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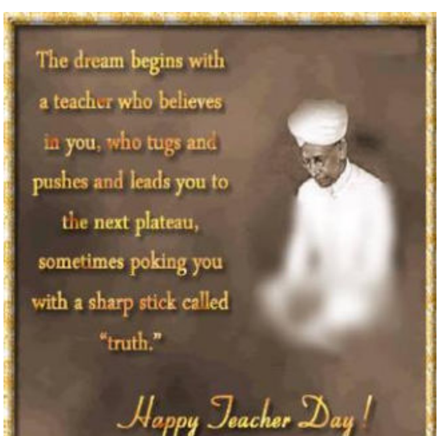
BHUJ BRANCH

OF

WESTERN INDIA REGIONAL COUNCIL OF

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA



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CA Bhavee Thacker

Chairperson’s Message

Dear Professional Colleagues,

September Month marks the beginning of Autumn Cheer. It symbolizes the ringing out Old and bringing in new. Like the changes in weather are sure to happen with rising times so is our work. Pace of GST (Goods and Service Tax) has taken over the mile of Tax Audit. All the Chartered Accountants, their staff are messed with what to start and what to end.

It seems that sometimes the brain becomes blank with what work has to be given priority and beyond that the Challenges of the IT Sector laid by the Government Websites. This scenario gives me a feeling of those days when we were students of the CA Course and struggling to crack all the subjects at one go and before we finish one task the other dances on our head. Though Multi- tasking was our feature there and here too, but this GST Implementation has also made us Multi Bearer. Directly or Indirectly our Capacities have grown, our Strength has Widened, our Opportunities have Doubled and our Sleeps Minimised. But that’s the beauty of our profession and the toughness of our course that has shaped us in handling such situations smoothly.

I would like to recall that Strengh is in Soul and Spirit and not in Muscles , that’s why it is rightly said that Keep Your Head Up, God Gives his hardest battles to his Strongest Soldiers.

In this Newsletter, we have tried to bring the insight of all the new changes and concepts that are prevailing in the current arena. I would also like to express my joy that my Young CA Members who apart from their busy schedules have made us circulate this newsletter much ahead of time. My sincere thanks to CA Jagrut Anjariya who despite of turbulent times for all have sailed the ship in correct direction and with ease.

Friends, Our steady contribution to the newsletter have now made our count strong and we are here every month with fresh ideas and thoughts to be circulated to members. Whatever the tough time we all are facing but all of us are actively engaged on the social media helping one another with tweets, circulars, updates, etc., this approach has made us communicable and it seems that now our family is a closed, well knitted family.

Navrati is ahead, approaching fast, a festival to Rejoice, Rejuvenate, Revive our Positive Energies and to get victory over our Negative Vigour. Hope this Navratri brings dancing times in our lives.

Wish you All a Very Happy Navratri and Good Times Ahead !!!!!!!!!!!!!!!!!!!!!

CA Bhavee Thacker

Chairperson

ICDS II VALUATION OF INVENTORIES

Compiled By:- CA Darshana J. Varu
B.com., ACA

In the 21st Century, The accounting profession has witnessed tremendous multifarious growth and success. The expanded role of accountants can be traced to a number of specific factors and various laws such as Companies Act, Income Tax Act, GST, etc, and increasing complexity of business transactions.

In Continuous amendments to taxation laws, one of the recent amendments brought in by the CBDT during theyear 2015 was the notification of 10 Income Computation and DisclosureStandards (ICDSs) vide Notification no. 32/2015 dated 31st March, 2015.Although, the said notification dated 31st March, 2015 was rescinded on 29thSeptember 2016vide Notification no. 86/2016, yet on the same date, 10revised ICDSs were notified vide Notification no.87/2016.These ICDSs willhave a significant impact on computation of taxable income.

Out of the 10 ICDS, we shall discuss in detail ICDS-II – Valuation of Inventories

Inventories being important part of any business,there are always remaining issue for their valuation. The primary issue in accounting for inventories is the determination of the value at which inventories are carried in the financial statements until the related revenues are recognized. The Accounting Standard on “Valuation ofinventories” (AS 2) is amongst the earliest of thestandards issued by the Institute of CharteredAccountants of India.Within span of one year from issuance of Revised AS-2 and to be stream line with Ind AS, by amending section 145 of Income tax act,1961, Income Computation and Disclosure Standards are issued.

This Income Computation and Disclosure Standard is based on Accounting Standard 2 - *Valuation of Inventories* as revised with effect from 1st April 2016. Generally, principles contained in the Revised AS 2 have been

inventories (ICDS II) make some important departures from AS 2, which seeks to address.

