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CHARTERED ACCOUNTANTS OF INDIA**
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2024

Pune Branch of WIRC of ICAI

Newsletter : January 2024

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CHAIRMAN'S MESSAGE



CA Rajesh Agrawal

**Chairman
Pune Branch of WIRC of ICAI**

Dear Members & Students,

Wish you all a very Happy and Prosperous New Year 2024!!

A New Year is like a blank book, it has 12 chapters and 365 pages, and you are the author, my wish for you is that this year you write the most beautiful story possible for yourself. Happy New Year 2024!!

We are so grateful for all our members and students! Thank you for all you've done to help us this year. Can't wait to move onward and upward in 2024.

I am aware that the year 2023-2024 was the hectic for compliance of CPE hours requirement considering the change in the regulation and many of you have completed it much before the due date.

I proudly declare that, last month Pune Branch had conducted so many programs, seminars and workshop on various topics with best speakers including 2 National Conferences and generated around 25000 CPE in one single month itself.

After successfully completion of certification course on FAFD we have declared DISA for the benefit of our members during this month.

Helpdesk for Trust related issues is really the best initiative of Pune Branch which is helping the members at large.

Also Branch conducted the various career counselling programmes during the month of December to create the awareness of CA New Course in various college & schools.

Last month Pune Branch has conducted the National Conference of CA Students at Pune, Organised by- Students Skills Enrichment Board, Board of Studies (Operations), ICAI at Vardhaman Sanskrutik Bhavan, Bibvewadi, Pune. More than 1800 students attended the conference with enthusiastic students eagerly grasped to be enlightened with knowledge.

Envisioning a future aligned with India's mission for holistic growth and becoming self-reliant by 2047, ICAI aims to shape the nation's financial landscape significantly. ICAI Vision 2049 envisions the Institute of Chartered Accountants of India as a global leader in accountancy, fostering ethical excellence, technological innovation, and sustainable practices.

CHAIRMAN'S MESSAGE



As we embark on this transformative journey, insights and inputs, especially from members, students, and stakeholders, are important. Together, we can develop the inclusive vision that meets the emerging needs of our profession and aligns with the broader goals of India's journey towards economic excellence. I would request you all to share your valuable inputs, contributing to a future where ICAI plays a pivotal role in driving positive change for stakeholders and the public interest.

Do not forget to share your ideas, views and thoughts on any and every matter related to the branch. Assuring you that we shall definitely take cognizance of each and every email, message and verbal communication.

Awaiting your email at chairman@puneicai.org and/or message at my personal mobile number.

You must be the change you wish to see in the world...

– Mahatma Gandhi

May the New Year bring forth success, prosperity, and moments of happiness for all.

Jai Hind! Jai ICAI!

Seminar on Code of Ethics

12 December 2023



Seminar on Networking Guidelines

18 December 2023



Seminar on Standard on Auditing

19 December 2023



Seminar on Multi-Disciplinary Firm

20 December 2023



Seminar on MIS Preparation & Reporting

21 December 2023



Pune Branch Visit of Office Bearers of WIRC of ICAI

22 December 2023



Pune Branch Visit of Office Bearers of WIRC of ICAI

22 December 2023



Pune Branch Visit of Office Bearers of WIRC of ICAI

22 December 2023



- CA. HIRSHIKESH BARDOLAI
- CA. SACHIN MINJIAR
- CA. KASHINATH PATHARE
- CA. PRITESH MUNOT
- CA. PRANAV APTE
- CA. MOUSHMI SHANA
- CENTRAL COL
- CA. CHANDRASH
- CENTRAL COL
- CA. S. RUTU
- CA. KASHI

RETIREMENT PLANNING

An Introduction to the Perpetual Portfolio Model K. T. Ganapathy, FCA



Introduction

It is commonplace nowadays to find queries on the creation and review of investment portfolios on financial websites and media. Most advice is target-oriented – saving for a vehicle, a home, a child's education, future marriage, and finally, for the investor's retirement.

