The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)

# AMRITSAR BRANCH OF NIRC STUDENT NEWSLETTER NOVEMBER 2020

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Chairman

# From the Desk of the Chairman..

**आनृशंस्यमनुक्रोशः श्रुत शीलं दमः शमः।**
**राघवं शोभयन्त्येते षड्गुणाः पुरुषोत्तमम्।।**

***Non violence, compassion, learning, truthful nature, self-control and tranquil – these six virtues adorn Rama, the best of men***

**अहिंसा, दया, वेदशास्त्रों का ज्ञान, सुशीलता,**
**आत्मसंयम और शान्त चित्त, ये छः गुण राघव (मर्यादा पुरुषोत्तम) को शोभा देते हैं।**

**Esteemed Professional Colleagues**

**जय श्री राम**

Wish you all a very **HAPPY DIWALI** – Hope you are spending it with your loved ones

Hope that this communication finds you in the best of health and spirits. This issue of newsletter covers the topic of Capital Gains and I am pleased to share that branch is coming up with the varied sessions on Direct and indirect taxes issues and global professional opportunities-SMP Perspectives for the members. We have started a series of article on "New code of ethics" covering all the important aspects of Schedule I &II for the benefit of members. I am thankful to CA Bhavesh Mahajan for his valuable contribution in monthly Newsletter Series. Living in a dynamic and competitive world, it is obvious that we all have to comprehend ,analyze and respond to challenges of the future. From the perspective of global standards setting we have confidence that new restructured code of ethics is "Future Ready". It captures the critical areas of Practice its structure offers a sound platform for adjustments to the changing circumstances and practice.

Members, it fills my heart with great pride to inform that, by the end of year 2020, we will finally succeed in clearing title of our Branch building for registration purpose and signing the MOU with Khalsa College to open new avenues for the profession. This Diwali gift to all of us is indeed a team effort of the entire executive team and Past Chairmen.

Friends, I humbly request you to ask your clients to avail the golden opportunity to settle the income tax disputes through Vivad Se Vishwas Scheme 2020. Together we should contribute our share of taxes timely and play a vital role in building India of dreams. CA is just not a two-letter word but matter of pride, dignity and accountability, we being an integral partner in nation building always stand shoulder to shoulder with the income tax department and let us make this scheme a success.

I along with my entire executive team express sincere gratitude for love, support and guidance you have been pouring on us.

Stay Safe Stay Healthy

November, 2020

With Warm regards.
CA SANJAY ARORA
B.Com., F.C.A., D.I.S.A., (ICAI)
**Chairman, 2020-21**
**Amritsar Branch of NIRC of ICAI**

## *From the Desk of the* Secretary...

**Dear Students,**

**Warm Greetings,**

First of all, We with immense delight present our members a special edition on the Topic of Capital Gains under the Income Tax Act, 1961. for the month of November 2020.

We are also thankful to CA Bhavesh Mahajan Past Secretary Amritsar branch for giving article on Second Schedule of New Code of Ethics in this edition.

As all of us know, Due to outbreak of ongoing pandemic i.e. genuine difficulties being faced by the taxpayers and professionals, relaxation has been given and Due Dates for filing Tax Audit and Transfer Pricing Audit has been extended to 31st December, 2020 & 31st January, 2021.

During the month of October 20, The members were busy in the Tax and other Audits and in filing GST Audit/Annual Returns until the extension of due dates of TAR and GST Audits Audits. Amritsar branch organized three CPE Hour programs i.e Virtual CPE meetings as per demand of members one of which was conducted on 3rd October on the Topic of GST Annual Return and GST Audit by eminent speaker CA Aanchal Kapoor. Secondly another important Virtual CPE meeting of Three hours was organized jointly with Internal Audit standard Board of ICAI on the Topic of Mentoring SMPS-Internal Audit. The VCM was addressed by CCM CA Charanjot Singh Nanda, Chairman IASB of ICAI. CA Samit Saraf and CA Hardik Chokshi were the eminent speakers for the program. After due date extension of TAR etc, We organized Virtual CPE meeting on 27th Oct.,20 on the topic of Recent amendments in TCS provisions as per Income Tax Act, 1961 by keynote and new speaker CA Gaurav Aggarwal. Members after Diwali, We are going to organize some important CPE Virtual meetings by some reknowned experts and speakers of Income Tax and GST. Team Amritsar branch is continuously making efforts for the benefits of members to update their professional knowledge through Virtual tools as per comfort of members.

Dear Students,

**"When you have a dream, you've got to grab it and never let go"**

***- Carol Burnett***

Exam Month is on for the students. Most of the students are busy in studies as Exams are going to start from 21st November and will continue till the mid of December 2020 as per revised Schedule notified on 27th Oct 2020. ICAI has made best efforts for this exam. Keeping in view the Covid- 19 Pendemic, ICAI has also issued guidelines to be taken care during the exams by the students. ICAI has also increased the number of exam centres for the convenience of students. As per guidelines social distancing between the students in the class has been special attention. ICAI is very much promising this time to conduct exams. So all of you should concentrate on your studies with your best efforts. Do not leave any stone unturned to crack the upcoming exams. Forget the future and keep your eye on the upcoming exam only. Best of luck to all students for the Nov 2020 Exams.