SCOPE OF ICDS :

The scope of ICDS is differs from Revised AS 2 in below mentioned aspect;

- ***Work-in-progress which is dealt with by other IncomeComputation and Disclosure Standard;***

  Presently, no other ICDS except ICDS III deals with work-in-progress. Also, it may be noted that capital work-in-progress does not form part of inventory and hence ICDS II does notapply to the same.

- ***Shares, debentures and other financial instruments held as***

As per para 3(1)(b) of ICDS VIII, the term `Securities' shall have themeaning assigned to it in clause (h) of section 2 of the Securities Contracts(Regulation) Act, 1956, other than derivatives. Considering that the definitionof securities contained in ICDS VIII specifically **excludes derivatives,** if anassessee holds derivatives as a part of his inventory, provisions of ICDS II shall apply. However, if the derivatives are not held as part of inventory, thensuch derivatives shall not be governed by the provisions of ICDS II.
Thedefinition of the term `Securities' in para 3(1)(b) of ICDS VIII specificallyincludes share of a company in which public are not substantially interested.Accordingly, provisions of ICDS II shall not apply to shares of a company inwhich public are not substantially interested even if these are held as inventory.

Revised AS 2 which has become applicable for accounting years beginning on or after 30th March, 2016 also exclude from within its scope shares, debentures and other financial instruments held as stock-in-trade. Ind AS 2 Inventories excludes all financial instruments held as stock-in-tradefrom its scope.

- ***Work-in-progress arising in the ordinary course of business of service providers.***

*Revised AS 2 specifically excludes from its scope work-in-progressarising in the ordinary course of business of service providers.***This ICDSdoes not specifically exclude it**. However, except for certain service contracts, revenue for service transactions is to be recognised based on the proportion of work completed.

Further, reference to `service provider' in paragraph 6 of ICDS II as notified on 31st March, 2015 has been omitted in this revised ICDS II issued on 29th September, 2016. Besides, the definition of "inventories" as per paragraph 2(1)(a) does not include work-in-progress of a service provider. It only includes materials or supplies to be consumed in the rendering of services, and not even material actually consumed.

Considering this, ***in case of service providers ICDS II will not have application and value of service not fully rendered need not be computed under this ICDS. This is also indicated by the scope of the ICDS, which excludes work-in-progress which is dealt with by other ICDS.***

DEFINITIONS :

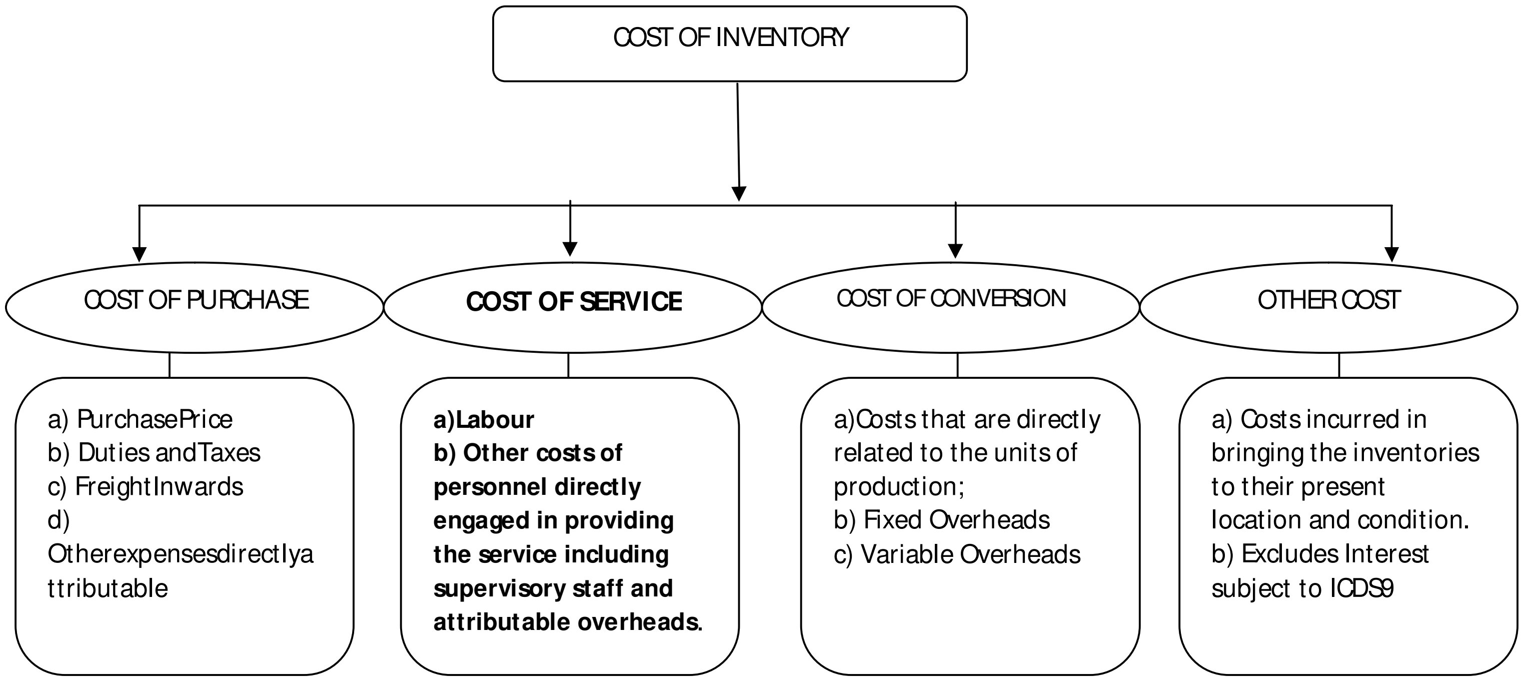
As per para 2(1), two terms are specifically defined namely, Inventories and Net Realisable Value. This definition is the same as contained in para 3.1 and 3.2 of the Revised AS 2.

