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Chartered Accountants

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NEWSLETTER

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Achieving Excellence in Client Service Through
Expertise & Experience

Covering Updates for the Month of April' 24
For private circulation and clients only

Thank You

We've reached a significant milestone in our newsletter journey! Yes, you read that right – it's our 50th newsletter Volume.

Over the past months, we've poured our hearts and minds into crafting content and sharing valuable insights through our newsletter. It's been an incredible journey of growth, learning, and collaboration, and we couldn't be prouder of what we've achieved together. In this special 50th Volume, we have included articles on varied topics related to GIFT City, IFSC, GST, Income Tax and many more.

We take this opportunity to express our heartfelt gratitude to each and every one of you who has contributed to our newsletter's success. Whether you've written articles, provided feedback, or simply been a loyal reader, your support has been invaluable, and we are truly grateful for it.

So here is the 50th amazing Volume of our newsletter, and to many more to come!

Thank you for being part of this incredible journey.

Team Manubhai & Shah LLP

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Article : GIFT CITY - A GIFT FROM GOVERNMENT OF INDIA

CA Dalpat Shah

Introduction

Gujarat International Finance Tec-City ("GIFT City") located at Gandhinagar, Gujarat is India's first International Financial Service Centre ("IFSC"). It is India's first operational greenfield smart city and IFSC. GIFT City Project is promoted by Government of Gujarat through its undertaking Gujarat Urban Development Company Limited (GUDC).

The Government provides various incentives and benefits to set up a unit in GIFT City which makes it an attractive destination for both local and global investors.

An IFSC at GIFT City is an offshoring of global businesses as it provides an opportunity to global and domestic businesses to set up a company, LLP, subsidiary in the GIFT City under various businesses.

In this article we have discussed benefits available to a unit in GIFT City.

Beneficial to which Industry

IFSC provides an opportunity to global businesses at GIFT City to set up wide variety of business verticals in Aircraft Leasing, Ship craft leasing, Banking, Insurance, Stock Exchange, Fund Management-AIF,IT-ITes, Fintech, Bio Tech, Pharmaceuticals, Foreign Universities, etc. in view of various benefits available to such industries.

Benefits available to a Unit in GIFT City.

1. Ease of doing business:

By providing single window clearance, IFSC unit can take all necessary approvals under one umbrella. For this purpose, GIFT Urban Development Authority (GUDA) has been constituted for well-planned urban development of the area. Also, GIFT Notified Committee has been constituted for the better operational management.

2. Duty relaxation:

Exemption from stamp duty and registration charges provided by IFSC for setting up business entity at GIFT City.

3. Incentives:

The Government of Gujarat provides various state incentives in the form of financial incentives support schemes to companies and investors. These incentives include grants, subsidies, OPEX support to reduce operational costs, CAPEX support, employment generation incentives.

4. Gujarat Government subsidies as per IT/ITES Policy

- Reimbursement of Stamp Duty and Registration Fee paid
- Reimbursement of Electricity duty and Re. 1 subsidy on power tariff for a period of 5 years.
- Reimbursement of 100 % of EPF (Employees Provident Fund) amount paid in case of female employees & 75% of EPF of male employees
- Lease rental subsidy for every 50 sq. ft. per employee

Up to 20 employees	Rs. 8 per sq. ft
20 to 100 employees	Rs. 5 per sq. ft
Above 100 employees	Rs. 3 per sq. ft

- Capital subsidy @ 25% of capital expenditure for one-time purchase of Computers, networking and related hardware, subject to a ceiling of Rs.1 crore

5. Income Tax Benefits:

To Units in IFSC:

- 100% tax exemption under section 80LA of the Income tax Act, 1961, for 10 years out of a 15-year block period with an option to select any 10 years out of 15 years block
- Concessional rate of Minimum Alternate Tax (MAT) or Alternate Minimum Tax (AMT) at 9% of book profits to IFSC Companies/other setup as a unit in IFSC .

To Investors:

- Interest income paid to non-residents on money lent to IFSC units in GIFT city is not taxable in the hands of non-residents.
- Long Term or rupee-denominated bonds listed on IFSC exchanges are taxable at a lower rate of 4% U/sec 194LC of the Act.
- Transfer of specified securities listed on IFSC exchanges by non-residents is not treated as a transfer and therefore capital gain from such transfer is not taxable in India.

6. Goods and Services Tax (GST) Benefits:

To Units in IFSC:

- No GST on services: (i) received by unit in IFSC.
(ii) provided to IFSC / SEZ units, Offshore clients.

To Investors:

No GST on transactions carried out in IFSC exchanges

7. Other Taxes & Duties:

Exemption from Security Transaction Tax (STT), Commodity Transaction Tax (CTT), and stamp duty for transactions carried on IFSC exchanges.

8. Benefits of GIFT City to Startups

To promote the innovation of ideas and entrepreneurship, IFSC-GIFT City provides dedicated FinTech sandboxes and requisite startup friendly environment to a start-ups and entrepreneurs.



9. Exemptions & Relaxations under the Companies Act

There are various exemptions and relaxations given to the companies being setup in the GIFT IFSC with respect to the regulatory requirements under Companies Act in India. Few are enumerated as follows:

- The requirement of having minimum one resident director is waived in a company setup in GIFT IFSC, making it more empirical for the foreign entities to set up in India with the management people they are familiar with;
- Exemption for applicability of secretarial standard which lays down the procedural aspect of in relation to the board meeting and general meeting;
- Relaxation in compliance with regards to loans, advances, guarantees and investment by the companies setup in GIFT IFSC;
- Exemption in relation to appointment of internal auditor.

Concluding Thoughts

GIFT City has put the India on global financial map in true sense which is apparent from the fact that many global and Indian Companies have set up their units in GIFT City. GIFT City has emerged as a preferred destinations for many Indian and Global companies in view of various benefits and incentives provided by the Government. For Banking, Financial Business, Family Investment Funds, AIF it's a golden opportunity to set up a unit in GIFT City in view of the tax benefits, incentives from the Gujarat State Government, availability of foreign currency loans.



Article : Investment opportunities at IFSC

CA. Jignesh Shah and CA. Devansh Gandhi

1. Introduction:

1.1 The Government of India established the International Financial Services Centres Authority (IFSCA) under the International Financial Services Centres Authority Act, 2019 passed by the Union Parliament. The IFSCA has a statutory mandate to develop and regulate financial institutions, financial services, and financial products within the IFSCs in India. At present, the GIFT IFSC is the maiden international financial services centre in India.

1.2 The Government of India, with effect from October 2020, granted IFSCA the regulatory powers of four domestic regulators namely Reserve Bank of India (RBI), Securities & Exchange Board of India (SEBI), Insurance Regulatory and Development Authority of India (IRDAI) and Pension Fund Regulatory and Development Authority (PFRDA) for the purpose of developing and regulating IFSCs in India.

1.3 An IFSC is a special jurisdiction from where global financial service providers offer financial services / products to global customers in foreign currencies. A unit set up in IFSC is treated as a "person resident outside India" (i.e. non-resident)

for exchange control purposes whereas a domestic unit is treated as a "person resident in India". Hence, an IFSC unit enjoys the privileges of a non-resident under exchange control provisions.

1.4 The fund management activities at IFSC are regulated by International Financial Services Centre Authority (Fund Management) Regulations, 2022, which provide statutory framework for Fund Management Entity (FME), eligible schemes of investment and permissible investor category.

1.5 Based on the information provided by the IFSCA as of December 31, 2023:

- There were a total of 83 FMEs registered with IFSC.
- A total of 95 schemes were operative within these registered entities.
- The cumulative commitment from these schemes amounted to \$7076.15 million.

1.6 This article is aimed at providing information on available opportunities to Indian and Foreign investor to participate in global securities market through IFSCA.

2. Permissible Investors at IFSCA:

2.1 As per IFSCA guidelines, permissible investors in the approved scheme are as follows:

- (a) a person resident outside India;
- (b) a non-resident Indian;
- (c) institutional investor resident in India eligible under exchange regulations to invest funds offshore - to the extent of outward investment permitted;
- (d) person resident in India eligible under FEMA to invest funds offshore - to the extent allowed in Liberalized Remittance Scheme (LRS).

3. Permissible Schemes under IFSCA:

3.1 The permissible investors are allowed to invest in the schemes which are regulated under the International Financial Services Centre Authority (Fund Management) Regulations, 2022. The permissible investors are allowed to invest in Authorized Schemes being managed by Fund Management Entity (FME) duly authorized or registered with the IFSCA.

3.2 The Regulations provide for investment through following schemes/activities:

Schemes:

- Venture Capital Schemes (including Angel Schemes) - to facilitate investments by Accredited Investors / High Net worth investors in start-ups, emerging or early-stage venture capital undertakings.
- Restricted Schemes (Non-Retail Scheme) - to facilitate investments by Accredited Investors / High Net worth investors in a variety of strategies, broadly classified as Alternative Investment Funds:
 - Category I - Funds which invest in start-ups, early-stage ventures, social ventures,

4. Permissible deployment of fund by IFSCA:

4.1 The FME is broadly permitted to further deploy the fund raised under authorized scheme / activities in following asset class (subject to restrictions under respective scheme / activities):

- (a) Securities issued by unlisted entities.
- (b) Securities listed or to be listed or traded on stock exchanges in IFSC, India or foreign jurisdiction;
- (c) Money market instruments;
- (d) Debt securities;
- (e) Securitized debt instruments, which are either asset backed or mortgage-backed securities;
- (f) Other venture capital schemes set up in the IFSC, India and foreign jurisdiction
- (g) Derivatives including commodity derivatives
- (h) Units of mutual funds and alternative investment funds in India, IFSC or foreign

5. Concluding Thought

GIFT City's environment stimulates innovation and growth in fund management by offering a spectrum of investment options across asset classes. Whether it's equities, debt securities, derivatives, or alternative investments, fund managers have ample avenues to explore. This diverse landscape, coupled with IFSCA's robust regulatory framework, ensures transparency and investor protection while promoting creativity in financial strategies. As a result, GIFT City becomes a magnet for investors (Indian or Foreign investors) seeking dynamic opportunities in a regulated and secure environment.