Keep yourself safe and stay healthy in the pandemic.

With Warm regards.
Sd/-
**CA Shashi Pal**
Editor in Chief
Secretary, ICAI Amritsar Branch

November, 2020

Secretary

## From the Desk of the Chairperson....

**Dear Students,**

First Of all I would like to Take an opportunity to present my warm greetings on the auspicious occasion of Diwali. May this Diwali brings lots of prosperity good health and exuberance in your life.

This time we have covered Few topics of capital gain in our Newsletter. Capital gain is denoted as the net profit that an investor makes after selling a capital asset exceeding the price of purchase. The entire value earned from selling a capital asset is considered as taxable income. To be eligible for taxation during a financial year, the transfer of a capital asset should take place in the previous fiscal year.

Financial gains against a sale of an asset are not applicable to inherited property. It is considered only in case of transfer of ownership. According to The Income Tax Act, assets received as gifts or by inheritance are exempted in the calculation of income for an individual.

Buildings, lands, houses, vehicles, Mutual Funds, and jewelry are a few examples of capital assets. Also, the rights of management or legal rights over any company can be considered as capital assets. Rest there are many topics covered in detail which you will enjoy reading newsletter.

Thanks & Regards!
Sd/-
**CA Palak Bansal**
Chairperson
NICASA Amritsar Branch.

November, 2020

Chairperson

**CA PADAM BAHL**
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**Shri. Padam Narain Bahl,** qualified as a Chartered Accountant in 1974. He served for a period of 5 years and started his practice in March, 1979. He has specialized in Income Tax Practice and has handled search cases and appellate proceedings before CIT(A) and ITAT.

He was a chairman of NIRC in 1998-99 and also represented the Chartered Accountants in tax payers committee. He has followed the principle of "Honesty is the Best Policy" throughout his life. He has always been instrumental in standing by the cause of the CA fraternity and has always helped his fellow colleagues.

**Sh Pardeep Kapoor**

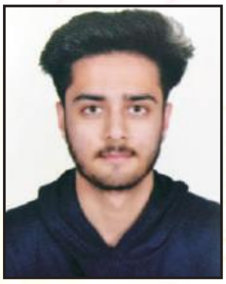
# OUR MENTOR

Sh Pardeep Kapoor, one of well reputed and renowned senior faculty member qualified in November 1975, has an experience for more than 45 years in the field of Taxation, Law, banking & Finance.

His struggles and sacrifices during his initial tenure of graduation and article ship has paid off well in the terms of reputation and honor.   After a lot of hard work in the early stages of practice, he has achieved to this level.

His approach towards life and profession is simple and straightforward. His actions lay down the foundation of integrity and truthfulness. His dedication towards his work has not only empowered him but also many other fellow members. Out of courtesy and gratitude towards life, he has invested his time and money for various good causes and towards that is worth doing and giving.

His work and behavior not only set examples for many upcoming members as well as students but also act as a light on the path of profession and beyond.



# CAPITAL GAIN

**ANUJ MOHINDRA**
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## INTRODUCTION AND MEANING

Capital Gains plays an important role in our economy since the tax on capital gains directly affects investment decision, the mobility and flow of risk capital from static to dynamic situations and thereby the strength and potential for growth of economy. Capital gain is one of the substantial head of income. It refers to an increase in a capital asset's value. Simply, capital gain is realized when a person sells a capital asset. A capital gain may be short-term or long-term and must be claimed on income taxes.

## MEANING OF CAPITAL ASSETS-

Capital asset is defined as-

(a) Any kind of property held by an assessee, whether or not connected with business or profession of the assessee.

(b) Any securities held by a FII which has invested in such securities in accordance with the regulations made under the SEBI Act, 1992.

However, the following items are excluded from the definition of “capital asset”:

i. any stock-in-trade (other than securities referred to in (b) above), consumable stores or raw materials held for the purposes of his business or profession ;

ii. personal effects, that is, movable property (including wearing apparel and furniture) held for personal use by the taxpayer or any member of his family dependent on him, but excludes—

iii. (a) jewellery; (b) archaeological collections; (c) drawings; (d) paintings; (e) sculptures; or (f) any work of art.

## CLASSIFICATION OF CAPITAL ASSETS ON THE BASIS OF PERIOD OF HOLDING-

Capital assets can be classified as long term and short term based on their period of holding-

1) Assets like securities listed in recognised stock exchange, unit of equity oriented funds, units of UTI and zero coupon bonds are classified as short term if they are held for 12 months or les.

2) Unlisted shares, land and building are termed as short term if they are held for 24 months or less.