As per para 2(2),Words and expressions used and not defined in this IncomeComputation and Disclosure Standard but defined in the Act shall havethe meanings assigned to them in that Act."

MEASUREMENT :

The principle that inventories shall be valued at lower of cost and net realizable value is to be applied while valuing the inventories under this ICDS.

COST OF INVENTORIES :



The definition of cost of inventories under the ICDS **includes cost of services** unlike para 6 of the Revised AS 2 which does not cover cost of services. Work in progress in case of service providers is not inventory. Further, in case services have been used in manufacture, production or processing of goods cost of such services willform part of inventory as part of cost of conversion.

Further, for ***COST OF PURCHASE*** as per ICDS, the words of Revised AS 2, *other than those subsequently recoverable by the enterprise from the taxing authorities* are omitted. Ind AS 2 also provides for exclusion of duties and taxes that are subsequently recoverable from the taxing authorities while arriving at the cost of purchase. ICDS IIdiffers from Revised AS 2, as well as Ind AS 2 in this respect. The ICDS prescribes `inclusive method' while

the Accounting Standards prescribe`exclusive method'.
Even prior to the ICDS becoming applicable, under theprovisions of section 145A, purchases, sales and inventory were required tobe valued by including therein the amount of any tax, duty, cess or fee (by whatever name called) actually paid or incurred by the assessee. It was therefore necessary to make adjustments to comply with the provisions ofsection 145A.

As per Guidance Note on Tax Audit under section 44AB of the Income-tax Act, 1961 issued by the ICAI overall impact of the adjustments made to comply with the provisions ofsection 145A on the income of the assessee is nil. **Accordingly, if anexclusive method is followed for the purpose of valuation of inventory as per AS, the tax payer would be required to prepare the memorandum account to demonstrate that vis a vis inclusive method, it is tax neutral. This will be incompliance with section. 145A and ICDS.**

COST OF SERVICES FOR SERVICE PROVIDERS:

As discussed earlier,in case of service providers ICDS II will not have application and value of service not fully rendered need not be computed under this ICDS. Further, it may be borne in mind that all the ICDS apply to assessee following mercantile system of accounting. ICDS do not apply to service providers following cash system of accounting. Accordingly, application of cost of services to be taken as inventory will not apply to service providers following cash system of accounting.

COST OF CONVERSION:

Barring discussion on other elements of conversion cost, we shall discuss in respect of fixed overheads. As per para 8 of the ICDS requires thefollowing:

(i) fixed overheads shall be allocated based on the normal capacity of theproduction facility;

(ii) where actual level of production is close to the normal capacity, actuallevel shall be used for allocation of the fixed overheads;

(iii) if the level of production is low or the plant is idle, overhead allocation shall not be increased. Unallocated overheads are recognised as expense of the period in which these are incurred;

(iv) if the level of production is abnormally high, allocation of overhead is reduced to ensure that the inventory is not valued above cost.