SME or infrastructure

- Category II - Fund which invest in residual category other than Category I & III
 - Category III - Fund which employ diverse viz., investment in listed securities, or complex trading strategy viz., hedge fund
 - Retail Schemes - to facilitate investments of retail investors in Mutual Funds.
 - Special Situations Fund - to invest in special situations viz., investment in assets stressed assets / securities issued by Assets Reconstruction Companies etc.
 - Exchange Traded Fund - Equity based ETF / Debt based ETF / Commodity based ETF
- #### Activities.
- Portfolio Management Services by registered FME or through registered Capital Market Intermediary)
 - Investment Trust- Real Estate Investment Trust or an Infrastructure Investment Trust.
 - Family Investment Funds - a self-managed fund pooling money only from a single family

jurisdiction;

- (i) Investment in limited liability partnerships; or
- (j) Physical assets such as real estate, bullion, art, etc.; or
- (k) Such other securities or financial products/assets or instruments as specified by the Authority:

4.2 Restrictions on investment:

- (a) The investment in India by FME under approved scheme is permitted through foreign portfolio investment (FPI) or Foreign venture capital investment (FVCI) or Foreign direct investment (FDI) subject to specified limits under respective regulations.
- (b) If a scheme allows investment by Indian investors, regulations prohibit investment in securities of companies incorporated in India under such a scheme, it suggests that the scheme is designed to focus on investments outside of the Indian market.





Article : Implications of amended Tax Treaty between India and Mauritius

CA Arti N Shah

1. Introduction:

On February 23, 2024, the Government of Mauritius decided to amend its double taxation avoidance agreement (DTAA) with India to better align with the Base Erosion and Profit Shifting (BEPS) minimum standards of the Organization for Economic Co-operation and Development (OECD). To bring the same into action, the Mauritius Government agreed to the signing of Protocol to amend the Double Taxation Avoidance Convention between the Government of the Republic of Mauritius and the Government of the Republic of India. Protocol is like a supplement to the tax treaty and is an integral part of the treaty, amendments to the tax treaties are brought in through the protocol which effectively changes the existing provisions of the tax treaty, hence, to understand the provisions of tax treaty it becomes essential to refer to the protocol of the treaty. Accordingly, to bring in the proposed amendment in the DTAA between India and Mauritius, a Protocol has been signed by the Government of India and Mauritius on March 07, 2024 as to prevent tax evasion with respect to capital gain income arising to the resident of Mauritius from the sale of shares of an Indian Company by using 'Principal Purpose Test'.

2. Principal Purpose Test

Principal Purpose Test is a test through which it is reasonably concluded having regard to the facts and circumstances that one of the principal purposes of entering into such transaction was to obtain tax benefit either directly or indirectly.

3. Provisions of DTAA prior to amendment

Prior to the amendment in the DTAA between India and Mauritius, as per the provisions, capital gains arising from the transfer of shares acquired on or before March 31, 2017 were taxable only in the resident state. However, for the shares acquired on or after April 1, 2017, the gains arising on such transfer were to be taxable in the source state. The taxability was determined based on the date of purchase without considering the date of transfer. Thus, on the investment made in India on or before March 31, 2017 by a Mauritius resident in an Indian company, no tax was leviable on the sale of such investment. This benefit can be claimed based on the Tax Residency Certificate ('TRC') issued by the Mauritius Tax Authority, which is considered to be sufficient evidence to prove the residential status of the transferor of shares.



4. Proposed Amendment under Protocol

On February 23, 2024, the DTAA between India and Mauritius was amended by signing protocol, wherein it is amended that the benefit under the India-Mauritius Tax Treaty shall not be granted in respect of any item of income if the transaction is covered under the principal purpose test unless it is established by the tax-payer that the tax benefit is in accordance with the object and purpose of tax treaty.

Further the object and the purpose of the tax treaty are also amended, as per the amended object and purpose, the DTAA between India and Mauritius is entered into to eliminate the double taxation with respect to the taxes covered by the Treaty without creating opportunities for non-taxation or reduced taxation through tax evasion or avoidance through treating shopping aimed at obtaining tax reliefs provided in the convention for the indirect benefit of residents of third jurisdiction.

According to the amended provision, it is evident that the TRC issued by the Mauritius tax authorities will not be considered as sufficient evidence to avail tax benefit under the DTAA between India and Mauritius.

5. Consequences of Amendment in DTAA between India and Mauritius

The amendment proposed may result into various which are as follows:

a) Exemption of capital gains earned on shares purchased on or before March 31, 2017

Irrespective of the date on which the shares are purchased i.e., whether the shares are purchased on or before March 31, 2017, which was then taxable in the resident state as per the unamended DTAA between India and Mauritius, the income tax authorities will be entitled to challenge the exemption claimed by the tax payer on the reasoning that the principal purpose of the transaction was to avail tax benefit.

b) Concessional rates under DTAA

Due to the proposed amendment the concessional rate of tax in respect to dividend, interest or royalty income, etc. can also be denied on the basis of principal purpose test.

c) TRC - Not a sufficient evidence to claim benefit under the DTAA

As and when an investment is sold, the Indian tax authorities may deny the benefit under the DTAA based on the principal purpose test irrespective of the TRC, which clearly states that the person who has earned income is resident of Mauritius. However, if the taxpayer establishes that the purpose of such investment was to promote trade between India and Mauritius and not for tax evasion or avoidance through treaty shopping for the benefit of residents of third jurisdiction, the benefit under DTAA can be availed.

6. Conclusion

Though no clarification is received from the Income Tax Authorities whether the amendment be applicable prospectively or retrospectively, but Article 3(2) of the protocol states that the amendment shall have effect **“without regard to the date on which taxes are levied or the taxable years to which the taxes relate”**.

The use of these words may apparently create a dispute as to whether this amendment shall be retrospective and hence applicable even in respect of the transaction undertaken before the date of

notification. If that is so, then all transfers of shares on or after 01.04.2017 in respect of investments made before 01.04.2017 will be subject to this new Principal Purpose Test. Apparently, the obvious interpretation of these words is retrospective effect.

However, the CBDT, post signing the protocol, stated that the protocol is yet to be ratified and queries, if any, will be addressed. Hence, there is a possibility that CBDT might clarify that the amendment might be applicable prospectively, i.e., only in respect of transactions entered on or after the date of notification of amendment in the DTAA.



Article : Blue Ocean Strategy: Success Stories

Disha Balani

Imagine you are a lemonade stand owner in a crowded park filled with other lemonade stands. All the other lemonade stands are selling the same traditional lemonade with the same boring flavors. You want to stand out and create a new market space for your business.

So, you decide to create a new line of exotic fruit-flavored lemonades that nobody else is offering, - instead of selling traditional lemonade, you also offer free samples to customers, creating a fun and interactive experience that nobody else is providing.

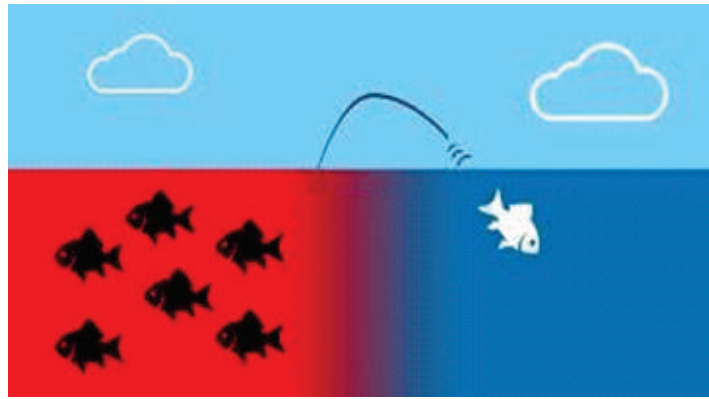
Your unique and refreshing lemonades quickly gain attention and word-of-mouth marketing spreads. Before you know it, people start coming to your lemonade stand specifically for your exotic and fun flavours, creating a new market space that was previously untapped.

Here's where, the "Blue Ocean Strategy" comes into existence.

So, what is it?

In today's highly competitive market, it is difficult for businesses to stand out and differentiate themselves from the competition. The problem is: supply exceeds demand, so margins are tight and growths are limited.

The Blue Ocean Strategy is a business concept that is the simultaneous pursuit of differentiation and low cost to open up a new market space and create new demand. Instead of competing in existing markets, businesses use the Blue Ocean Strategy to create a new market space that is untapped by offering unique products or services which are not currently being provided. It is about making the competition irrelevant.



Hence, you were able to differentiate yourself from the crowded competition, and in turn, you were able to create a unique market space with less competition, attract new consumers, increase profits and greater potential for growth.

“A blue ocean strategy isn’t just about competing differently; it’s about creating a new game altogether.”

Red Oceans vs Blue Oceans

RED OCEANS are all the industries in existence today – the known market space; with demand and cutthroat competition. In red oceans, industry boundaries are defined and accepted, and the competitive rules of the game are known and it signifies the “bloody battle”.

BLUE OCEANS refer to the areas that are unexplored, with untapped potential for growth and success, which companies must find or create and by applying this strategy, businesses can create new opportunities.

“In a red ocean, you fight for scraps. In a blue ocean, you create abundance.”