3) And units of debt oriented fund, unlisted securities other than shares and other remaining assets are considered as short term if they are held for 12 months or less.

If the above mentioned assets are held for 12, 24 and 36 months respectively then they are classified as long term capital assets.

## METHOD OF CALCULATING STCG -

1) First of all we need to ascertain the full value of considerations from the sale of capital asset.

2) Then we have to deduct following from the full value of consideration calculated as above

i) Expenditure incurred on sale of capital asset

ii) Cost of acquisition

iii) Cost of improvement

3) The amount ascertained from above is short term capital gain.

## METHOD OF CALCULATING LTCG-

1) Similarly here also we have to ascertain the full value of consideration from sale proceeds.

The Finance Act, 2018 inserts a new Section 112A with effect from Assessment Year 2019-20. As per the new section capital gains arising from transfer of a long term capital asset being an equity share in a company or a unit of an equity oriented fund or a unit of a business trust shall be taxed at the rate of 10 per cent of such capital gains exceeding Rs. 1,00,000. This concessional rate of 10 per cent will be applicable if:

2) Then we have to deduct following from the full value of consideration

i) Expenditure incurred on sale of capital asset

ii) Indexed cost of acquisition

iii) Indexed cost of improvement

3. The value determined above is long term capital gain.

## TAX TREATMENT ON CAPITAL GAINS -

Tax on capital gains is charged in the financial year in which the capital asset is transferred but the tax is considered to be payable from the financial year in which the sale proceeds are actually received by the assessee .

As per section 111A of Income Tax Act ,Short term capital gain from sale of equity shares or equity oriented mutual funds on which STT is charged on sale transactions are taxed at 15% plus cess of 4%

While other assets are taxed at normal slab rates of an individual in case of short term capital gain.

In case of long term capital gain tax rate is 20% plus 4% cess generally but in case of sale of equity shares or unit of equity oriented bonds as per section 112A of Income Tax Act, on which STT is charged are taxed at 10% over and above the gain of Rs 1,00,000/- but no indexation is allowed in this case.

## INTRODUCTION TO SECTION 112A-

Budget 2018 proposed to remove Section 10 (38) of the Income Tax Act, 1961. As per this section, the long-term capital gains arising on sale of equity shares or units of an equity-oriented mutual fund on which Securities Transaction Tax (STT) is paid was exempt from taxation. This section was initially introduced through the Finance Act, 2004, with effect from AY 2005-06, based on the Kelkar Committee report to attract investments from Foreign Institutional Investors (FII).

The provisions of this section apply from the financial year (FY) 2018-19, i.e. AY 2019-20. This otherwise means any transfer carried out after 1 April 2018, resulting in LTCG above Rs 1 lakh, will attract tax at the rate of 10%.

The concept of Grand fathering

When a new clause or policy is added to a law, certain persons may be relieved from complying with the new clause. This is called grandfathering.

Grandfathered persons enjoy the right to avail concession because they have made their decis ions under the old law. The concept of grandfathering in the case of LTCG on sale of equity investments works as follows :

The concept of grandfathering in the case of LTCG on sale of equity investments works as follows-

A method of determining the Cost of Acquisition of such investments have been specifically laid down as per the of such investments shall be deemed to be the higher of :

The actual Cost of Acquisition such investments; and The lower of-

Fair Market Value of such investments; and The Full Value of Consideration received from the transfer of the capital asset highest price quoted on the recognised stock exchange on 31 January 2018.

And Capital Gain will be calculated

Capital Gain = Sale Price – Revised Cost of Acquisition

## EXEMPTIONS ON CAPITAL GAINS-

In case of capital assets like house property significant amount of money to be paid in taxes can be lowered by taking the benefit of the exemptions provided by the income tax act on capital gains when profit from sale is reinvested into buying another asset.

Section 54- Exemption on sale of house property on purchase of another house property.

The exemption under section 54 is available when the capital gains from the sale of house property are reinvested into buying or constructing two another house property, provided that capital gain does not exceed Rs 2 crores . The taxpayer has to invest the amount of capital gains and not the entire sale proceeds. If the purchase price of the new property is higher than the amount of capital gains, the exemption shall be limited to the total capital gain on sale.

Section 54F- Exemption on Capital Gains on sale of any asset other than a house property. For taking the exemption under Section 54F a person must invest the entire sale consideration and not only capital gains to buy a new residential house property

Section 54EC- Exemption on sale of house property on reinvesting into specific bonds- Exemption is available under Section 54EC when capital gains from sale of the first property are reinvested into specific bonds If you are not keen to reinvest your profit from the sale of your first property into another one, then you can invest them in bonds for up to Rs. 50 lakhs issued by National Highway Authority of India (NHAI) or Rural Electrification Corporation (REC).

## METHOD OF HARVESTING AND REINVESTING TO IMPROVE TAX EFFICIENCY

Since, any realised gain from equities over and above Rs 1 lakh in a financial year is taxable at 10%. While small investors would typically not cross this threshold in a year, the gains when allowed to run over many years can balloon to such limit. For instance, if you invest Rs 15,000 per month in equity funds, even 12% annualised returns will lead to taxable capital gains within three year. While, those who have accumulated a large equity portfolio will also have higher incremental gains.