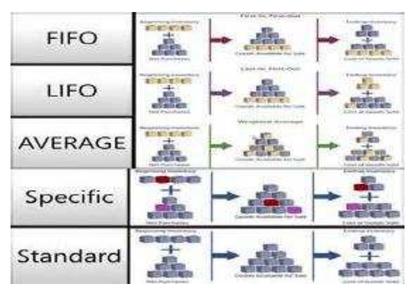
It may be noted that Revised AS 2, as well as Ind AS 2 permit the useof actual level of production when it approximates the normal capacity.

Whether actual level of production is approximating to the normal capacity is a matter of judgement and opinion. The purpose of the valuation of inventory is to arrive at the fairest possible approximation of the costs incurred, and that the use of normal capacity is the basic parameter or norm to be used while allocating overheads.

Hence, using normal capacity while allocating over heads, is always permissible. When the actual production is close tonormal capacity, actual production may be used for allocation of the fixed over heads.

OTHER COSTS :

Generally, interest or other borrowing costs are not included in thecost of inventory. However, para 11 of the ICDS provides that if the inventory item meets the criterion for recognition of interest as a component of the cost as specified in ICDS IX relating to `Borrowing Costs' interest and otherborrowing costs are included as a part of cost of the inventory. ICDS IXdefines what is a `Qualifying asset' and lays down the requirements as toinclusion of interest and other borrowing costs as a component of the cost.Merely because substantial inventory is carried and heavy interest is to bepaid cannot be the criteria for including interest in the cost of inventory.



METHODS OF VALUATION OF INVENTORY :

METHODS OF VALUATION OF INVENTORY

SPECIFIC IDENTIFICATION OF COST

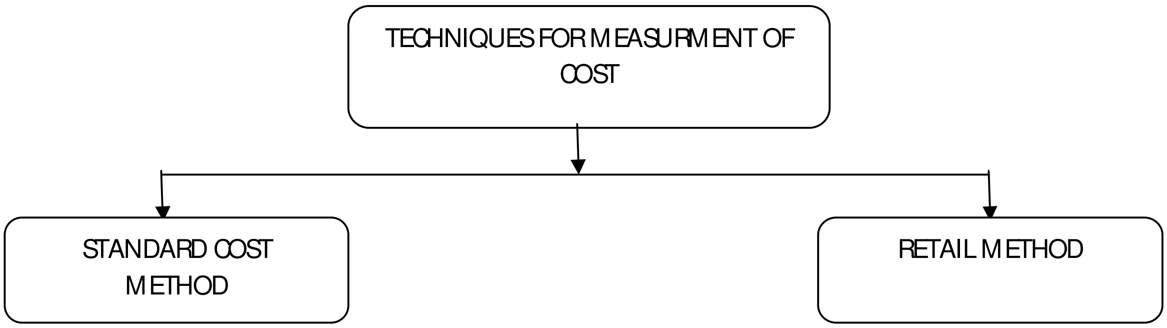
FIFO AND WEIGHTED AVERAGE COST

- ***Specific identification of cost*** is used in case of items:
  (i) that are not ordinarily interchangeable; and
  (ii) Goods and services produced and segregated for specific projects.

are the most commonly used methods to assign costs. Para 16 provides that the formula used shall reflect fairest possible approximation to the cost incurredin bringing the items of inventory to their present location and

The ICDS does not require that all items of inventory should be valued using the same cost formula. Different cost formulae may be used for inventories with different nature or use. However, inventories of the same type should be valued using the same cost formula. Cost formula used should be chosen considering the nature, characteristics and use of inventories. Generally, an assessee who has been following applicable Accounting Standard e.g. old AS 2 and now Revised AS 2 may continue to use the cost formulae which he may have been using hitherto since these are in accordance with the provisions of ICDS.

TECHNIQUES FOR MEASURMENT OF COST :



- ***Standard costs*** take into account normal levels of consumption of materials and supplies, labour, efficiency and capacity utilisation. They are regularly reviewed and, if necessary, revised in the light of the current conditions.

- ***Retail Method*** is used where it is impracticable to used FIFO/ Weighted Average cost, retail method could be used.Cost = Sales – GP margin.

NET REALISABLE VALUE :

Cost of inventory determined in accordance with ICDS should be compared with the NRV and lower of the two should be taken as the value ofthe inventory.

NRV as defined in para 2(1)(b) of ICDS is, the estimated selling price in the ordinary course of business less the cost of completion and costs necessary to make sales.