The guidance is generally on the lines of calculated savings towards the identified targets, using a recommended asset allocation between equity and debt, and with the caveat that the allocated funds must be moved from equity to debt at a particular period prior to the target date. In addition, the template will include an emergency fund of X months' worth of expenses, and counsel on acquiring both health and term life insurance.

The mathematical calculation to this exercise is based on the following factors:

1. Current expenditure
2. Years to target
3. Inflation rate
4. Returns from debt
5. Returns from equity

And finally, in the case of a retirement target:

6. Years of portfolio sustenance (for X years or till death of the investor and/or dependants)

Asset allocation between debt and equity is either based on a questionnaire which purports to quantify the risk profile of the investor or based on a thumb rule such as investor age or alternate metric.

Uniqueness of the Retirement Target

While this methodology serves some purpose towards most life targets, it fails to consider the fundamental distinction between retirement and other financial targets. The fact of retirement is an event like the others, but retirement is a process – a process for the duration of the investor's retired life and the lives of his dependants. There is the very real possibility of Longevity Risk.

If the investor's earning life is a satellite launch – during which his savings boosts his upward financial trajectory, after sacrificing some momentum towards his other financial targets – the remaining momentum must be sufficient to stabilize orbit for the remaining duration of his life. Too little momentum, or momentum mismanaged, can be disastrous. Retirement is not the event of reaching the peak; it is the orbital path that follows.

Retirement is also fundamentally distinct in another way. During the investor's working life, the consequences of a missed target are not always disastrous and can be sidestepped to a varying extent by either reducing a budget, eliminating another target or extending the working phase.



A retirement target cannot be eliminated, and once retired, with his retirement corpus having to provide for himself and his dependents for a lifetime, the consequences of a missed retirement target can be ruinous.

Finally, the retiree's risk appetite is an extremely subjective element to quantify and is contingent on factors of external environment and time. A more retiree-friendly and relatable method than the thumb rule/questionnaire methods of asset allocation needs to be postulated.

Volatility vs. Risk

These terms are often construed as negatively synonymous, especially as applied to equity, and in particular to equity's downside volatility — it is presumed that equity's upside volatility is always positive. This article refers to volatility as downside volatility, unless otherwise expressly stated. Consider equity purchased for 100, which is now valued at 90. Equity is volatile as its price has decreased by 10%, but its holding risk remains unchanged. Any statistic that measures this difference in financial potential, no matter how sophisticated, is measuring volatility, not risk.

Equity risk arises not solely on account of an investment's volatility, but on the simultaneous necessity of realization at the volatile price. Equity risk must account for both limbs:

1. The volatility of price changes AND
2. The simultaneous necessity to realize the price change at a particular time point

Volatility is potential loss, but does not create risk or actual loss until the potential loss is realized. Risk arises out of the possibility that the investor is compelled to sell at the low price, thus making a mere potential loss into a realized one.

Debt vs. Equity — Their Influence on Portfolio Capital

Essentially, most investments are of two types: those whose future value can be precisely calculated and those that cannot be so calculated. These are referred to in this article as Stable Return Investments (Debt) and Volatile Return Investments (Equity) respectively.

As their names suggest, Stable Return Investments are characterized by non-volatile and generally low returns, while Volatile Return Investments are characterized by volatile and generally high returns.

A retiree would prefer to invest his limited capital only in the former, but low returns, however "safe" and non-volatile, can only suffice for a retired lifetime of inflation-adjusted withdrawals, provided the initial portfolio capital is large. The lower the portfolio return, the larger must be the portfolio capital. Only a few fortunate retirees can invest their portfolio capital entirely in Debt — most must deal with the volatility of Equity.



Debt and Equity – A New Perspective

Investments are made in Equity for generating superior returns and higher portfolio growth at the expense of high volatility, while investments are made in Debt for providing greater portfolio stability through non-volatile elements at the expense of low returns and consequent decreased growth. Debt and Equity are the yin and yang of any portfolio.