To prevent gains from building up, experts suggest harvesting. This means booking a portion of your profits and reinvesting the proceeds. So you sell a part of your equity holdings to book long term capital gains , and then buy back the same shares or mutual fund units. Let us suppose you bought 1,000 shares of a company at Rs 80 a share on 1 January 2019 and the stock rose to Rs 130 as of 3 January 2020.

In this scenario, you would have made long term gains of Rs 50,000 as the holding completed one year. If you sell the shares immediately and buy them back in a few days, your acquisition price and date will be reset to the new purchase price and date of reacquisition. In reality, the share price will fluctuate in the interim. But for the sake of simplicity, let us assume the new purchase price is Rs 130. Now if the stock rose to Rs 200 in another 12 months ,your gains on selling the shares will only be Rs 70,000 and still tax free as it is below the Rs 1 lakh threshold. On the other hand, if you allow the gains to run into the second year, your gains would become Rs 1.2 lakhs. Of this, Rs 20,000 would be subject to tax at 10%.

## CONCLUSION –

A capital gain is the difference between the cost got from offering an asset and the cost paid for it or in other words when we purchase any sort of property at a lower cost, and afterward therefore offer it at a higher value, we make a gain. Capital gain is to be interpreted as meaning the benefit realized the assesssee from the exchange of capital asset. Such capital gain is to be considered under the head of income from capital gains of the previous year in which the exchange of the asset occurred.

Source: Income Tax Act,
Economic Times, Articles,google

**ANUJ MOHINDRA**
NRO0449337

# Executive Summary of the Article "Post Covid Indian Economy"

**VAIBHAV AGGARWAL**
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This report is a snapshot into what Indian economy could look like in future and contains concrete recommendations to achieve the objectives. It opens up with a brief highlight on the "Current state of our economy". After that, the main subject i.e. **a vision of our probable future economic state** is discussed as "Defining characteristics of the future India".

Then, "Steps taken to exploit opportunities", outlining the various initiatives taken by the government are listed.

After that, "Concrete practical recommendations" are mentioned.

Lastly, "Projections on rebounding of economy" (accompanied by a graphical representation) is detailed out, which says that by FY 2022, India will be fully revived to the pre-Corona levels and after that could grow at exponential levels, among the highest in the world.

# POST COVID INDIAN ECONOMY

Before the Covid crisis, India had been witnessing a pre-pandemic slowdown, due to Demonetization & numerous banking crises, and the current epidemic has, according to the World Bank, “magnified pre-existing risks to India's economic outlook”. The Covid – 19 pandemic has been largely disruptive all across the globe. India is no exception.

## Current state of our economy

GDP growth in fourth quarter of Fiscal 2019-2020 dipped to 3.1%, according to the Ministry of Statistics. Rating agencies and World Bank have projected lowest growth rates for FY 2020-21 that India has seen since economic liberalization in 1991. Unemployment rose from 6.7% on 15 March to 26% on 19 April and then back down to pre-lockdown levels by mid-June. The Indian economy was expected to lose over US$4.5 billion every day during the first 21-days of complete lockdown. Barclays said the cost of the first 21 days of shutdown as well as the previous two shorter ones will total to around US$120 billion. Up to 53% of businesses have specified a certain amount of impact of shutdowns caused due to COVID-19 on operations, as per a FICCI survey in March. By 24 April the unemployment rate had increased nearly 19% within a month, reaching 26% unemployment across India. Venture capital in Indian startups in the total growth stage funding has fallen over 50% in Q1 2020 from Q4 2019. Supply chains have been put under stress with the lockdown restrictions in place; a large number of farmers around the country who grow perishables also faced uncertainty. Sectors such as hospitality, airlines, transport and tourism have been affected 'disproportionately'. Former CEA Arvind Subramanian said that India would need a ₹10 trillion (US$140 billion) stimulus to overcome the economic contraction

From the above, it is clear that our present economic state is far from being satisfactory but the subject of this article is our probable future economic state.

**Defining characteristics of the future India**

1. Outsourcing hub : The grave impact of Covid in First world countries, especially US, can open up India's market in non-core sectors like IT, Finance, etc. The world is also keeping its eyes on the November 2020 elections in US but one thing is clear that whether it is Trump or Biden that has the last laugh, India's market is expanding. This is evident by the fact that the number of proposed legislations on outsourcing in the US Congress in CY 19 was half of that in CY 16 and there has been minimal buzz on outsourcing as an election issue, unlike the two previous elections.