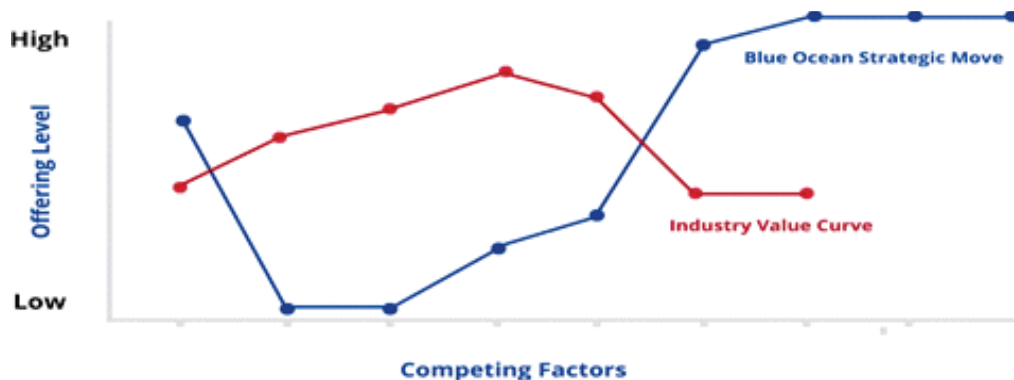
RED OCEAN STRATEGY	BLUE OCEAN STRATEGY
Compete in existing market space	Create uncontested market space
Beat the competition	Make the competition irrelevant
Exploit existing demand	Create and capture new demand
Make the value-cost trade-off	Break the value-cost trade-off
Align the whole system of a firm’s activities with its strategic choice of differentiation or low cost	Align the whole system of a firm’s activities in pursuit of differentiation and low cost

THE FOUR FACTOR FRAMEWORK

To move from the world of Competing to Creating, we need to know how to get there. The Four Factor Framework of Blue Ocean Strategy includes:

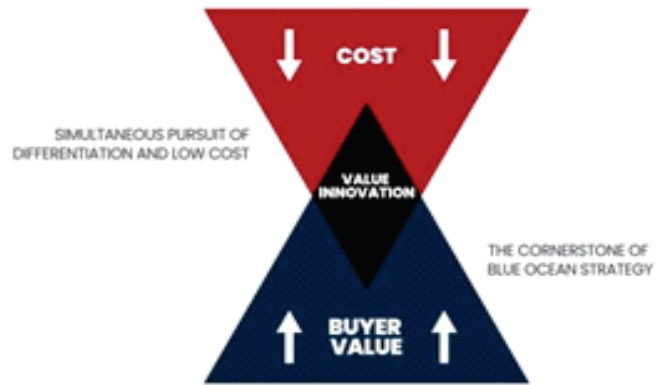
1. The Strategy Canvas

This is a visual representation of the current market space, which allows you to identify the key factors that are driving competition in your industry and compares an organization’s strategic offerings to those of its competitors in a particular industry or market. By examining the key factors, you can identify potential areas of differentiation and develop a strategy that sets you apart from the competition.



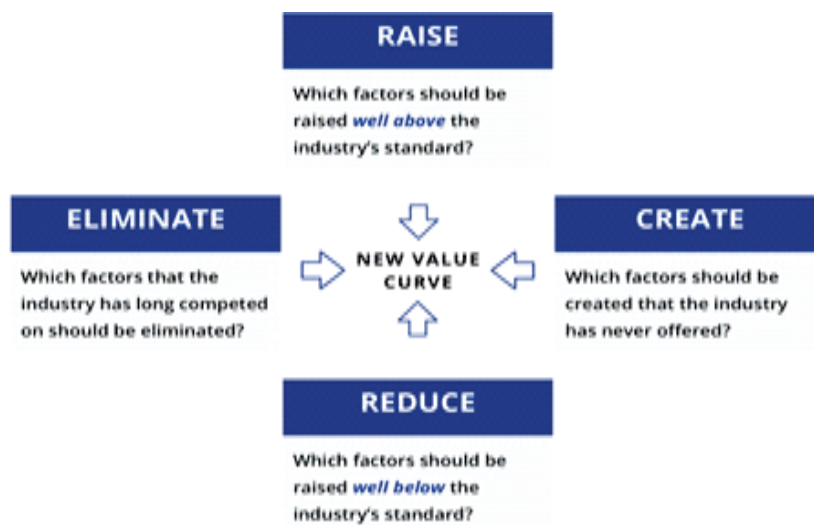
2. Value Innovation:

Value innovation involves a leap in value for both the company and the customers by simultaneously pursuing differentiation and low cost. It focuses on breaking the traditional trade-off between offering unique value and lowering costs and aims to deliver exceptional value to customers by offering a compelling, differentiated product or service at a lower cost compared to existing alternatives.



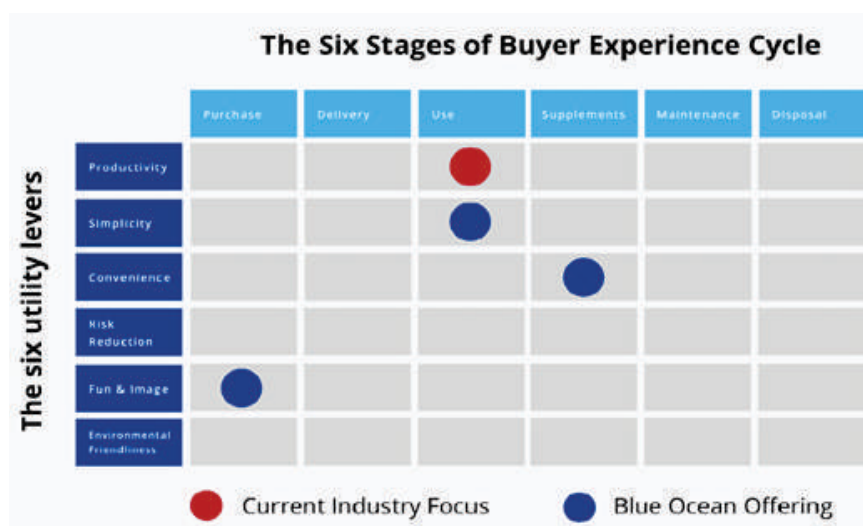
3. The Eliminate-Reduce-Raise-Create Grid:

This helps you to systematically examine your business and identify factors that you can eliminate, reduce, raise, or create to create a new market space. This grid helps you to focus on the key factors that will create a unique value proposition for your customers.



4. The Buyer Utility Map:

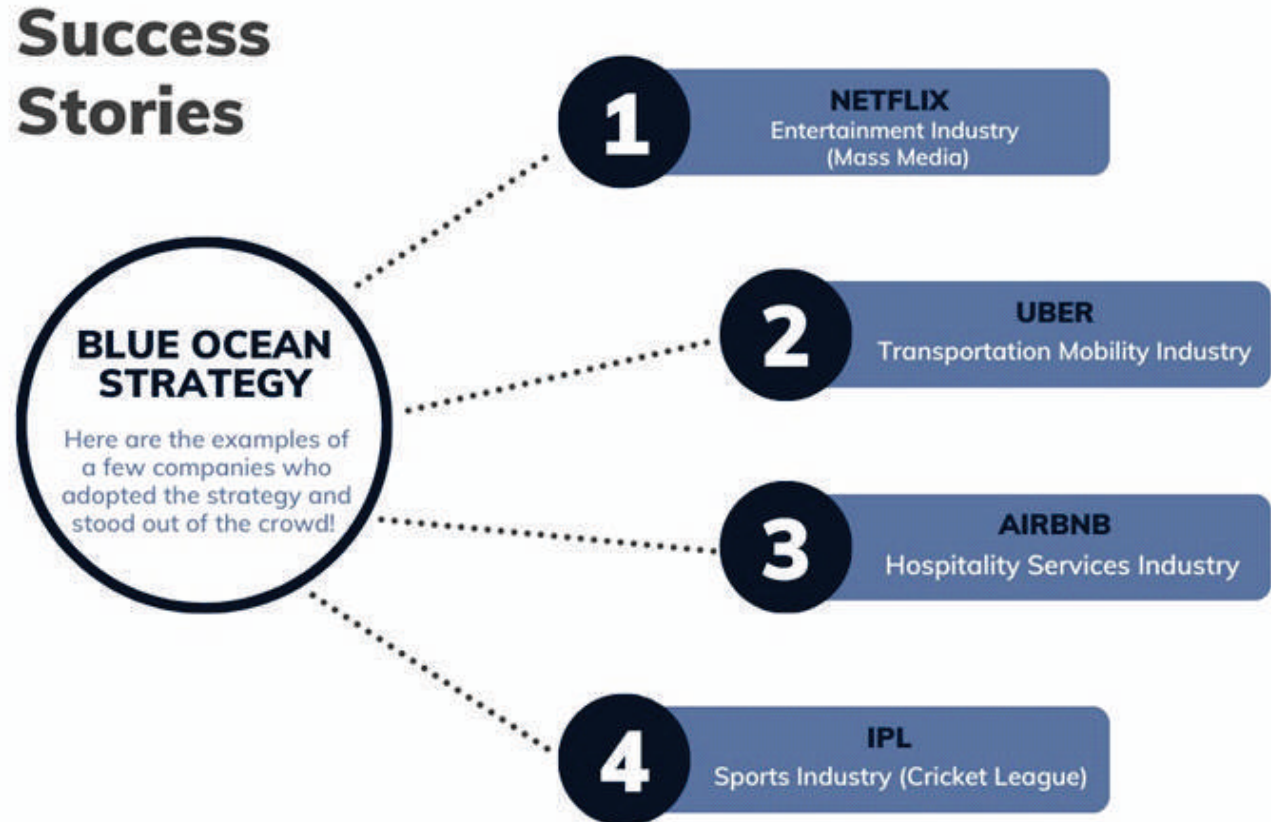
It is a tool used in the Blue Ocean Strategy framework to analyze and enhance the value that a product or service provides to customers. It helps identify pain points and areas of dissatisfaction that consumers experience with existing products or services and exploit opportunities for creating a leap in value. By evaluating the current offerings in each of the six dimensions, companies can have areas of improvement and innovation that can enhance customer utility.



SUCCESS STORIES

There are a plethora of real life examples and case studies as to how companies used this marvellous strategy to gain an advantage over the other companies of the same industry and became successful.