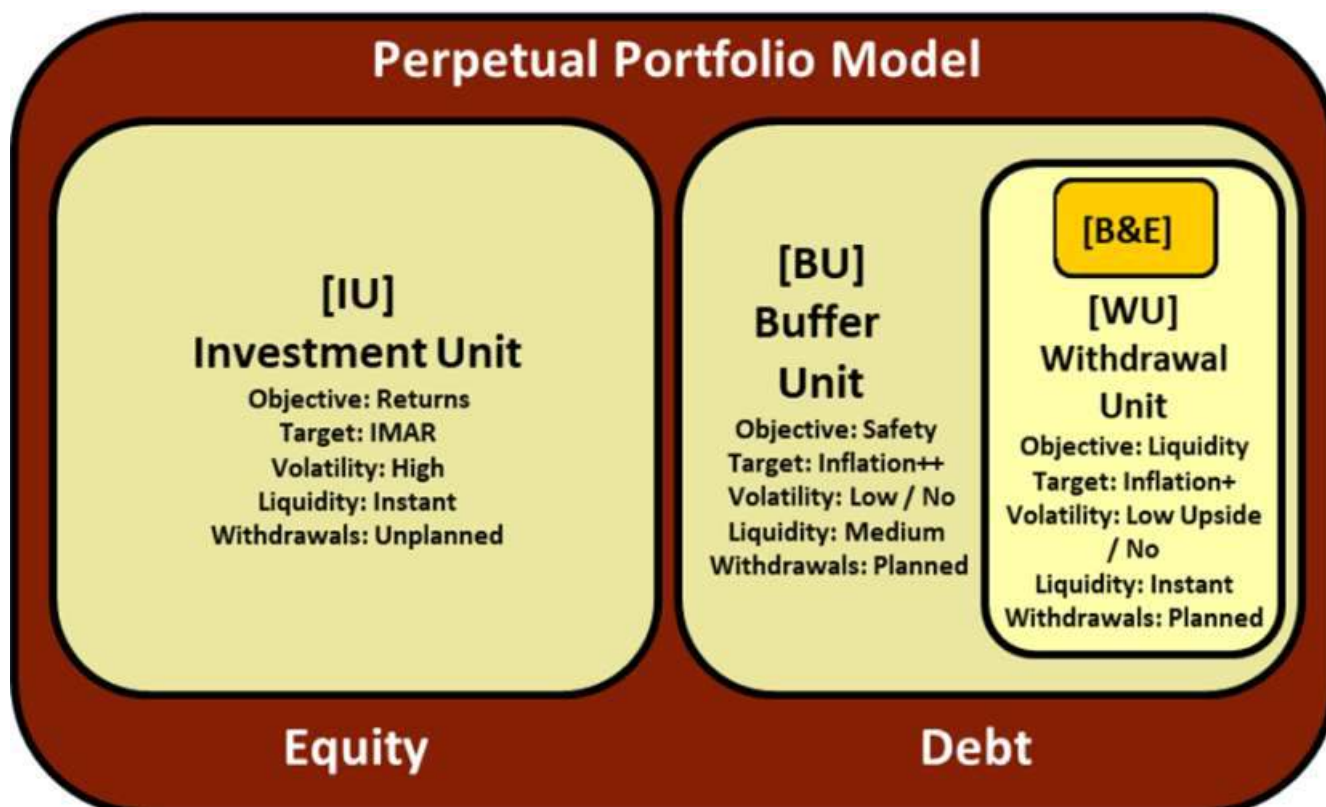
If the retiree views portfolio risk as the possibility of the realization of potential loss in the Equity elements of his portfolio, the Debt investments acquire their true significance as the safety net which permits him to bear with the potential downside volatility of Equity in the pursuit of higher portfolio growth.

Portfolio Debt can then be more comprehensibly defined as X months' protection against (downside) Equity risk. A retiree may find it far more intuitive to quantify a safety net/drawdown volatility protection (say, for 72 or 96 months), based on his portfolio equity cycle, rather than the application of a rule of thumb metric or questionnaire.

This is the methodology followed in the Perpetual Portfolio Model.