2. Manufacturing shifting drive: More than a thousand foreign manufacturers want to relocate their production hub to India, mostly shifting from China, as companies fear that consumers may backlash against Chinese manufactured goods and expects surge in import duties as retaliatory step against China due to the Galwan crisis. Reportedly, at least 300 are already talking with the Indian government for production in a wide range of sectors, including electronics, medicine, and textiles. To exploit India's potential, the government is taking various steps like increasing the Ease of doing business, improving infrastructure, launching economic packages like “Make in India” and “Atmanirbhar Bharat”. Under these programs, the Government intends to develop industrial corridors and smart cities to provide infrastructure based on state-of-the-art technology with modern high-speed communication and integrated logistics communication. Taxpayer charter is the most crucial recent step taken to increase Ease of doing business. This is evident in Doing Business Report (2020) which shows that India jumped 14 places to Rank 63, as compared to 2019 report.

3. Buoyant FDI: Despite the negative short-term shocks, total Foreign Direct Investment has remained buoyant. FDI by technology firms in the first seven months of 2020 has already reached around USD 17 bn. boosted by USD 10 bn. new investment announced by Google in mid-July. Facebook, amazon & Foxconn are among other

global technology firms that have committed large new investments into India this year. This has given a major boost to investor confidence in India's medium to long term economic outlook.

4. Global buyers for textiles, ceramics & homeware: In Feb 2020, when pandemic had not struck India, while China was grappling with it, global buyers turned to India to source ceramics, homeware, fashion and lifestyle goods, textiles, engineering goods, furniture, especially from US and the European Union- seeking to replace China as a supplier. Given the source of the pandemic and a shift on consumer psychology, this drive could be beneficial for India to enter multiple trade channels as a notable supplier of raw materials and finished goods to the global market.

5. Becoming 'atmanirbhar': China has been a top player in the supplier's list of India for a variety of items but now India is exploring if those items could be sourced locally, instead of importing them, as part of the Self-reliant India mission. Also, alternative sources for over 1,000 items are being screened to replace China. India has had an over-reliance (65% to 70%) on Active Pharmaceutical Ingredients (APIs) supplied from China. Now, the government has planned to boost local production of these APIs and emerge as a global alternate supplier.

**Steps taken to exploit opportunities**

1. Ease of doing business: This is perhaps the most important factor for inducing companies to set up their manufacturing units in the country as it makes it easier and hence less costly to conduct their business. India has taken various significant notable steps in this direction. Some of which are as follows:

·In case of starting a business, integrating PAN, TAN (Tax deduction & collection Account Number), DIN (Director identification number) into a single form SPICe for incorporation, Companies act amendment to eliminate the requirement of company's seal, etc.

For dealing with construction permits, time and processes reduced and integrated, especially in Delhi and Mumbai, and, cost of obtaining construction permits reduced from 23.2% to 5.4% of per capita income.

The area of payment of taxes has been arguably the most dynamic element. Introduction of GST (2017), reducing tax rates and streamlining tax collection, fully automated process, taxpayer charter (2020), etc.

This is evident by the fact that India jumped from 77th position in 2019 to 63rd position in 2020 and is placed in “Easy” category.

As this article is being written, Doing Business Report has been suspended by World Bank Group, while their assessment is being conducted, after irregularities have been reported regarding changes to data used in the report.

This is a pertinent issue that raises questions on the report on which our assessment is based, hence making our assessment baseless. Although, it is incapable of altering the fact that Indian Government has taken many strides towards achieving better Ease of doing business.

2. Infrastructure development: Like Ease of doing business, it is also a very crucial area for businesses. Development in power, logistics, telecom, connectivity, etc. is imperative for any business to survive & grow. Development of new smart cities & offering state-of-the-art technologies, building roads under Bharatmala project & hence increasing connectivity & access, rapidly rising Indian power sector with planned investment opportunities worth USD 300 Bn over the next 10 years are various leaps taken in this direction.

3. Developing Business Ecosystem: The government is working in this area by promoting the manufacturing of finished products along with encouraging sourcing of raw materials locally, component manufacturing, and networking entire supply chain to evolve India into a more cost-efficient place to conduct business.

4. Skill Development: Hands down, the most important factor to make India a manufacturing magnet is the skilled labour force. New Education Policy with expenditure of 6% of GDP (increasingly focusing on vocational courses & all-round development), PM Kaushal Vikas

Yojana costing Rs.12000 cr. (relating to skill development & digital technology) are only some of the massive steps taken by government.

5. Taxation system: This is a component of Ease of doing business but since it is quite significant relative to other elements, it is imperative to discuss it in detail. The taxation system in India has now completely moved to an online fast-track automated streamlined unified centralized system, which has increased tax revenue for the state & at the same time reduced cost of doing business by eliminating multiple compliances. This started with the advent of GST in 2017, which is completely automated through a portal, and is most recently highlighted by introduction of taxpayer charter for Direct tax collection.