To mention a few:



1. NETFLIX: THE COMPANY THAT BROKE TELEVISION

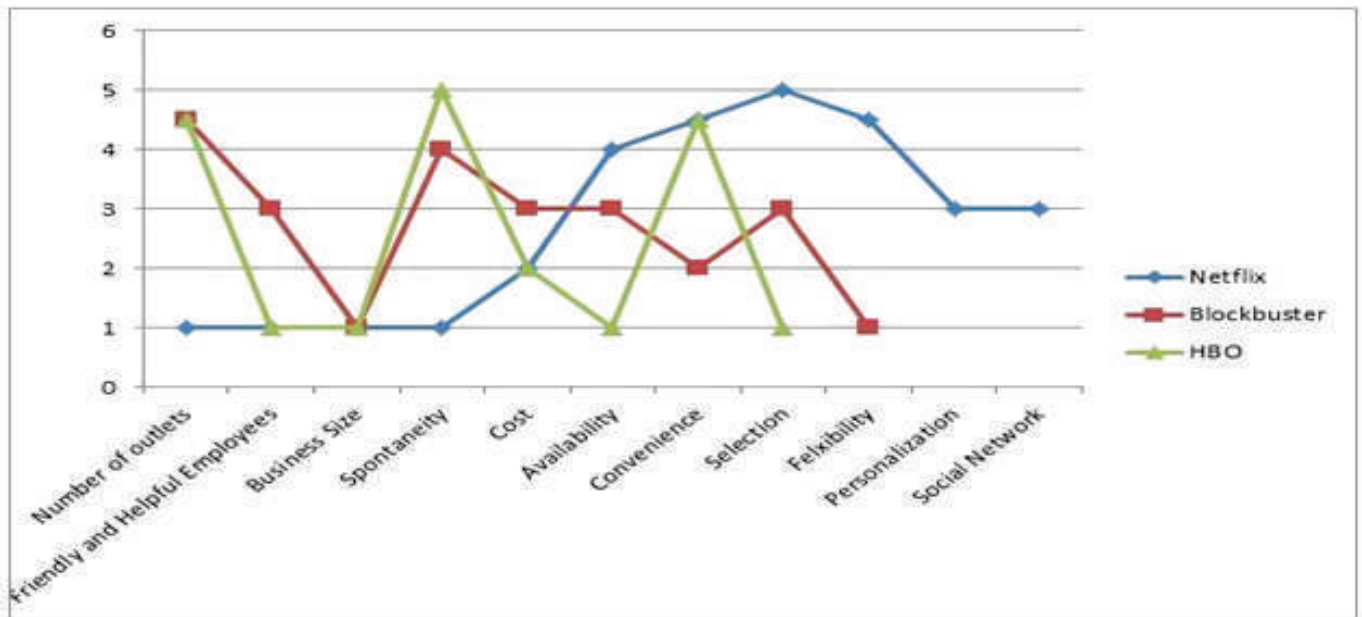


Imagine a time not too long ago when the idea of watching a vast library of movies and TV shows from the comfort of your own home seemed like a distant dream; the only option for entertainment was a trip to the local video rental store, hoping to find your favourite movie on the shelves, and that too, at a fairly high price. But then, like a disruptor emerging from the shadows, Netflix entered the stage and forever changed the way we consume media. Its business model tore down the existing walls of the industry.

HOW DID NETFLIX APPLY THE FRAMEWORK?

1. Redefining the Market Boundaries:

Netflix recognized that the highly saturated and highly competitive traditional video rental market, dominated by brick-and-mortar rental stores like Blockbuster. In 2007, it introduced its streaming service by shifting from physical DVD rentals to online streaming, original content production, and even interactive storytelling redefining the home entertainment market.



2. Value Innovation:

Netflix focused on creating superior value for customers while simultaneously reducing costs. By eliminating the need for physical rental stores, it significantly reduced overhead costs and improved convenience for customers. They introduced a subscription-based model, where customers could access a vast library of movies and TV shows for a fixed monthly fee. According to a report by The New York Times, Netflix saved an estimated \$200 million per year by eliminating brick-and-mortar operations.

3. Convenience and Accessibility:

One of Netflix's key value propositions was the convenience and accessibility it offered. Customers could stream content directly to their computers, TVs, and mobile devices, eliminating the need for trips to rental stores. They could also watch content at their own pace, pausing, rewinding, or fast-forwarding as desired.



4. Data-Driven Approach

But Netflix didn't stop there. They dug deep into their data and learned what people liked to watch. The "Netflix algorithm," helped them make personalized recommendations and suggest content that matched each viewer's taste. It extensively uses data and analytics to understand customer preferences, personalize user experiences and make informed decisions on content acquisition and creation.



5. Original Content Strategy:

To differentiate themselves and further expand their content offering, Netflix invested in original content production. They started creating exclusive TV shows and movies, such as "House of Cards," "Orange is the new black", "Stranger Things," and "The Crown." This strategy allowed Netflix to stand out from traditional cable and broadcast networks, offering unique and captivating content that attracted subscribers and built a loyal fan base.

6. Continuous Iteration and Adaptation:

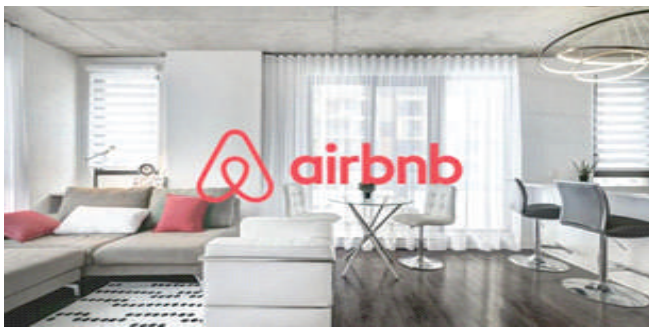
Netflix has continuously adapted its platform to evolve technology and market trends. For instance, they were quick to embrace the transition from physical media to streaming, expanding their services to various devices and platforms.

THE ERRC GRID OF NETFLIX:



Today, Netflix is a household name, with millions of subscribers around the world. They continue to dominate the streaming space, constantly bringing fresh and exciting content to our screens.

2. "Unlocking Adventures: Airbnb - Your Gateway to Memorable Stays"



Once upon a time, traveling meant either hotels or crashing on a friend's couch.

But then, Airbnb came, transforming the way we travel and experience destinations. How did they do it? By diving into uncharted waters with a Blue Ocean Strategy; creating a whole new realm of possibilities in the hospitality industry. Prepare to embark on a journey that unveils how Airbnb's Blue Ocean Strategy navigated unexplored horizons, leaving waves of innovation and inspiration in its wake.

1. Identifying the Untapped Market: (Value innovation)

Airbnb recognized the existence of a vast market of travellers seeking unique, authentic, and affordable experiences. Traditional hotel options often lacked personalization and cultural immersion. By targeting this "nonconsumption" segment and offering a platform that turns spare rooms into extraordinary escapes, it discovered a blue ocean of opportunity to connect hosts and guests.

"Path of Market Focus"

2. Creating a Unique Value Proposition:

Airbnb differentiated itself by offering a platform where hosts could rent out their spaces, providing guests with a more personal and immersive stay. This novel approach created a sense of belonging and cultural exchange. Hosts benefited by monetizing their spare space, and guests gained access to

"Path of Market Structure"



3. Leveraging the Power of Technology:

Airbnb harnessed technology to build a user-friendly platform that streamlined the booking process. Hosts could easily list their properties, while guests could search, book, and communicate seamlessly through the Airbnb website and mobile app. This efficient and convenient technology-driven approach reduced transaction costs and enhanced the overall user experience.

"Path of Business Model"

4. Building Trust through Reviews and Ratings:

Addressing the trust issues associated with staying in someone else's home, Airbnb implemented a robust system of user reviews and ratings. This allowed guests to make informed decisions based on the experiences of previous guests, fostering trust and accountability within the community; further enhancing the trust building process.

“Path of Value Capture”

5. Diversification:

Innovating beyond traditional accommodations, Airbnb expanded its offerings to include unique experiences. By partnering with local guides and experts, Airbnb enabled guests to immerse themselves in the culture, cuisine, and activities of their travel destinations.

“Path of Offering”



6. Pursuing Aggressive Global Expansion:

Airbnb pursued an ambitious global expansion strategy, entering new markets and tailoring its services to cater to local needs and preferences. By embracing cultural diversity, adapting to regional regulations, and establishing localized customer support, it successfully penetrated various international markets, achieving a truly global presence.

“Path of Strategic Sequence”

7. Collaborative Partnerships:

Airbnb formed strategic partnerships with cities and governments, collaborating to address regulatory challenges and ensure responsible hosting practices. These collaborations helped establish Airbnb as a trusted and responsible player within the industry, fostering positive relationships with key stakeholders.

THE ERCC GRID OF AIRBNB

ELIMINATE	RAISE
Big name hotel	Visual design Reviews of other guests Variety of room types Social network influence
REDUCE	CREATE
Price Quantity of service Safety	Homestay accommodation Interaction between hosts and guests Connect with local culture Sense of belonging

With this, Airbnb disrupted the hospitality industry on a global scale. Today, it continues to empower hosts, provide travellers with memorable experiences, and redefine the way we connect and explore the world.

3. UBER: “YOUR RIDE, YOUR WAY”

If you're not familiar with Uber, where have you been? I'd love to know! Before Uber, we needed to find a cab, hail it and hope it stopped. It didn't matter if it was hailing, raining, or snowing. Your hand was going up in the air until a cab stopped. The alternative was even worse, we'd call a taxi dispatch hotline and hope someone picked up. If in the off chance they did, it was time to wait 20 minutes until a cab arrived. That does not gel well with us Millennials. We need instant gratification. Picture this: a world where transportation is at your command, available at the tap of a button. That's exactly what Uber brought to the table, revolutionizing the way we think about transportation. Buckle up to know the Uber's Blue Ocean Strategy, where innovation, convenience, and strategic brilliance collided to create a tsunami of success.