How to determine NRV:

1) Must be done on an item to item basis. (CIT Vs Chari & Ram 17 ITR 1)
2) NRV to take events occurring after the PY end also (to the extent such events confirm the conditions prevailing on the last day of the previous year).
3) Materials and other supplies held for use in the production of inventories shall not be written down below the cost, where the finished products in which they shall be incorporated are expected to be sold at or above the cost.

VALUE OF OPENING INVENTORY :

Old AS 2 did not have and Revised AS 2 does not have a corresponding provision.

ICDS II specifically provides a rule to ensure that there is continuity in valuation and the value of the closing inventory is the value of the opening inventory for the subsequent year. This is important and will ensure that no permanent gain/loss should result from an adjustment to closing inventory valuation.

What would be taken as the opening value of inventory where an assessee converts his capital asset into stock-in-trade and commences his business during the previous year.

The ICDS provides that the*cost* of inventory available has to be taken as the value of the inventory as onthe beginning of the previous year. This will result in a harmonious interpretation, and avoid double taxation. (Contradict view has been expressed by apex court in *CIT v Bai ShirinbaiK. Kooka [1962] 46 ITR 86 (SC))*

CHANGE OF METHOD OF VALUATION OF INVENTORY :

Para 23 of the ICDS prescribes that unless there is reasonable cause, the method of valuation of inventories once adopted by a person in anyprevious year shall not be changed. ICDS II does not indicate what reasonable cause is. This will depend on the circumstances.

VALUATION OF INVENTORY IN CASE OF CERTAIN DISSOLUTIONS :

Old AS 2 did not and the Revised AS 2 does not have a corresponding provision.

Para 24 of the ICDS provides that in case of dissolution of apartnership firm, an association of persons or a body of individuals, the inventory on the date of dissolution shall be valued at the NRV. This is irrespective of the fact whether or not on dissolution the business of the entity is discontinued.

ICDS II now prescribes valuation of inventory at NRV in all cases where there is dissolution of a firm, AOP or BOI, irrespective of the fact whether on dissolution the business has been discontinued or not. Undersection 2(23) of the Act, the term `firm' includes a limited liability partnership as defined under the Limited Liability Partnership Act, 2008. Accordingly, the requirement of para 24 of the ICDS shall also apply in the case of dissolution of an LLP.

TRANSITIONAL PROVISION :

Interest and other borrowing costs, which do not meet the criteria for recognition of interest as a component of the cost as per para 11, but included in the cost of the opening inventory as on the 1st day ofApril, 2016, shall be taken into account for determining cost of such inventory for valuation as on the close of the previous year beginningon or after 1st day of April, 2016 if such inventory continue to remain part of inventory as on the close of the previous year beginning on or after 1st day of April, 2016.

DISCLOSURES :

- The accounting policies adopted including the cost formulae used
- Where Standard Costing has been used as a measurement of cost, details of such inventories

and a confirmation of the fact that standard cost approximates the actual cost

- The total carrying amount of inventories and its classification appropriate to a person.

ICDS:- REVENUE RECOGNITION & TANGIBLE FIXED ASSETS

Compiled By:- CA Radhika Rajesh Bhinde
B.Com., ACA

Key highlights of Notified ICDS:

1) ICDS shall apply for computation of income chargeable to Income – Tax under the head “Profits and gains of business or profession” or “Income from other sources”. Thus, taxable profits would now be determined after making appropriate adjustments to the financial statements (whether prepared under existing AS or Ind-AS) to bring them in comformity with ICDS.
2) ICDS is applicable to all taxpayers i.e. Corporate / Non-Corporate or Resident / Non-Resident irrespective of turnover or quantam of income.
3) The preamble of each ICDS clarifies that : a) ICDS is applicable for computation of income & not for the maintenance of books of accounts and b) In case of conflict between the provisions of ITA & ICDS, the provisions of ITA shall prevail to that extent.

ICDS are not applicable in any of the following cases:

1) Cases for A.Y. 2016-17 (F.Y. 2015-16) or earlier years.
2) Individual or HUF who is not required to get his/its accounts of P.Y. audited in accordance with the provisions of sec. 44AB of the Act.
3) Those who are following cash system of accounting.
4) Those who don’t have income chargeable to Income – Tax under the head “Profits and gains of business or profession” or “Income from other sources”.

Income Computation and Disclosure Standard IV relating to revenue recognition

Scope:

This ICDS deals with the basis for recognition of revenue arising from

i) Sale of Goods;
ii) Rendering of services;
iii) Use by others of the person’s resources yielding interest, royalties or dividends.