6. Atmanirbhar Bharat: Central Government has launched this plan, called by some as a re-packaged version of the Make in India movement using taglines such as 'Vocal for Local' & "Fend For Yourself", amidst the announcement of the coronavirus pandemic related economic package of Rs.20 lakh crores on 12 May 2020, to make India self-reliant & a global supplier. As part of the economic package, the government has taken numerous decisions, such as changing the definition of MSMEs, boosting scope for private participation in numerous sectors, increasing FDI in the defence sector and the vision has found support in many sectors like solar manufacturing and Telecom sector, evident by 100% Made in India 5G network announcement by RJio in July 2020. It is being clarified by officials that this programme "does not mean isolating away from the world, rather it translates to being a bigger and more important part of the global economy".

## Concrete practical recommendations

1.Fast-track dispute resolution: Unlike China, India is a democratic country in which mass protests, labour union agitation and legal hurdles have stalled various projects in the past. It is difficult for Indian authorities to make one sided decisions which most of the companies desire. A more flexible and neutral fast-track decision making will perhaps make it easier.

2. Make Digital India more inclusive: There is no denying the fact that our economy has been digitized to a great extent but since nearly 65% of our population resides in rural areas, we need to make this technology accessible to all. For this, PM Modi, in his speech on Independence Day (2020) announced that by 2022, there will universal internet access in the country. Though, this may not prove to be enough. There is a dire need to train rural people so that they can use these technologies without getting trapped into frauds. Also, internet & technological devices come at a great cost for the poor, ergo we need to assess if they have the buying power for them.

3. Encourage expenditure on R&D: This is necessary to formulate new processes, plans & strategies for enhancing businesses & making them more cost-efficient and competitive. Government has already given various tax benefits but often these are not enough. Steps should also be taken to assist businesses in conducting R&D, feasibility studies, enterprise management through a dedicated portal. Barrier of finance ought to be removed by giving loans at cheap rate of interest under a specifically-designed policy; this should preferably be done by centralized portal, involving all banks, financial institutions, NBFCs country-wide to reduce corruption & red-tapism.

4. More focused and targeted policy-making: Experts are of the view that domestic manufacturers should be asked about the kind of regulatory and compliance hurdles they face and efforts be made to remove them. Also, we may require a more targeted approach by identifying particular companies, maybe 15-20 in number, and then go about it in mission mode to bring them into India. So far, we have not been adopting this targeted approach.

5. Organizing small & micro enterprises: MSME's forms a major chunk of India's economy (nearly 30% of GDP and 50% of total exports) from which a notable number of people draw their livelihood. These should be systematically organized and registered with Authorities, to make economies of scale available to them, which can be the defining

factor of success for such enterprises. Their organization can collaborate with & communicate their needs to the Government like reduced/ streamlined tax rates, increased subsidies, protection from imports etc.

6. Bank recapitalization: Banking system is perhaps the most significant element of infrastructure which fuels the entire economy by its credit services. In the wake of banking crisis, there is a need to be far more significant and decisive in banking recapitalisation plan. As opined by the experts, over the next 5 years huge public outlay would be needed to keep PSU banks adequately recapitalized. Government intervention is required to take revolutionary steps are required in PSU's banking management and risk management processes, so that the economy is not bereft of Trillions of Rupees, anytime in the future. New stringent regulations/legislations may also be the need of the hour.

7. Credit availability: Since the system has run dry and businesses are already soaked of any cash, they would need a head start from the financial sector. Since India entered into the Covid-19 recession, while still suffering banking crisis, banks will be wary of giving loans to businesses. Here, the government needs to intervene to guarantee these loans to the enterprises. This should be backed up by appropriate structural, financial sector and governance reforms. Some of the 'marquee schemes' announced as part of the Atmanirbhar stimulas package are Rs. 3 Lakh Crore collateral free loan to MSMEs & other businesses and Rs. 30000 crore special liquidity scheme.

8. Implementation of programmes: It is a major challenge in a country like India, considering its length and breadth, that the plans and policies designed not just remain on paper but also exist on ground zero. It becomes an even more serious matter for policies reducing regulatory measures, as corruption might offset their effect, and New Education Policy, since institutions might engage themselves in a sham by giving fake vocational courses and work-experience certificates. Ergo, it is necessary to develop a central portal, atleast for major policies, along with more stringent measures for inspection by mandating inspection by more than one officer, either of the congruent or higher rank, to control such bogus practices.

**Projections on rebounding of economy**

Indian economic experts are presenting a united front in their view that India could see a sharp V-shaped recovery (i.e. a decline followed by an uprise) starting in the third and fourth quarter of the current fiscal, provided a vaccine is found to contain the Covid-19 pandemic this year, but FY21 GDP growth would ultimately be in negative territory as the coronavirus lockdown led to serious demand and supply dislocations, given the experience after the Spanish flu of 1918. They are confident that support measures unveiled by the government, which include a 21 trillion-rupee ($276 billion) package to support the economy, including easing access to credit for small businesses and offering cheap loans to workers and farmers, will help lift economic growth next fiscal, amidst slowing global economy.