The Perpetual Portfolio Model (PPM)

The model is the design of a self-perpetuating retirement portfolio – the bird's eye view:





The model in Figure 1 consists of a simple two bucket portfolio with two main elements:

1. The Investment Unit (IU), consisting of equities/mutual funds (Volatile Investments), and
2. The Buffer Unit (BU), consisting of debt instruments/bank deposits (Stable Investments).

The BU bucket is further divided to include:

1. The Withdrawal Unit (WU), and
2. The Bank & Emergency Unit (B&E)

Each of these components have distinctive profiles – of objectives, targets, volatility and liquidity attributes and purpose within the PPM – the overall construct resulting in a simple and basic four bucket schema as illustrated in Figure 1.

The IU as a separate and distinct component comes into play in the PPM only when the underlying value of its investment(s) equals or exceeds the portfolio target of Inflation-adjusted return. Typically, fund flows from the IU are unplanned and depend on market forces.

The BU, WU, and B&E, on the other hand, are intimately linked and fund flows are systematically planned between the three sub-components.

The Debt Components – BU, WU and B&E

These are computed from the following factors:

1. The annual expected inflation
2. The monthly withdrawal requirement – adjusted for inflation and, if required, calculated forward from the present requirement to the requirement as of the retirement date
3. The target annual post-tax returns of the Debt component/sub-components
4. The total drawdown protection required in terms of months; this again is broken up into the protection required for the BU, WU and B&E. Note that the total drawdown protection will be estimated from past PPM Equity component cycles

The Equity component – IU

This is computed from the following factors:

1. The target annual post-tax returns of the Equity component
2. The monthly withdrawal requirement (as in 2 above)

such that the planned annual yield of both the Debt and Equity components of the portfolio together are sufficient to sustain the retiree's forward inflated annual withdrawal requirement.



