th June	More than 15% of tax
b. On or before 15 th September	More than 40% of tax
c. On or before 15 th December	More than 75% of tax
d. On or before 15 th March	100% tax
e. In the case of 44AD	Advance tax before 15 th March

11. Concealment penalties discretions removed. Under New Section 270A: Under Reported Income 50% of the Amount of tax payable, and in the case of mis-reporting of Income 200% of the Amount of tax payable

12. Tax Deducted at Source rationalized and from 1st June 2016 as under:

NO TDS	TDS RATE	
194BB Winnings from Horse Races	10,000	30%
194 C Contracts	1,00,000	1-2 (appl)
194D Insurance Commission	15,000	10%
194DA Life Insurance	1,00,000	1%
194EE NSS	2,500	10%
194G Commission on sale of lottery	15,000	5%
194H Commission or brokerage	15,000	5%
194LA Pay of Compensation	2,50,000	10%

7. THE DIRECT TAX DISPUTE RESOLUTION SCHEME, 2016: HIGHLIGHTS OF "THE DIRECT TAX DISPUTE RESOLUTION SCHEME"

One-time scheme of Dispute Resolution for past cases ongoing under retrospective amendment. One can settle the case by paying only the tax arrears in which case liability of the interest and penalty shall be waived.

A taxpayer who has an appeal pending as of today before the Commissioner (Appeals) can settle his case by paying the disputed tax and interest up to the date of assessment.

No penalty in respect of Income-tax cases with disputed tax up to Rs. 10 lakh will be levied.

Cases with disputed tax exceeding Rs. 10 lakhs will be subjected to only 25% of the minimum of the imposable penalty.

Any pending appeal only against a penalty order can also be settled by paying 25% of the minimum of the imposable penalty. In addition, in the case of specified tax, only the amount of such tax so

determined” is to be paid.

- A. Once the declaration is filed, the designated authority will within SIXTY days, determine the amount payable and grant a certificate intimating the details of tax payable;
- B. The amount shall be paid within THIRTY days and intimate with proof of payment; Thereafter the designated authority will grant immunity from further proceedings in respect of the proceedings.
- C. Where the declarant violates the conditions of the scheme, it shall be presumed as if the declaration was never made and the pending proceedings/appeal shall be deemed to have been revived.
- D. This is subject to agreeing to withdraw any pending case lying in any Court or Tribunal or any proceeding for arbitration, mediation etc. under BIPA.

The Income Declaration Scheme 2016:

Disclosure made in the four months Compliance Window beginning June, 1, 2016 till 30th September 2016 will be confidential. It provides an opportunity to persons who have not paid full tax in the past to come forward and disclose the undisclosed income and pay tax @30% of declared income, , surcharge (Kriwshi Kalyan Cess) @ 7.5% on declared income and penalty 7.5% of declared income . Thus the total amount payable shall be 45% of declared income. Where the income chargeable to tax is declared in the form of investment in any asset, the fair market value of such asset, as on the date of commencement of this scheme shall be deemed to the undisclosed income.

INDIRECT TAXES:

- 1. Krishi kalyana Cess from 01-06-2016 0.5% on the value of such services. So total Service tax rate will be 15% from 01.06.2016

Revised interest for delayed payment of service tax: Collection of any amount as service tax but failing to pay the amount so collected to the credit of the Central Government on or before the date on which such payment becomes due 24% Per Annum. Other than the situation 15% Per Annum from 01.06.2016.

ANNOUNCEMENTS FROM ICAI

Dear Sir/ Madam,

We take the opportunity to request you to renew your membership for the year 2016-17 with the Institute by remitting the annual membership/certificate of practice fees, which become due for payment on 1st April, 2016 and need to be paid on or before 30th September, 2016.

We appreciate the importance of time of our members. Now, you can save your valuable time and pay membership fees effortlessly, conveniently and quickly, through an online payment mode. Kindly visit our e-services through the following link http://www.icai.org/new_post.html?post_id=5509.

Kindly note that Members, who have already paid advance fee for the earlier years, may please pay the balance fee / difference of the fee payable. It may please be noted that payment of balance fee/difference of fee is a must for renewal of membership / certificate of practice, as the case may be.

We shall be grateful if you could kindly spare a few minutes to go through the relevant links and use them for making the payment. Your voluntary contribution towards CABF for helping the members and their families in distress would be greatly appreciated.

Thanking you,

Yours faithfully,
V. Sagar
Secretary

Members can pay fee online with the following link:

<http://online.icai.org/memfee.html>

Flash:

The editorial board is glad to inform to all the members that one of our well wisher C.A. J. Venkateswarulu's (past central council member and past chairman of SIRC) daughter **Ms. J. Sneha** who is a qualified Chartered Accountant in the **first attempt** in 2011 has secured a Rosy Rank **103** in recently declared CIVILS results. All, we the members, of the profession are proud of our Chartered Accountant Colleague getting a rank in CIVILS. Let us wish her all success.

Appeal:

The members of our branch are requested to contribute articles of interest to our News Letter.

QUOTATIONS FOR THE MONTH

- ✚ To be kind is more important than to be right. Many times, what people need is not a brilliant mind that speaks but a kind heart that listens.
- ✚ Ships do not sink because of the water around them. Ships sink because of the water that gets into them. Do not let what is happening around you, get inside you and weigh you down.
- ✚ No matter how many times the teeth bite the tongue, still they stay together in the same mouth. That is the spirit of forgiveness.
- ✚ Positive attitude / thinking may not guarantee success, but negative thinking definitely guarantees failure. So always think positive and have positive attitude

Note: The opinion of the authors is not the responsibility of the Editorial Board.

Some memories from the CPE program conducted at Anantapur Branch of SIRC on 12.03.2016 on Finance budget 2016-17 and installation of New Committee Members for the year 2016-17.

Felicitation of past Chairman [Sri. C.A. B. Srinivasa Kumar](#) of Anantapur Branch



Felicitation of Incoming Chairman [Sri. C.A. Dr. A.G. Venu Gopal Reddy](#) of Anantapur Branch



Lightening of Lamp by the Members