1. Value Innovation:

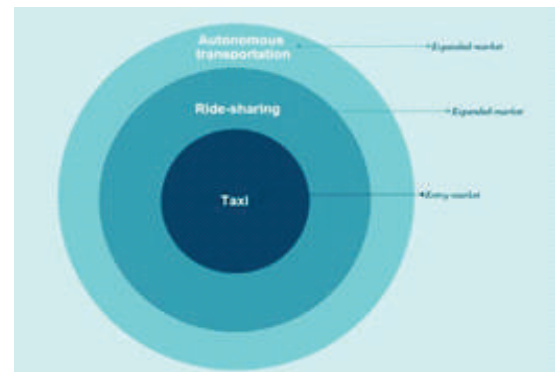
Uber's Blue Ocean Strategy centers around value innovation, which involves creating and capturing new market space by simultaneously pursuing differentiation and low cost.

2. Disruptive Technology:

Uber differentiated itself by leveraging technology to offer a convenient, on-demand ride-hailing service that disrupted the traditional taxi industry. This innovative approach provided customers with a unique value proposition, combining affordability, reliability, and ease of use.

3. Broad Market Penetration:

Uber focused on expanding the market by targeting non-customers and creating new demand. By offering a more accessible and user-friendly transportation option, Uber attracted individuals who previously relied on other modes of transportation or even those who hadn't considered using a taxi service before.



4. Ecosystem Expansion:

Beyond ride-hailing, Uber successfully expanded its services into adjacent markets. The introduction of UberEats into the growing food delivery industry, while Uber Freight into the logistics and trucking sector diversified Uber's revenue streams and further solidified its position in the market. These strategic partnerships and collaborations assisted Uber extend its reach and create additional value for customers.

5. Customer-centric Approach:

A key element of Uber's Blue Ocean Strategy is its focus on customer satisfaction and safety. By understanding and addressing customer pain points such as the inconvenience of hailing a taxi, Uber focuses on “On-demand transportation convenience”



6. Driver's Network Effect

Uber's approach hinged on the utilization of a vast network of independent drivers. By onboarding a large number of drivers, Uber was able to offer quick response times and widespread coverage, creating a positive feedback loop where more drivers attracted more riders and vice versa. This network effect played a crucial role in Uber's market dominance

THE ERRC GRID OF UBER

ELIMINATES <ul style="list-style-type: none">▪ uncertainty in waiting▪ the friction from the typical taxi cab transaction	RAISE <ul style="list-style-type: none">▪ quick respond services using GPS location based to check drivers availability▪ effectiveness of the journey using GPS system to get the fastest route▪ convenient, comfort and cleanliness
REDUCE <ul style="list-style-type: none">▪ waiting time▪ risk of crime▪ hassle in payment process because customer pay directly to uber not to the driver	CREATE <ul style="list-style-type: none">▪ easy booking system (mobile apps)▪ billing system according to the distance to and demand▪ insurance for the passenger▪ mobile apps that provides drivers information (including ratings)

4. "IPL Unleashed: India's Premier Cricket Battle Begins!"

In the realm of cricket, where fierce competition and traditional formats have long dominated the scene, a cricket league defied convention, reimagined the game, and captured the hearts of millions. The IPL became a spectacle that transcended the boundaries of traditional cricket, fusing sport with entertainment, broke free from the boundaries of tradition and transformed the way we perceive the sport. Join me as we unravel the remarkable story of the IPL's Blue Ocean Strategy, where cricket met entertainment, and a revolution was born.



1. Continuous Innovation

IPL embraced a format that focused on city-based teams, attracting both international and domestic players. This approach not only fostered intense competition but also fueled a sense of regional pride and loyalty among fans.



2. Emphasis on Entertainment:

It incorporated various elements that enhanced the fan experience. The league introduced innovative concepts such as strategic time-outs, cheerleaders, and music, creating a carnival-like atmosphere in stadiums. These additions transformed matches into a spectacle, engaging fans and ensuring an unforgettable live experience.

3. Expanding the Fan Base:

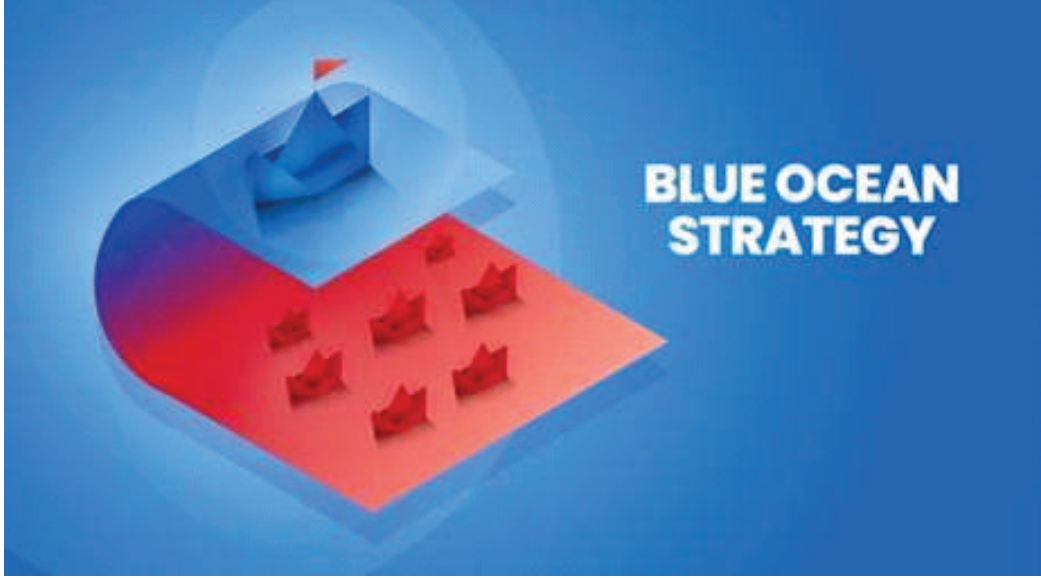
By blending this with a touch of entertainment, IPL successfully appealed to a broader audience, expanding the reach and popularity of the sport.

Furthermore, IPL leveraged the power of media and technology to reach cricket enthusiasts worldwide.

CONCLUSION

नवं जलं ववस्तारयेद्वीर, न तु रक्तस्य संग्रामे ।
अवद्वतीयं समत्पादयेद्वीर, आनंदं प्रदाय वनरामये ॥”

"Brave warrior, expand into new waters, not the blood-stained battlefields. Create something unique and give joy to all in a peaceful way."



The Blue Ocean Strategy is the secret ingredient; the game changer for businesses to make waves in the market. By challenging the status quo, thinking outside the box, and creating new market spaces, organizations can sail into uncharted waters and leave their competitors in their wake. So, don't just swim with the school, break free and make a splash with the Blue Ocean Strategy!

Article : Harnessing AI and Automation for Next-Generation Auditing By Shlok Trivedi

• Introduction

In recent years, the landscape of audit practices has undergone a profound transformation, thanks to the advent of Artificial Intelligence (AI) and automation. These technologies are not merely tools; they represent a paradigm shift in how audit firms operate, offering unprecedented opportunities to enhance efficiency, accuracy, and value delivery. By leveraging AI and automation, audit firms can streamline processes, uncover insights, and elevate the quality of their services to clients. In essence, AI and automation have emerged as game changers for audit firms, empowering them to navigate the complexities of the modern business environment with unparalleled agility and effectiveness.

• Changes after implementing AI and automation in Audit

The adoption of Artificial Intelligence (AI) and automation in audit practices has sparked significant changes in the auditing landscape. These innovations have revolutionized traditional audit methods, offering efficiency, accuracy, and expanded analytical capabilities. This article delves into the transformative impact of AI and automation on audit practices, highlighting the notable changes and their implications.

Implementing AI and automation in audit practices in India has brought about several changes, both positive and negative. Here's a detailed list in form of a pre and post comparison:

Aspect	Pre-Implementation	Post-Implementation
Efficiency	Manual, time-consuming processes	Streamlined, automated tasks leading to time savings
Accuracy	Prone to human error	Enhanced accuracy with reduced risk of errors
Risk Assessment	Reliant on manual analysis of limited data	Comprehensive risk assessment through AI-driven analysis
Real-time Monitoring	Limited to periodic reviews	Continuous monitoring for real-time detection of anomalies
Cost	High labor costs due to manual efforts	Reduced costs through automation and efficient resource allocation
Analytical Capabilities	Limited by human capacity and time constraints	Expanded analytical capabilities with AI-powered tools
Compliance	Potential gaps due to manual tracking	Improved compliance through automated monitoring
Audit Speed	Relatively slow due to manual processes	Accelerated audits with faster data analysis and reporting
Client Service	Standardized services with limited advisory	Enhanced service with personalized advisory and insights

Aspect	Pre-Implementation	Post-Implementation
Workforce Skills	Traditional auditing skills emphasized	Upskilling in technology-related competencies
Job Displacement	Minimal impact on job roles	Potential displacement of low-skilled tasks
Data Privacy	Concerns over manual handling and security	Increased vigilance and measures for data privacy
Dependency on Tech	Reliance on manual processes with minimal tech integration	Vulnerability to disruptions in technology infrastructure
Resistance to Change	Comfort with traditional methods	Adoption challenges due to fear of job loss or skepticism
Algorithmic Bias	Potential for subjective biases in manual assessments	Risks of bias in AI-driven analysis without proper calibration
Regulatory Challenges	Compliance with existing regulations	Need for adaptation to regulatory changes and guidelines
Human Judgment	Reliance on human intuition and judgment	Enhanced analytical capabilities, but potential loss of human judgment
Initial Investment Costs	Low upfront investment in technology	Significant initial investment in technology infrastructure
Job Polarization	Relatively stable job roles with minimal skill variation	Creation of higher-skilled roles alongside displacement
Ethical Considerations	Limited ethical concerns with manual processes	Ethical dilemmas regarding transparency and accountability

- **Other points**

Here are some additional points to complement the comparison table:

Post-Implementation:

1. **Data Analysis Depth:** AI enables auditors to delve deeper into datasets, uncovering patterns and insights that may have been overlooked with manual analysis alone.
2. **Predictive Analytics:** AI tools can forecast future trends and potential risks based on historical data, providing proactive insights to clients for better decision-making.
3. **Scalability:** Automation allows audit processes to scale more easily to handle larger datasets or increased workload without significant resource constraints.
4. **Global Collaboration:** AI-powered collaboration tools facilitate real-time collaboration among audit teams across different geographical locations, enhancing efficiency and knowledge sharing.
5. **Customization:** AI enables the customization of audit procedures and reports based on specific client needs or industry requirements, improving the relevance and effectiveness of audits.
6. **Continuous Improvement:** AI systems can learn from past audits and feedback, continuously improving their algorithms and performance over time to deliver more accurate results.
7. **Audit Trail Transparency:** Automation provides a clear audit trail, documenting every step of the audit process and enhancing transparency for regulators and stakeholders.
8. **Fraud Detection:** AI algorithms can detect patterns indicative of fraud or irregularities in financial data more effectively than traditional methods, reducing the risk of undetected fraud.
9. **Regulatory Compliance Monitoring:** AI tools can monitor changes in regulatory requirements and automatically update audit procedures accordingly, ensuring ongoing compliance with evolving regulations.
10. **Integration with Emerging Technologies:** AI and automation can be integrated with emerging technologies such as blockchain and Internet of Things (IoT) to provide more robust audit solutions for industries with complex ecosystems.
 - **Cost-benefit analysis**
A cost-benefit analysis of implementing AI and automation in audit practices involves assessing the potential costs associated with implementation against the expected benefits over a specific time frame. Here's a simplified version:

Costs:

1. Initial Investment:

- Software Licenses and Tools
- Training Expenses
- Customization and Integration Costs
- Hardware Upgrades and Purchases
- Consulting Services

2. Ongoing Costs:

- Software Maintenance Fees
- Hardware Maintenance Contracts

Benefits:

1. Time Savings:

- Reduced time spent on repetitive tasks such as data entry, reconciliation, and report generation.

2. Increased Efficiency:

- Streamlined audit processes leading to faster completion of audits.

3. Improved Accuracy:

- Reduction in human errors leading to more accurate financial analysis and reporting.

4. Enhanced Risk Assessment:

- Comprehensive analysis of large datasets leading to better risk identification and mitigation.

5. Real-time Monitoring:

- Early detection of irregularities or fraud leading to proactive measures.

6. Cost Reduction:

- Reduced labour costs and improved resource allocation.

7. Expanded Analytical Capabilities:

- Ability to perform complex data analysis leading to deeper insights and value-added services for clients.

8. Enhanced Compliance:

- Better adherence to regulatory requirements leading to reduced compliance risks.

9. Improved Client Service:

- Personalized advisory services and stronger client relationships.

10. Skill Enhancement:

- Upskilling of audit staff leading to a more technically proficient workforce.

Conclusion

In conclusion, the integration of Artificial Intelligence (AI) and automation into audit practices has emerged as a catalyst for profound change within the auditing profession. Despite the challenges and considerations, the benefits of AI and automation are undeniable. From increased efficiency and accuracy to enhanced risk assessment and client service, these technologies have redefined the audit process, empowering firms to deliver higher-quality audits and stay competitive in today's dynamic business environment. While the journey towards AI-driven audits may require significant investments and adaptation, the long-term rewards in terms of improved performance, client satisfaction, and strategic insights make it a worthwhile endeavour. As audit firms continue to embrace AI and automation, they are poised to unlock new opportunities, drive innovation, and shape the future of auditing for years to come.



Article : Compulsory Dematerialization of Shares of a Private Company

CA Dalpat Shah

The Ministry of Corporate Affairs (MCA) issued a Notification dated 27.10.2023 notified the Companies (Prospectus and Allotment of Securities) Second Amendment Rules, 2023, vide which a new Rule 9B has been inserted in the existing Companies (Prospectus and Allotment of Securities) Rules, 2015 (“Allotment Rules”).

Besides, mandatory dematerialisation of shares by all the Listed Public companies, the MCA, vide notification dated 10.09.2018 inserted Rule 9A in the **Companies (Prospectus and Allotment of Securities) Rules, 2014** (‘PAS Rules’), mandating every unlisted public company to hold and issue securities only in demat form. On the same line, CA has now mandated all the private companies other than small companies to comply with the provisions of dematerialisation of all its securities by 30.09.2024.

It is provided under the new Rule 9B that every private company which is not a small company as on March 31, 2023, shall facilitate dematerialization of all its securities within eighteen months of closure of financial year 2022-23, i.e. by 30.09.2024.

Sec 2(85) of the Companies Act, 2013 defines ‘small company’ whose paid-up share capital does not exceed Rs. 50 Lakhs or turnover as per its last audited financial statements does not exceed Rs. 2 Crores. However, following companies are excluded from the definition of a ‘small company’-

- i) a holding company or a subsidiary company
- ii) a company registered under section 8; or
- iii) a company or body corporate governed by any special Act

It is also provided under the New Rule 9B that every private company shall issue any new securities, bonus shares, rights shares or buyback of securities after 30.09.2024 be undertaken in a dematerialised form only and shall also ensure that before making such offer, entire holding of securities of its promoters, directors, key managerial personnel has been dematerialised in accordance with the provisions of the Depositories Act, 1996 (22 of 1996).

Accordingly, a shareholder other than promoters, directors, key managerial personnel can hold shares of a private company in physical mode even after 30.09.2024 but will not be able to transfer the same after 30.09.2024 unless the same has been dematerialised.

Benefits of Dematerialization

Dematerialization of shares provides transparency, i.e. track of real shareholders of the shares, stamp duty payment on transfer of shares. Even banks or financial institutions can easily transfer pledged shares against non-payment of loans.

It provides permanent safety to a shareholder holding shares in demat form as there is no threat of any loss, theft or defaced unlike physical share certificates.

It facilitates speedy transfer of shares and also required quantity of shares which otherwise was not possible in case of physical shares.

It may attract private investors to subscribe to issuance of securities due to its transparency.

Impact on Private Companies

The new Rule 9B is going to impact all the private companies other than small companies as it has additional compliance cost.

Besides, any non-resident or foreign investors in private companies will also be required to open a demat account in India which will be an additional cost as well as procedural burden on them. Non-resident shareholder will have to get their PAN as it is must to open a demat account in India.

Penalty for Default

There is no specific penalty specified under the Companies Act,2013 on default of dematerialization of shares by a private company. However, as provided under Section 450 of the Companies Act,2013, company and every officer of the company who is in default will be liable to a penalty of Rs.10,000. In case of continuing contravention, with a further penalty of Rs.1,000 for each day after the first during which the contravention continues, subject to a maximum of Rs. 2,50,000 in case of a company and Rs.50,000 in case of an officer who is in default or any other person.

In view of the provisions under the Companies Act,2013, MCA should clarify the amount of penalty, if any, for default in demat of shares by the private companies.

Concluding Thoughts

The compulsory dematerialisation of the shares of the private company is a welcome requirement in view of the corporatisation of businesses and expectation of transparency from financiers. However, MCA should have provided sufficient time frame to comply with the procedure and shall also clarify on penalty on default of the compliances.



Article : How a vendor master can put a Company in jeopardy !!

CA Pravruti Shah

After understanding role of technology in procurement to pay cycle, in our 50th edition, we would like to touch base upon the heart of the process of Procurement to Pay i.e. Vendor master!

Importance of VMF

It would not be wrong to call a Vendor Master File (VMF) as bible of any accounts payable department. It is not called a master file for nothing. The importance of maintaining clean master data cannot be overstated. It might not be super exciting or attention grabbing, but accurate data is a cornerstone of effective Procure-to-Pay practice.

Why do errors occur?

There are many reasons why VMFs degenerate. The biggest is human error. It's compounded by many factors - multiple owners, decentralized business operations, sloppy controls and the fast pace of business putting time pressure on workers. The sheer volume of vendors can make it difficult to keep up with changing addresses or banking details. Fraudsters expertly find and exploit these weaknesses.

Top 3 reasons for inaccurate VMF

- **PEOPLE** ▪ Human error, insufficient resources and poor communication across multiple departments can lead to data entry mistakes and record duplication.
- **POLICY** ▪ Poor controls and processes permit too many people to add or change vendor details. ▪ Data is not properly validated when entered or is incomplete. ▪ Governance is inadequate. ▪ Spend analytics are inaccurate.
- **VENDOR** ▪ A complex vendor ecosystem where vendor details change frequently can lead to duplicate and incorrect vendor entries. ▪ Vendors go bankrupt ▪ There are obscure related to vendors.

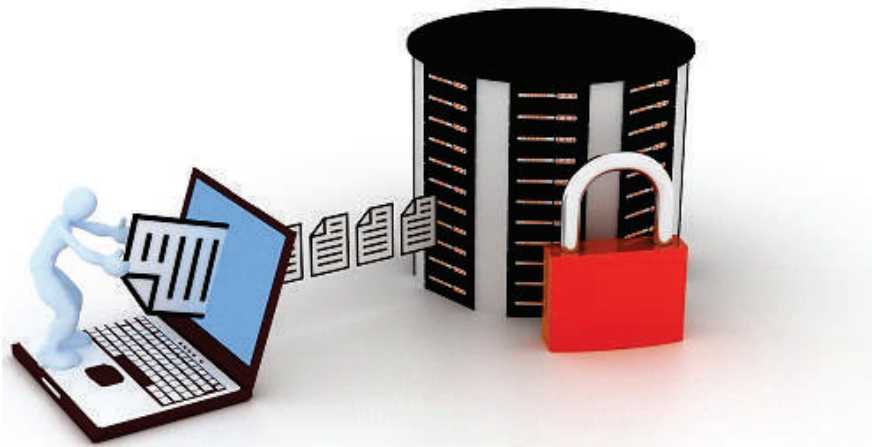
Ways of improving / cleaning & its benefits

1. To fill in creation / modification of vendor forms and approval hierarchy of the same.
2. To have all necessary documents for KYC of vendors along with such form.
3. Review inactive vendors at regular frequency and block them.
4. Complete missing details.
5. Remove duplicates.
6. Restricted and controlled ERP rights to create / modify vendor master.
7. In-built ERP controls which would dictate the characters and length of field entered (For example PAN has to be minimum of 10 digits, first 3 being alphabets , then digits etc.)