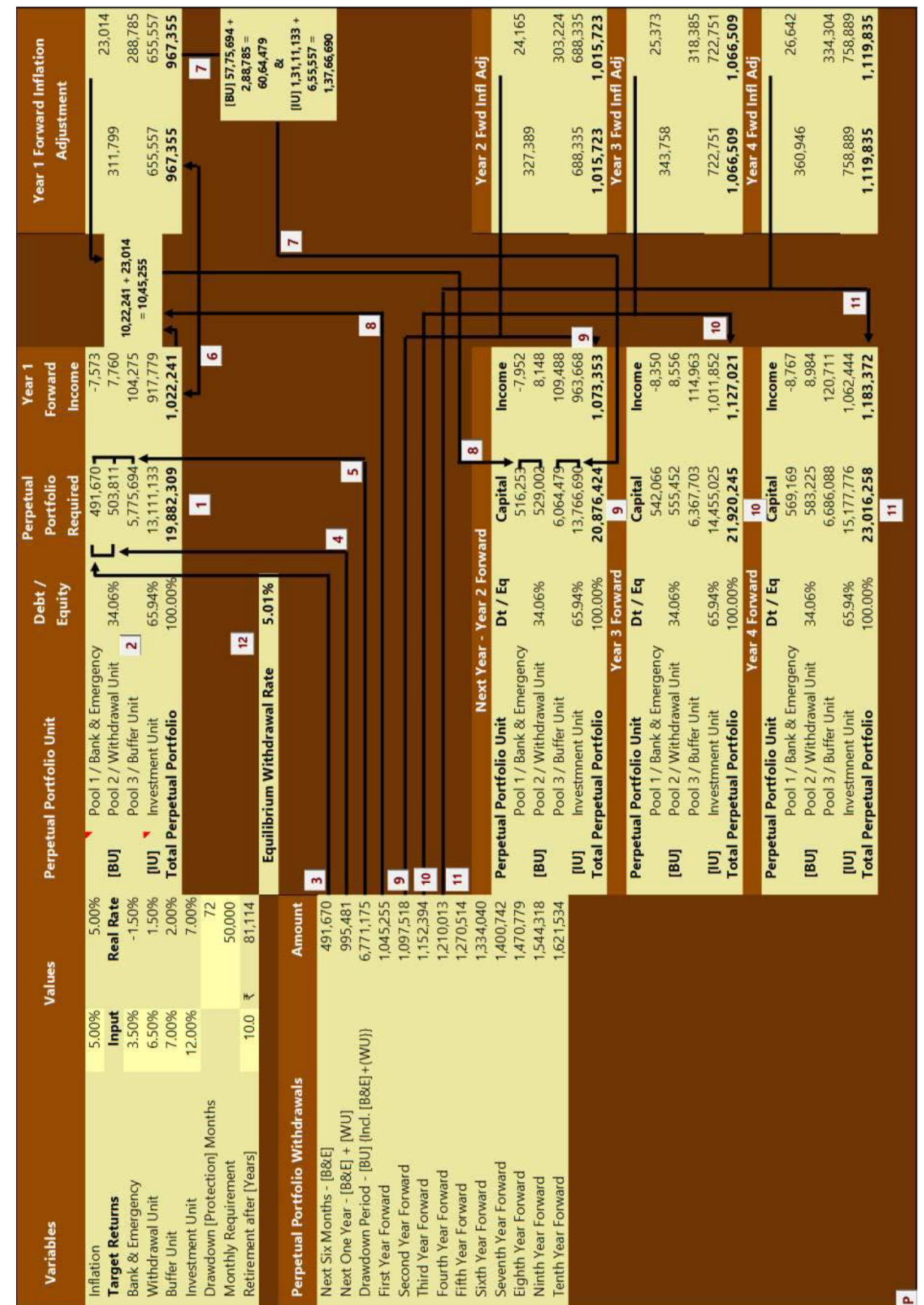
The Mechanism of the PPM

The following illustration will highlight the mechanism of the PPM:

1. The annual expected inflation – 5%
2. The monthly withdrawal requirement – 50,000 at present, and adjusted for inflation 10 years to the future date of retirement amounting to 81,114
3. The target annual post-tax returns of the Debt components (not accounting for inflation) – B&E 3.5%, WU 6.5% and BU 7%
4. The total drawdown protection required – 72 months, allocated to B&E 6 months (1 – 6), WU 6 months (7 – 12) and BU the balance 60 months (13 – 72)
5. The target annual post-tax returns of the Equity component (not accounting for inflation) – 12%

These input factors resolve into the following PPM configuration:





Variables	Values	Perpetual Portfolio Unit	Debt / Equity	Perpetual Portfolio Required	Year 1 Forward Income	Year 1 Forward Inflation Adjustment
Inflation	5.00%			491,670	-7,573	23,014
Target Returns	Input			503,811	7,760	311,799
Bank & Emergency	3.50%	Pool 1 / Bank & Emergency	34.06%	5,775,694	104,275	288,785
Withdrawal Unit	6.50%	Pool 2 / Withdrawal Unit	65.94%	13,111,133	917,779	655,557
Buffer Unit	7.00%	Pool 3 / Buffer Unit	100.00%	19,882,309	1,022,241	967,355
Investment Unit	12.00%	Investment Unit				
Drawdown [Protection] Months	72					7
Monthly Requirement	50,000					[BU] 57,75,694 + 2,88,785 = 60,64,479
Retirement after [Years]	10.0	Equilibrium Withdrawal Rate	5.01%			[IU] 1,31,11,133 + 6,55,557 = 1,37,66,690

Perpetual Portfolio Unit	Amount
Next Six Months - [B&E]	491,670
Next One Year - [B&E] + [WU]	995,481
Drawdown Period - [BU] (Incl. [B&E] + [WU])	6,771,175
First Year Forward	1,045,255
Second Year Forward	1,097,518
Third Year Forward	1,152,394
Fourth Year Forward	1,210,013
Fifth Year Forward	1,270,514
Sixth Year Forward	1,334,040
Seventh Year Forward	1,400,742
Eighth Year Forward	1,470,779
Ninth Year Forward	1,544,318
Tenth Year Forward	1,621,534

Perpetual Portfolio Unit	Dt / Eq	Perpetual Portfolio Capital	Income
Perpetual Portfolio Unit	Dt / Eq	Capital	Income
[BU]	34.06%	516,253	-7,952
[IU]	65.94%	529,002	8,148
Total Perpetual Portfolio	100.00%	6,064,479	109,488
		13,766,690	963,668
		20,876,424	1,073,353