Definitions:

- **“Revenue”** is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of a person from sale of goods, from the rendering of services, or from the use by others of the person’s resources yielding interest, royalties or dividends. In case of agency, the revenue is the amount of commission and not the gross inflow of cash, receivables or other consideration.

As per the existing AS the revenue is recognized when it is measurable and it is not unreasonable to expect its ultimate collection. As per ICDS revenue shall be recognized as under:

1) **Sale of Goods :**
- Revenue shall be recognized when the seller of goods has

transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred.
- Revenue shall be recognized when there is reasonable certainty of its collection.
- Where the ability to assess the collection with reasonable certainty is lacking, revenue recognition in respect of such claim shall be postponed to the extent of uncertainty involved.

2) **Rendering of Services :**
- Revenue from rendering of service is recognized as per principles laid down in ICDS III on Construction Contracts. The "Completed Contract Method" is not recognized.

3) **The Use of Resources by Others Yielding Interest, Royalties or Dividends :**
- Interest income shall accrue on time basis determined by the amount outstanding and the rate applicable.
- Discount or premium on debt securities is recognized over the period to maturity.
- Royalties income shall accrue in accordance with the terms of the relevant agreement.
- Dividend income is recognized in accordance with the provisions of the Act.

Disclosure:

1) In a transaction involving sale of good, total amount not recognized as revenue during the previous year due to lack of reasonable certainty of its ultimate collection along with nature of uncertainty;
2) Amount of revenue recognized during the previous year;
3) Method used to determine the stage of completion of service transactions in progress and
4) For service transactions in progress at the end of previous year:
   (i) Costs incurred;
   (ii) Recognized profits/losses upto end of previous year;
   (iii) Advances received;
   (iv) Retentions amount.

Income Computation and Disclosure Standard V relating to tangible fixed assets

Scope:

This ICDS applies to the specified tangible fixed assets i.e. land, building, machinery, plant or furniture.

Definitions:

- "**Tangible fixed assets**" is an asset held with the intention of being used for the purpose of producing or providing goods or services and it is not held for sale in the normal course of business.
- "**Fair Value**" of an asset is the amount for which that asset could be exchanged between knowledgeable , willing parties in an arm's length transaction.

Components of Actual Cost:

- The actual cost of tangible fixed asset shall comprise its purchase price, import duties and other taxes, other than those subsequently recoverable, and other expenses incurred for making the asset ready for its intended use. Any trade discounts and rebates shall be deducted.
- The ICDS permits to make change in the cost of assets, when such change is on account of changes in foreign exchange rates.

- The expenditure incurred on test runs and experimental production, shall be capitalized. The expenditure incurred after the plant has begun the commercial production, shall be treated as revenue expenditure.

Improvements and Repairs

- An expenditure that increases the future benefits is added to the actual cost.
- The cost of an addition or extention to an existing tangible fixed asset which is of capital nature is to be added to its actual cost.
- Any addition or extention, which has a separate indentity and is capable of being used after the existing tangible fixed asset is disposed of, shall be treated as separate asset.

Depreciation and Transfers

- As per ICDS depreciation on the tangible fixed asset and income arising on transfer of tangible fixed assets is to be computed in accordance with the provisions of the Act.

Disclosure:

- Depreciation of asset or block of asset;
- Rate of depreciation;
- Actual cost or written down value, as the case may be;
- Additions or deductions during the year with dates, in the case of any addition of an asset, date of put to use, adjustments on account of :
  - (i) Central value added tax credit claimed and allowed under the CENVAT credit rules, 2004;
  - (ii) Change in value on account of change in rate of exchange;
  - (iii) Subsidy or grant or reimbursement.
- Depreciation allowable;
- Written Down Value at the end of the year.

GST AND SPECIAL ECONOMIC ZONE (SEZ)

Compiled By:- CA Bhavik Mehta
B.Com., FCA,CS,DISA(ICAI)

GST- the grandest tax reform ever- in SIZE, COVERAGE AND IMPACT. GST is ushered in with great fanfare for a better future of billion Indians. At the same time, we have stakeholders grappling with new system and wondering what it could turn out to be for them. Their response is a mix of jubilation, wonder, fear of unknown apprehensions stemming from biases and challenge of transition pangs.

Now a day's both type of feeling gush, as on one side VAT, Service Tax and Excise as we know and grew up with has became part of history on the other side GST is ushered in with great fanfare. As said in श्रीमदभागवत गीता, परिवर्तन ही संसार का नियम है।।

We will discuss SUPPLY TO SEZ under GST regime.