Commit to maintaining a clean VMF

The value of the data in the vendor master is directly related to its accuracy. It is worth the effort to clean and maintain this file. A VMF that contains complete, current, and structurally consistent data is a tool to combat fraud, erroneous and duplicate payments. It helps to ensure compliance with statutory requirements and allows visibility to the vendors for better management of terms, rebates and total spend.

Year end has traditionally been the time for cleansing MVFs, and there is good reason to kickstart this process before the start of the next financial year. But in truth, the right time to clean your master data isn't a particular month of the calendar – it should be a continuous process with clear guidelines and ownership. Let us know if you need any help with streamlining such processes.





Article : Deposit in ECRL amounting to payment of GST

CA Jitendra Soni

Recently, the Madras High Court in the case of Eicher Motors Limited v. Superintendent of GST & CE, [TS-19-HC(MAD)-2024-GST] ('Eicher Motors ruling') has granted an unexpected relief on interest liability under GST Law. The High Court held that deposit of an amount in Electronic Cash Ledger ('ECL') amounts to payment of tax and thus, a taxpayer is not required to pay interest post deposition of amount in ECL irrespective of filing of GSTR-3B. In this Article, the Authors take a microscopic view of entire controversy, correctness thereof & way forward for taxpayers.

Issue and dispute

GST is 100 percent technology driven with GST portal as foundation. ECL and Electronic Credit Ledger ('ECL') are the backbones of GST portal, enabling taxpayers to deposit cash and avail Input Tax Credit ('ITC') respectively. Taxpayers can also make payment of tax through these ledgers. Section 50 of the Central Goods and Service Tax Act, 2017 ('CGST Act') dealing with levy of interest, links interest liability with tax paid through ECL. The question which still requires thoughtful consideration is whether mere deposit in ECL amounts to payment of tax or not.

In this case, taxpayer, Eicher Motors Limited filed its monthly GSTR-3B returns for period July 2017 to December 2017 belatedly on account of technical glitches in GST portal whereby it could not transition TRAN-1 credit. Through self-assessment mechanism, taxpayer deposited requisite cash in its ECL on or before due dates of filing GSTR-3B. The Revenue demanded interest on tax liability deposited through ECL due to delayed filing of GSTR-3B. These proceedings culminated into Writ Petition before the High Court.

The High Court examined the CGST Act along with the Central Goods and Services Tax Rules, 2017 ('CGST Rules') and concluded that depositing amount in ECL amounts to payment of tax to the Government. The Court's conclusion primarily rested on Explanation (a) to Section 49 which provides that date of deposit of cash in Government account is deemed to be date of deposit in ECL. Simply put, amount paid through PMT-06 challan in authorized bank shall be deemed to be credited to ECL when credited to the Government account. The Court also noted that debit entries in ECL are only for accounting purposes and does not equate to payment of tax. On the Revenue's argument that Section 39(7) provides for payment of tax through GSTR-3B, the Court held that said provision only mandates payment of tax before filing of GSTR-3B and requires reporting of details of tax payable & tax paid in GSTR-3B. The Court also inferred that depositing amount in ECL equals to payment of tax since details of Government's RBI account are auto-filled as beneficiary in PMT-06 challan. Lastly, the Court relied on ruling of CIT v. Modipon Limited, wherein in context of erstwhile regime, it was held that amount deposited in Personal Ledger Account ('PLA') shall be deemed as payment of tax to the Government. On the basis of this, the Court distinguished earlier contrary High Court rulings and held that no interest is payable.

Way forward

Taxpayers may take benefit of this favourable judgment and contest levy of interest if deposits have been timely made in ECL. However, this ruling will face testing times ahead as it will definitely be appealed before Division Bench of the Madras High Court where discussion on aforesaid points will find their way in. Nevertheless, it remains to be seen which way the wind will finally blow.



DIRECT TAX UPDATES

I. Circulars & Notifications

1. No higher rate of TDS/TCS in case of inoperative PAN till 31.05.2024

(Circular no. 6/2024 dated 23.04.2024)

C.B.D.T. vide its Circular No. 3 dated 28.03.2023 had clarified that consequent to PAN becoming inoperative as provided U/Rule 114AAA of the Income tax Rules, 1962, a person liable to deduct TDS under Chapter XVII-B of the Income tax Act, shall deduct tax at higher rate, in accordance with the provisions of section 206AA. Similarly, a person liable to collect TCS under Chapter XVII-BB of the Income tax Act, shall collect tax at higher rate, in accordance with the provisions of section 206CC in case of such person.

This was applicable w.e.f. 1st July, 2023 and continue till the PAN of such person becomes operative. With a view to redressing the grievances faced by such deductors/collectors, the CBDT in partial modification and in continuation of the Circular No. 3 dated 28.03.2023 has given relief to such deductor/collector in regard to transactions entered into upto 31.03.2024 and in cases where the PAN becomes operative as a result of linkage with Aadhaar on or before 31.05.2024, there shall be no liability on the deductor / collector to deduct/collect the tax under section 206AA/206CC, as the case maybe and the deduction/collection as mandated in other provisions of Chapter XVII-B or Chapter XVII-BB of the Act, shall be applicable.

2. Extension of Due Date for Filing of Form no. 10A/10AB

(C.B.D.T. Circular No. 07/2024 Dated 25.04.2024)

The Taxation and Other Laws (Relaxation and Amendment of certain Provisions) Act, 2020 had mandated to apply all the Charitable Organisations to for Renewal of Registration under section 10(23C), 12AB 35(1)(ii)/(iii), and section 80G in Form No. 10A/10AB by 30.06.2021 which was then extended to 31.08.2021 vide Circular No. 12/2021 dated 25.06.2021, to 31.03.2022 by Circular No. 16/2021 dated 29.08.2021, to 25.11.2022 by Circular No. 22/2022 dated 01.11.2022 and further to 30.09.2023 by Circular No. 6/2023 dated 24.05.2023, extended to 30.09.2022 by Circular No. 8/2022 dated 31.03.2022 and further to 30.09.2023 by Circular No. 6/2023 dated 24.05.2023.

With a view to avoid and mitigate genuine hardship to all such charitable organisations, the CBDT has further extended due date to file application in Form No. 10A/10AB to 30.06.2024.

It is also clarified that if any existing trust institution or fund who had failed to file Form No. 10A for AY 2022-23 within the due date as extended by the CBDT Circular No. 6/2023, dated 24.05.2023 and subsequently, applied for provisional registration as a new trust, institution or fund and has received Form No. 10AC, it can avail the option to surrender the said Form No. 10AC and apply for registration for AY 2022-23 as an existing trust, institution or fund in Form No. 10A within the extended time of 30.06.2024.

II. High Court Decision

Contribution to Compensatory Afforestation Fund - Revenue Expenditure

PCIT V. Tata Steel Ltd [2024] 161 taxmann.com 607 (Bombay)

Facts of the Case :

Assessee company was engaged in business of manufacturing of iron and steel products. It had made contribution to Compensatory Afforestation Fund (CAF) during A.Y. 2006-07 which was claimed u/s 37 of the Income tax Act as revenue expenditure. A.O. disallowed the same holding as capital in nature.

Held by the Bombay High Court that :

Contribution to Compensatory Afforestation Fund (CAF) is revenue in nature and not capital in nature allowable u/s 37 following the Bombay High Court (Goa Bench) decision in the case of Commissioner of Income Tax v. Dr. Prafulla R. Hede and Another Tax Appeal No. 15 of 2012 dated 6th February 2012?”.

III. Tribunal Decision

Voluntary Compensation on out of Court settlement is not taxable U/sec 17(3)

Facts of the case :

The assessee received a sum of Rs. 2 Crores from his employer INX Media after his termination of his services and Rs. 13,08,444/- for purchase of new car received as an out of court settlement from the employer. The AO made addition of both these sums to the total income of the assessee as profits in lieu of salary as provided u/sec 17(3)(i) in his order for A.Y. 2009-10, U/sec 143(3) of the Income Tax Act, 1961.

Held :

“As the payment of **ex-gratia compensation was voluntary in nature without there being any obligation on the part of employer to pay** further amount to assessee in terms of any service rule, it would not amount to compensation in terms of section 17(3)(i) of the Act. **The impugned addition was rightly deleted by the Ld. CIT(A).** The aforesaid point is accordingly determined against the revenue department.”





ACCOUNTING UPDATES

A. EAC Opinion:

Accounting treatment of additional capitalisation arisen due to arbitration award

Fact

Accounting Treatment Followed by the Company:

- a. After arbitration was invoked by the contractor, the claim amount of INR 962.51 crore was shown under contingent liability until the same was confirmed in March 2022.
- b. On payment in March 2022, prolongation cost including interest for INR 353.41 crore was charged to revenue in the Statement of Profit and Loss.
- c. Other Claims amounting to INR 283.94 crore were capitalised. Liability for INR 153.71 crore was already existing in the books on capitalisation of the asset in 2014. Balance amount of INR 130.23 crore was capitalised w.e.f. March 2022 prospectively.

Query

The querist has sought the opinion of the Expert Advisory Committee on the following issues:

- (i) Whether the contention of C&AG that INR 130.23 crore should be depreciated retrospectively, i.e., from the original date of capitalisation, or
- (ii) The accounting treatment of additional capitalisation and depreciation followed by the Company, is in accordance with the requirements of Ind AS 16, Ind AS 8 and prevailing accounting policy of the Company.