Perpetual Portfolio Unit	Dt / Eq	Perpetual Portfolio Capital	Income	Year 1 Forward Inflation Adjustment
Perpetual Portfolio Unit	Dt / Eq	Capital	Income	
[BU]	34.06%	542,066	-8,350	327,389
[IU]	65.94%	555,452	8,556	688,335
Total Perpetual Portfolio	100.00%	6,367,703	114,963	1,015,723
		14,455,025	1,011,852	1,015,723
		21,920,245	1,127,021	1,066,509

Perpetual Portfolio Unit	Dt / Eq	Perpetual Portfolio Capital	Income	Year 1 Forward Inflation Adjustment
Perpetual Portfolio Unit	Dt / Eq	Capital	Income	
[BU]	34.06%	569,169	-8,767	360,946
[IU]	65.94%	583,225	8,984	758,889
Total Perpetual Portfolio	100.00%	6,686,088	120,711	1,119,835
		15,177,776	1,062,444	1,119,835
		23,016,258	1,183,372	1,119,835

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Explanatory Notes to Figure 2:

- 1 The calculated initial PPM Capital is 1,98,82,309.
- 2 The PPM Debt to Equity asset allocation is 34.06% to 65.94%.
- 3 The B&E allocation is 4,91,670, which is the 6 months' forward inflated withdrawal requirement for months 1 – 6.
- 4 The one year forward inflated withdrawal requirement of 9,95,481 has been allocated to B&E as above, with the balance of 5,03,811 to the WU for months 7 – 12.
- 5 The 72 months' forward inflated withdrawal requirement of 67,71,175 is allocated to the B&E and WU as above, with the balance of 57,75,694 to the BU for months 13 – 72.
- 6 The PPM income realization at the assumed rates of return is 19,89,597, comprising of two elements: real returns of 10,22,241 and inflation adjustment of 9,67,355.
- 7 The inflation adjustment of 9,67,355 (as in 6 above) is divided into three parts of 23,014, 2,88,785 and 6,55,557. The first part of 23,014 is added to the real income of 10,22,241 (in 6 above) to total 10,45,255 (in 8 below). The second part of 2,88,785 is reinvested in the BU for Year 2 Forward ($57,75,694 + 2,88,785 = 60,64,479$). Likewise, the third part of 6,55,557 is reinvested in the IU for Year 2 Forward ($1,31,11,133 + 6,55,557 = 1,37,66,690$).
- 8 The realized and withdrawable income of 10,45,255, which is sufficient for months 13 – 24, is allocated to the Year 2 Forward B&E as 5,16,253 for months 13 – 18 and WU as 5,29,002 for months 19 – 24.
- 9 As a result of 7 and 8 above, the PPM will be capitalized to 2,08,76,424 in Year 2 Forward and a real income of 10,73,353 which, added to 24,165 equals 10,97,518, the required inflation adjusted withdrawals for months 25 – 36 in Year 3 Forward. Inflation adjustments of 3,03,224 and 6,88,335 are reinvested in the BU and IU as in 7 above, to accumulate to BU 63,67,703 and IU 1,44,55,025 in Year 3 Forward.



- 10 As a result of 9 above, the PPM will be capitalized to 2,19,20,245 in Year 3 Forward and a real income of 11,27,021 which, added to 25,373 equals 11,52,394, the required inflation adjusted withdrawals for months 37 – 48 in Year 4 Forward. Inflation adjustments of 3,18,385 and 7,22,751 are reinvested in the BU and IU as in 9 above to accumulate to BU 66,86,088 and IU 1,51,77,776 in Year 4 Forward.
- 11 As a result of 10 above, the PPM will be capitalized to 2,30,16,258 in Year 4 Forward and a real income of 11,83,372 which, added to 26,642, equals 12,10,013, the required inflation adjusted withdrawals for months 49 – 60 in Year 5 Forward. Inflation adjustments of 3,34,304 and 7,58,889 are reinvested in the BU and IU as in 10 above to accumulate to BU 70,20,393 and IU 1,59,36,665 in Year 5 Forward.