Around the world, in line with the destination principle sanctioned by the World Trade Organization, Exports are free of VAT/GST and imports are taxed on the same basis and at the same rate as that of Local Production. So, by taking exports at zero rated it is actual, based on destination based taxation principle of WTO, and what is free of VAT is termed as zero rated where costs and overheads can be recovered. GST thus being based on destination principle, exports from a country of origin go out at zero-rated tax, after exempting or refunding the input taxes that may be given to the resources used in its manufacturing. The OCED guidelines on neutrality of VAT in international trade lay this down as the first guideline.

GOODS EXPORT

By following the above principle of destination based taxation exports continue to remain zero rated and a similar benefit continues to be given to Special Economic Zones (SEZs) under GST law. While this benefit is extended to processing zones of the SEZs, sales from SEZ to Domestic Tariff Area (DTA) continue to remain taxed under GST system.

Section 16 of IGST ACT defines Zero rated supply as under

(1) "zero rated supply" means any of the following supplies of goods or services or both, namely:––

(a) export of goods or services or both; or
(b) supply of goods or services or both to a Special Economic Zone developer or a Special Economic Zone unit.

(2) Subject to the provisions of sub-section (5) of section 17 of the Central Goods and Services Tax Act, credit of input tax may be availed for making zero-rated supplies, notwithstanding that such supply may be an exempt supply.

(3) A registered person making zero rated supply shall be eligible to claim refund under either of the following options, namely:—

(a) he may supply goods or services or both under bond or Letter of Undertaking, subject to such conditions, safeguards and procedure as may be prescribed, without payment of integrated tax and claim refund of unutilised input tax credit; or

(b) he may supply goods or services or both, subject to such conditions, safeguards and procedure as may be prescribed, on payment of integrated tax and claim refund of such tax paid on goods or services or both supplied, in accordance with the provisions of section 54 of the Central Goods and Services Tax Act or the rules made there under.

Now, SPECIAL ECONMIC ZONE (SEZ) AND SEZ DEVELOPER are defined under Section 19 and 20 of the IGST Act respectively. These terms derive their meaning from The Special Economic Act, 2005. The SEZ Act, 2005 contains special provision regarding procurement of goods and services without payment of taxes, in line with the same, GST law provides for refund of taxes paid by the supplier supplying goods or services to a developer or Unit holder of SEZ.

As per Section 7(5)(b) of IGST Act, supply of goods and services or both to or by a SEZ Developer or SEZ Unit would be treated to be supply in the course of interstate trader or commerce. In accordance therewith, for example, even if a person in Bhuj provides any Service to unit in Kandla SEZ in Gujarat, it will be treated as interstate supply and IGST is chargeable primarily, notwithstanding that refund would be available since the supply is zero rated as in the case of exports.

As distinguished from VAT laws, supply of goods/services can be made without payment of IGST only under the bond or letter of undertaking or else the payment of integrated tax to be made and then claim refund therof.

In turn, the refund in respect of all zero rated supplies is governed by Section 54 of the CGST Act along with refund in other cases.

So, now there are three options available with supplier to SEZ

1) Supply with payment of IGST
2) Supply under a Bond
3) Supply under a Letter of Undertaking

1-SUPPLY WITH PAYMENT OF IGST

Under this option person making supply to SEZ will charge IGST at applicable rate as may be applicable for supplies of Goods or Services made to SEZ or SEZ Developer. Invoice will be Export Invoice in Indian Currency with a declaration that 'SUPPLY MEANT FOR SEZ DEVELPOER/UNIT WITH PAYMENT OF INTEGRATED TAX'. This option will be beneficial for faster processing of Refund. Actually the IGST liability shown in the Invoice is only for the presentation purpose and should not be collected from the customer, actually it works as follow.

For e.g. Mr. ABC Ltd makes supplies of Goods costing Rs.100000 for Rs.1500000 which attracts IGST @18% to Mr. XYZ Ltd being located in Kandla SEZ. Invoice will be as under

Value of Supply: Rs.150000.00
IGST @ 18% : Rs. 27000.00
Total Invoice Value : 177000.00

Now, ABC Ltd, will first discharge liability of IGST of Rs.27000 by utilizing Input Credit of Rs.18000 (Rs.100000*18%) and Cash Payment of Rs.9000.00, thereafter, he will get refund of Rs.27000 whole amount of IGST, So Cash Payment of Rs.9000- Refund of Rs.27000 i.e. he get refund of Input Credit of Rs.18000 in net terms.

Journal Entries to be passed will be as follow.