The relevant text of the Opinion is reproduced below:

“The Committee is of the opinion that change in estimate due to adjustment of the carrying amount of an asset should be recognised prospectively by adjusting the carrying amount of the related asset in the period of the change. Thus, in the extant case, the additional amount incurred towards the cost of asset due to change in the initial estimate of the cost of the asset arising because of the settlement of the provision/liability towards design engineering cost, extra civil work, price variation claims etc., should be capitalised with the cost of the PPE/ asset(s) prospectively. Further, the depreciation on the amount capitalised subsequently due to change in estimate should be charged prospectively. However, the resulting carrying amount of such asset should be reviewed for impairment as per the requirements of Ind AS 36, ‘Impairment of Assets’.

Accordingly, the accounting treatment of additional capitalisation and depreciation followed by the Company is in accordance with the requirements of Ind AS 16 and Ind AS 8.”

EAC Opinion can be accessed at:

<https://resource.cdn.icai.org/80079cajournal-may2024-30.pdf>





RBI Updates

Article on:- Harnessing technology for P2P efficiency

A. Key Facts Statement (KFS) for Loans & Advances:

As announced in the Statement on Developmental and Regulatory Policies dated February 8, 2024, it has been decided to harmonize the instructions on Key Facts Statement (KFS) for Loans & Advances. This is being done in order to enhance transparency and reduce information asymmetry on financial products being offered by different regulated entities, thereby empowering borrowers for making an informed financial decision. The harmonised instructions shall be applicable in cases of all retail and MSME term loan products extended by all regulated entities (REs) i.e. All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks, excluding Payments Banks), All Primary (Urban) Co-operative Banks, State Co-operative Banks and Central Co-operative Banks and All Non-Banking Financial Companies (including Housing Finance Companies).

B. Fair Practices Code for Lenders - Charging of Interest.

During the course of the onsite examination of Regulated Entities (REs) for the period ended March 31, 2023, the Reserve Bank came across instances of lenders resorting to certain unfair practices in charging of interest such as:

- a. Charging of interest from the date of sanction of loan or date of execution of loan agreement and not from the date of actual disbursement of the funds
- b. In the case of loans being disbursed by cheque, instances were observed where interest was charged from the date of the cheque whereas the cheque was handed over to the customer several days later.
- c. In the case of disbursal or repayment of loans during the course of the month, some REs were charging interest for the entire month, rather than charging interest only for the period for which the loan was outstanding.
- d. REs were collecting one or more instalments in advance but reckoning the full loan amount for charging interest.

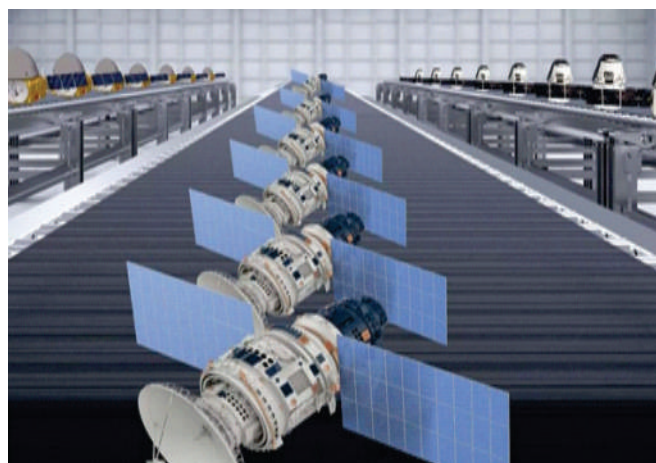
Therefore, in the interest of fairness and transparency, all REs are directed to review their practices regarding mode of disbursal of loans, application of interest and other charges and take corrective action, including system level changes, as may be necessary, to address the issues highlighted.



FEMA UPDATE

Foreign Direct Investment Policy on Space Sector

The Indian government has liberalized the policy framework for foreign investments in the space sector, by permitting investments through the automatic route for certain activities subject to specified thresholds. This development, aimed at attracting and easing investments into this fast-growing sector, is yet to come into effect.



1. Background

On 4 March 2024, the Indian government issued Press Note 1 of 2024 (**Press Note**) liberalizing foreign investments in the space sector. The Press Note amends India's Consolidated Foreign Direct Investment Policy (FDI Policy) and will take effect once amendments to Schedule I of the Foreign Exchange Management Act (Non-Debt Instrument) Rules, 2019 (**NDI Rules**) are notified.

In this update, we discuss key changes introduced through the Press Note to the existing FDI framework in the space sector and its implications on global players currently doing business in India or those planning to set up operations in India.

2. Analysis

Prior to Press Note

Sr. No.	Unit in IFSC (Payee)	Permitted Investment under Government Approval
1	Satellites - establishment and operations, subject to the sectoral guidelines of the Department of Space / ISRO".	100 %

After Press Note *

Sr. No.	Sector / Activity	Permitted Investment under Government Approval
1	Satellites – Manufacturing and Operation, Satellite Data Products and Ground Segment and User Segment	Up to 74 %
2	Launch vehicles and associated systems or sub-systems, creation of spaceport for launching and receiving spacecraft	Up to 49 %
3	Manufacturing of components and systems/sub-systems for satellites, ground segment, and user segment	Up to 100 %

* In the same vein, and following in the footsteps of the Space Policy, the Press Note now permits FDI in various activities under the automatic route, i.e., without any prior government approval, up to specified thresholds in above three categories.

<https://pib.gov.in/PressReleaselframePage.aspx?PRID=2011523>



Ministry of Commerce & Industry

Review of Foreign Direct Investment Policy on Space Sector

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The Government of India has reviewed the extant Foreign Direct Investment (FDI) Policy on Space sector. Accordingly, the following amendments have been made under Para 5.2.12 of the Consolidated FDI Policy Circular of 2020, as amended from time to time (FDI Policy):

5.2.12 SPACE SECTOR

Sector/Activity	Sectoral Cap	Entry Route
5.2.12.1 (1) Satellites-Manufacturing & Operation (2) Satellite Data Products (3) Ground Segment & User Segment	100%	Up to 74%: Automatic Beyond 74%: Government route
5.2.12.2 (1) Launch Vehicles and associated systems or subsystems (2) Creation of Spaceports for launching and receiving Spacecraft	100%	Up to 49%: Automatic Beyond 49%: Government route
5.2.12.3 Manufacturing of components and systems/ sub-systems for satellites, ground segment and user segment	100%	Up to 100%: Automatic

5.2.12.4 The investee entity shall be subject to sectoral guidelines as issued by Department of Space from time to time.

5.2.12.5 Definitions:

- Satellites - Manufacturing & Operation:** End-to-end manufacturing and supply of satellite and/or payload, establishing the satellite systems including control of in-orbit operations of the satellite & payloads.
- Satellite Data Products:** Reception, generation or dissemination of earth observation / remote sensing satellite data and data products including Application Interfaces (API).
- Ground Segment & User Segment:**
 - Ground Segment:** Supply of satellite transmit/receive earth stations including earth observation data receive station, gateway, teleports, satellite Telemetry, Tracking and Command (TTC) station, Satellite Control Centre (SCC), etc.
 - User Segment:** Supply of user ground terminals for communicating with the satellite, which are not covered under the ground segment.
- Launch Vehicles and Associated Systems or Subsystems:** A vehicle and its stages or components that is designed to operate in or place spacecraft with payloads or persons, in a suborbital trajectory, earth orbit or outer space.
- Creation of Spaceports for launching and receiving Spacecraft:** A spaceport (also referred as launch site) can be regarded as the base from which spacecraft are launched, and consisting of facilities involving devices for transportation to, from and via outer space.
- Manufacturing of Components and Systems/Subsystems for Satellites ground segment and user segment:** Comprises the manufacturing and supply of the electrical, electronic and mechanical components systems/ subsystems for satellites, ground segment and user segment.

The above decision will take effect from the date of FEMA notification.

DUE DATES

Due dates of various compliances falling in the month of May 2024

Sr.No	Due Date	Act/Authority	Compliance Description
1.	07-05-24	Income Tax	Deposit of Tax Deducted at Source (TDS) / Tax Collected at source (TCS) during the month of April - 2024
2.	10-05-24	GST	GSTR-7 for the month of April - 2024 for persons required to deduct TDS
3.	10-05-24	GST	GSTR-8 for the month of April - 2024 for e-commerce operator required to Collect TCS
4.	11-05-24	GST	GSTR-1 for the month of April - 2024 for taxpayers having turnover more than Rs. 5 crores or opted to file Monthly Return
5.	13-05-24	GST	GSTR-5 by Non-resident taxable person carrying out business in India for the month of April - 2024
6.	13-05-24	GST	GSTR-6 for the month of April - 2024 for Input Service Distributor
7.	15-05-24	PF/ESIC	Payment of PF / ESIC for the month of April-2024
8.	15-05-24	Income Tax	Quarterly statement of TCS deposited for the quarter ending March 31, 2024
9.	20-05-24	GST	Payment of GST & Filing of GSTR-3B for the month of April - 2024, for taxpayers having turnover of more than Rs.5 Crore in preceding financial Year
10.	20-05-24	GST	GSTR-5A by Non-resident taxable OIDAR Service Provider for the month of April - 2024
11.	25-05-24	GST	GST Challan Payment if no sufficient Input Tax Credit for the month of April - 2024 for taxpayers opted for quarterly return monthly payment (QRMP)
12.	30-05-24	Income Tax	Furnishing of challan-cum-statement in respect of tax deducted under section 194-IA, 194-IB, 194M and 194S in the month of April, 2024
13.	30-05-24	MCA	Filing of Annual return by Limited Liability Partnership (LLP) for the financial year 2023-2024
14.	30-05-24	MCA	Filing of Reconciliation of Share Capital Audit Report for the half year ended on March 31, 2024, by unlisted public company
15.	31-05-24	Income Tax	Quarterly statement of TDS deposited for the quarter ending March 31, 2024
16.	31-05-24	Income Tax	Furnishing details of reportable financial transactions for the financial year 2023-2024 in Form No. 61A and 61B
17.	31-05-24	Income Tax	Statement of donation in Form 10BD to be furnished by Charitable Trust for the financial year 2023-24

“ **Hardships often prepare ordinary people for an extraordinary destiny.** ”

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