This repetitive procedure results in the self-perpetuating attribute of the PPM.

The Equilibrium Withdrawal Rate (EWR)

The PPM automatically calculates the Equilibrium Withdrawal Rate (EWR), a measure of prime importance in the management of any portfolio – 5.01%, marked 12 in Figure 2 above. The EWR, or as more commonly known, the Safe Withdrawal Rate or Four Percent Rule, is the rate at which withdrawals from a retirement portfolio avoid Longevity Risk.

The PPM reveals a significant fact – the EWR is independent of the underlying capital size or withdrawal requirement and is entirely determined by these four parameters:

1. The annual expected inflation
2. The target annual post-tax returns of the Debt component/sub-components
3. The total drawdown protection required in terms of months
4. The target annual post-tax returns of the Equity component

For instance, for a retiree in 5 years, with the same assumptions of inflation, returns and drawdown protection, but with a present monthly withdrawal requirement of 1,00,000, (1,27,110 monthly or 15,59,971 annualized on retirement), the required initial PPM capitalization would be 3,11,56,618, but the EWR would remain 5.01%.

The conclusion to be drawn is that only a variation in any one or more of the four critical parameters would affect the EWR, and along with a change in the withdrawal requirement, present or future, necessitate the recalculation of the PPM.



Conclusion

Assumptions of the PPM

1. Withdrawals are made from the BU to the WU, from the WU to the B&E and from the B&E for the use of the retiree at the beginning of every month
2. Compounding of calculated interest is ignored for the sake of simplicity – all returns are accumulated separately till the end of each year and then reinvested (in any case a more conservative procedure)
3. The effect of taxation is ignored
4. Inflation is calculated monthly

Utility of the PPM

1. As a benchmark of comparison for a retiree to measure his portfolio against
2. As a retirement target for currently working individuals
3. As a technique to evaluate portfolio Debt–Equity allocation decisions
4. As a technique to evaluate EWR decisions

Pros and Cons of the PPM

Pros:

1. Eliminates the element of Longevity Risk in a retirement portfolio
2. Eliminates the need for a rule of thumb Debt–Equity allocation
3. Encourages simple understanding and awareness of the necessity/purpose of Equity in a portfolio
4. Evaluates financial sustainability and EWR

Cons:

1. Debt other than sovereign Debt, though not subject to volatility is subject to Default Risk
2. The confidence levels of the financial factors and assumptions of the PPM are equivalent to other existing financial models