1) For Purchase Purchase A/c Dr. 1000000 SGST Credit A/c Dr. 9000 CGST Credit A/c Dr. 9000 To Party A/c 118000	2) For Sale to SEZ XYZ Ltd. A/c Dr. 150000 **IGST Refund Receivable A/c Dr. 27000** To Sales 150000 To IGST Liability A/c 27000
3) For Payment of IGST IGST Liability A/c Dr. 27000 To SGST Credit A/c 9000 To CGST Credit A/c 9000 To Bank A/c 9000	4) On Receipt of Refund Bank A/c Dr. 27000 **To IGST Refund Receivable A/c 27000**

2-SUPPLY UNDER BOND

The concept of Bond is continued from Excise Laws, so for traders' community the concept of Bond will be new concept, which was not there under VAT Laws or Service Tax.

Under this option there will be no tax payment on the Supply to SEZ and Invoice shall carry a declaration 'SUPPLY MEANT FOR SEZ/SEZ DEVELOPER UNDER BOND WITHOUT PAYMENT OF INTEGRATED TAX. This option is best option where supplier is able to utilize Input Credit against other domestic supply. Under this option supplier can supply goods or services by executing a Bond hence Supplier is not required to pay IGST and claim subsequent refund. For this purpose Indemnity Bond will be executed in the specified format GST RFD-11 on non-judicial stamp paper between the Supplier of SEZ and the Government through the President of India. Supplier need not to execute a bond for each supply to SEZ, rather Bond will be running bond i.e. Bond once executed will be valid for period of 12 months.

For, easy compliance and procedure, Bond will be accepted by the Jurisdictional Deputy or Assistant Commissioner. Alongwith bond, a Bank Guarantee is to be furnished as a security under the Bond. The Jurisdictional Officer may decide the amount of Security to be kept as Bank Guarantee depending upon track record of the Supplier. As per direction in any case the B.G. should normally not exceed 15% of the bond amount. When there is breach or failure in performance as per bond executed, the Government will invoke the B.G. to recover the loss or damage to the revenue. As on date, the module for furnishing GST RFD-11 is not available on the GST Portal, so the form is to be furnished manually to the Jurisdictional Deputy/Assistant Commissioner.

3- SUPPLY UNDER LETTER OF UNDERTAKING (LUT)

Under Option-2, when supplier executes bond with B.G., it will result in blocking of working capital fund of the supplier, as Bank would ask for Fixed Deposit i.e. Margin money for issuance of Bank Guarantee alongwith Commission charges for issuance of B.G. For the above reason there is another option, under which supplier would give Letter of Undertaking (LUT) instead of executing Bond.

Just like bond, LUT will also be accepted by the Jurisdictional Deputy or Assistant Commissioner. The LUT once given, will be valid for the period of 12 months, and should be furnished for each year in duplicate. No B.G. is required to be furnished alongwith LUT, however if there is breach in condition of LUT, there may be consequences to furnish Bank Guarantee.

There are following conditions prescribed, under which LUT can be furnished instead of Bond.

As per notification No.16/2017 –Central Tax, the CBEC has specified the conditions and safeguards for the registered person who intends to give Letter of Undertaking,

As per above notification the following registered person shall be eligible for submission of Letter of Undertaking in place of bond;

(a) a status holder as specified in paragraph 5 of the Foreign Trade Policy 2015-2020; or

(b) who has received the due foreign inward remittances amounting to a minimum of 10% of the export turnover, which should not be less than one crore rupees, in the preceding financial year, and he has not been prosecuted for any offence under the Central Goods and Services Tax Act, 2017 (12 of 2017) or under any of the existing laws in case where the amount of tax evaded exceeds two hundred and fifty lakh rupees.

Looking to the above notification it is cleared that all the Exporters/Supplier not covered by the above notification, would submit bond. As supplier to SEZ/SEZ Developer will not fall in any of the above category, the option of Letter of Undertaking will not be available to them. So they are left with option of executing bond only, so we are not discussing this option in detailed.

Photo Gallery

Celebration of 15^{th} August, 2017 AT Income Tax Office, Bhuj.


आयकर कार्यालय, भुज
Income Tax Office, Bhuj


आयकरभवन
Income Tax Office, Bhuj
Shah
SOUND
BHUJ

Bhuj Branch Contact Details:-

BHUJ BRANCH OF WIRC OF ICAI
311, Balram Complex, 3rd Floor,
Near ICICI Bank, Station Road,
Bhuj - Kutch - 370001.
(O) +91 2832 258580
Email: bhujbranch.wirc@gmail.com,
bhuj@icai.org