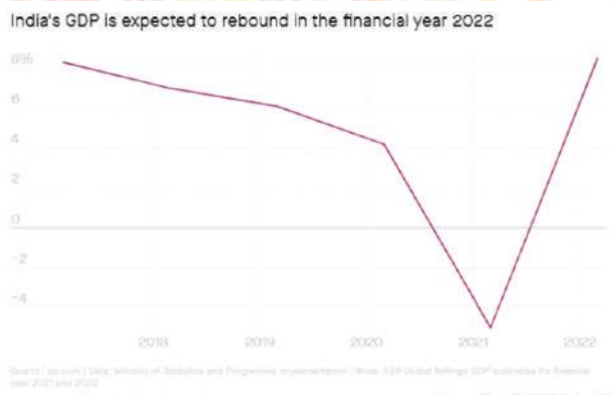
India's rural economy swung to growth in June after eight months of contraction, according to Bloomberg. Emerging strength in what amounts about 45% of gross domestic product bodes well for the broader economic recovery.

Confederation of Indian Industry (CII) maintained that a clutch of indicators – GST collections, railway freight traffic, petrol consumption, peak power demand, electronic toll collections, among others – have all mirrored the incipient signs of recovery.

Experts also comment that Centre's revenue position isn't as dire as touted to be in some quarters. Despite the pandemic, he said, devolution to states was in accordance with the Budget targets in April and May and it was down by only about 10% in June and July. Government's willingness to borrow more if it's required to fund critical infrastructure spending, stressing the government's pledge to boost such productive spending that has high multiplier effect.

It is firmly believed that India could trigger the Fourth Industrial Revolution, as the world fights & defeats Covid epidemic. India's GDP is expected to revive completely by FY 2022, as the domestic discretionary consumption rises and firms restart their delayed investments. As lockdowns restrictions lift and businesses start to get back on their feet, it is expected that voluntary expenditure like clothing, automobiles and consumer durables could start picking up, as early as, in festive sales of December quarter in 2020.

Making India a global manufacturing hub, will resolve an age-old issue of the Indian economy, which is 'jobless growth' and thus, it will increase household incomes which would further contribute to increased demand in the economy, therefore fast-pacing the economic recovery.




After recovery of economy to pre-corona levels, it could continue to grow at exponential rates, among the highest in the world, if not the highest.

After all, as quoted by Albert Einstein, “In the middle of difficulty lies opportunity”.

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# UNDERSTANDING THE BASIC MEANING AND CONCEPT OF MONEY LAUNDERING

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Let us start this article by understanding some basic terminologies;

What is illegal money ?

By the term illegal money we can understand the money which has been obtained from doing illegal activities ( proceeds of crime ) like Murder, Extortion, bribery, Drug trafficking, Kidnapping etc. The process of converting such proceeds of crime into legal and white money is known as money laundering. Illegal money can also be referred as dirty money which can easily be clean by applying various tactics of money laundering.

In India, there is a law made for preventing such activities of money laundering known as **Prevention of money laundering Act , 2002.** This law is enfored by Enforcement directorate in India.

Money laundering has an adverse effect on economy. It can erode the nation's wealth by fluctuating the demand and supply of cash, making interest and exchange rate more volatile.

Money laundering involves three distinct process, namly.

1). Placement : This is the very first stage in which the proceeds of crime is injected into the formal financial system.

2). Layering : In the second stage, the money which is injected in the financial system is spread or moved over the various transactions in different accounts and different countries, thereby it becomes difficult to trace the source and origin of money.

3). Integration : In the last stage, money enters the financial system in such a way that original association with the crime is sought to be obliterated so that the money can then be used by the offender or person receiving as clean money.

There are various methods of laundering illegal money;

1. Creating Shell and Bogus companies.
2. Investing in Real estate estate i.e. Buying a land for a money and then selling it making the profits legal by paying tax on such profit.
3. Cash smuggling, transferring money to swiss bank.
4. Hawala transactions.

If left, unchecked money laundering can destroy the nation's economy via changing the demand and supply of cash. It also effects the interest rate, exchange rates by making it volatile.

# HOW TAX HAVEN COUNTRIES ARE USED FOR TAX EVASION

There was a great need and importance to stop malicious practices of tax evasion. To combat the same, government of various countries have come forward to act accordingly and has formed and amended their treaties and agreements with other countries in order to protect the economy and revenue interest of their country.

In the year 2015 OECD ( Organization for economic co-operation and development ) has published the report with introduction of BEPS ( Base erosion and profit shifting ). These are commonly known as Action plans which were issued with an intention to curb the tax evasion practices, improving transparency and tax certainty.

Till date 15 Action plan has been introduced so far,

As the name i.e. BEPS itself defines that refers to tax planning strategies that exploits gaps and mismatches in tax rules to make profits disappear for tax purposes or to shift profits to locations where there is little or no real activity but the taxes are low which results in little or no tax, in other words tax evasion through proper tax planning by using the tax haven countries.

Now coming on to main topic i.e. how tax havens have been used as a device for tax evasion,

Most of the companies majorly MNCs set up their subsidiary companies in the tax haven countries so that they can shift out their profits in such countries so as to avoid paying tax or pay tax at lower rates as compared to other countries where tax rates are high. They carry maximum of their sales transaction through tax havens and try to incur huge expenditure in the country where tax rates are high so that they can lower their profits and can avoid to pay tax.

But in today's scenario tax evasion practice has created challenges for the developing nations for example India.

Tax evaders setup their companies in tax haven countries like Singapore, Switzerland etc.

Let us better understand the mechanism by way of example;

Suppose there were two associated Companies namely **Laxminarayan and sons Ltd** ( Holding co. registered in india) and the other one is **Pushp kumar sahu and associates** (Subsidiary Company) incorporated in Singapore. Both are associated enterprises within the meaning of section 92A of Income Tax Act, 1961

Holding company i.e. Laxminarayan and sons ltd shifts it major revenue or in other words place it's international sale transactions through it's subsidiary company so that profit can be shifted to other company which results in lower tax liability, as tax rates are higher in India as compared to Singapore.

Morover, both the companies have planned to present maximum profits in Singapore and less profits in India by applying following tax planning like,

1). Pushp kumar sahu and associates will provide loan to Laxminarayan and sons ltd at high rates so that the said holding co. will have more debit expenses which will ultimately result in decrease in profits and on the other hand subsidiary co. will enjoy more profits in the form of earned interest from it's holding co. thus resulting in low tax or zero tax.

This type of practice has been eradicated and countered by the government of India by introducing the section 94B in the Income tax Act, 1961 in lines of the Action plan 6 of BEPS Report given by OECD.

# HOW TO SELECT CASES IN SCRUTINY AND NEED FOR THE SAME

Why there is a need for scrutiny selection by the Income Tax Department ?

There was a great need and importance of scrutiny selection by department, as all the assesses who file their return do not disclose their true income and mostly understates the income by showing bogus expenses, fictious entries, undervaluation of closing stock, eliminating cash sales, over booking of expenses etc. Department should select the cases, where there is a major variation in various ratios like N.P., G.P., Stock T.O. ratios. Deviation in prevailing ratios adopted by the industries. The main motive and objective of Income tax department is to maximize revenue of the government and to cover more and more persons under the purview of Income Tax Act.

Cases where A.O. must manually pick the case for scrutiny and called for the required documents and details to correctly ascertain the income;

1). High volume of TDS and refund ratio.

2). Huge cash transactions.

3). Huge credit entries in bank statements.

4). Huge amount of unsecured loan as shown in liability side and interest rate at which such loan is taken.

5). Huge Capital addition in the books of account.

6). Non-Business or personal nature expenses debited in the profit and loss account.

7). Deviation in Tax audit report and ITR filed by the assesse regarding disallowance of various expenses.

8). TDS liability not discharged properly.

The above list is an illustrative list.

Cases are picked into scrutiny by two methods;

1). Manually by A.O.

2). CASS i.e. Computer aided scrutiny selection.

The first one is already discussed above, under the second method i.e. CASS this a automated software system of department which automatically takes the case under scrutiny by matching the ITR filed by the assesse with the database available with the system like mismatch in Form 26AS and ITR filed.

While selecting the return under scrutiny or reopening of case, A.O. must ensure the relevant provisions of the Act like provisions of section 143 (1), 143(2), 142(1) , 147, 148 , 144 and specially provisions of section 143(2) and 149 i.e. time limit for issuing notice.

With the target of increasing tax collection, A.O. after selecting the case under scrutiny must take the following steps to properly assess the income;

1). Check all the Cash transactions and various provisions of section 269ST,269SS,269T,40(A)(3), Fixed assets worth more than Rs. 10,000/- purchased in cash.

2). Vouchers and Invoice of expenses debited in profit and loss account.

3). Applicability of TDS provision on payments made.

4). Reconciling the T.O. as declared in ITR with GST returns and Bank Accounts.

5). Capital introduction in the business by assesse, if any.

6). Change in method of accounting, method of valuation of closing stock as it directly effects calculation of profit.

7). Penalty and other expenses which are required to be disallowed.

8). Provisions of section 28 to 44.

9). Personal nature expenses, if any.

10). Detailed checking of Cash Book, Expense ledgers.

11). High variation in ratios if any, than A.O. must seek reply and reasons for such deviation.

12). Eligibility and validity of deductions and exemption claimed in return.

13). Loans and advances given must be checked.

14). Long outstanding creditors and debtors in the books of accounts.

15). Unsecured loans and interest on the same must be checked, if there is no change in the balance of outstanding amount than there should be complete checking of that particular account.

16). Validity and proper valuation of investments reflecting in the books of accounts.

17). Compliance of section 145(2) i.e. Income computation and disclosure standards, profit and loss must be computed in accordance to these standards.

Happy Readings

Regards

Pushp kumar sahu

Saaj & Co.