K. T. Ganapathy
FCA

ITC

Unraveling Issues and Exploring Probable Solutions CA Vaishali Kharde



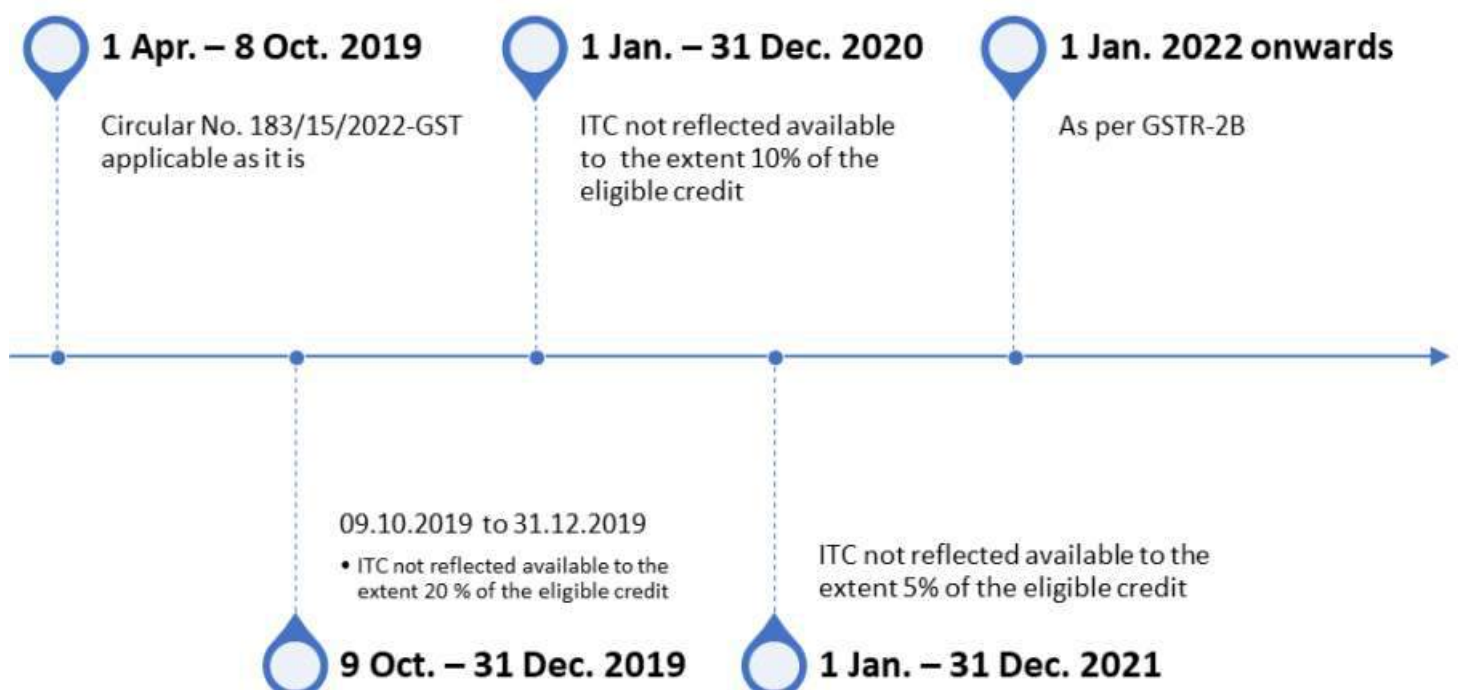
Introduction

GST regime introduced was a significant milestone in tax reforms, aiming to streamline the taxation system. One of the key objective of GST is the seamless flow of Input Tax Credit (ITC). . However, an analysis of current litigation suggests that achieving this objective has encountered challenges.

To fulfill the intended goal of a seamless ITC flow, it becomes imperative to address the existing challenges and minimize litigation. This article seeks to delve into the various hurdles faced in the availing of ITC and explore potential solutions. By examining these challenges and proposing practical remedies, we aim to contribute to a more effective and efficient GST framework that aligns with its foundational objective of facilitating a smooth flow of Input Tax Credit.”

Mismatch and Reconciliation Challenges

One of the major issues faced by businesses is the frequent mismatch between the ITC availed and reflected in GSTR-2A for prior period. Disputes may arise when the tax authorities initiate ITC reversal or recovery based on their assessment of discrepancies in GSTR-2A. Reconciling these discrepancies can be a time-consuming and tedious process, leading to operational inefficiencies. Additionally, to reply such notices first it is essential that, taxpayer should be aware about the time-to-time changes made with respect to ITC. Bellow is the summary of some of the critical changes which are required to be considered while replying such notices.





Thus, for notices already issued prompt and correct reply is important. Additionally, it is pertinent to note that, Rule 88D inserted in CGST Rules, 2017, along with an amendment in rule 59(6) of CGST Rules, 2017 so that to prescribe the Mechanism to deal going forward with differences in ITC of GSTR-2B and 3B.

Accordingly, to mitigate the risk of litigation businesses should undertake regular and thorough reconciliation between their records and GSTR-2A to identify and rectify discrepancies promptly. Further, leveraging technology solutions for automated reconciliation can minimize errors and streamline the process. This includes using accounting software that integrates with the GSTN portal.

Validity of Section 16(4) of the CGST Act

The landscape of GST is currently marked by a substantial number of pending litigations, particularly concerning Section 16(4) of the GST Act. A recurring scenario involves taxpayers availing ITC for the last financial year in the month of September of the subsequent financial year, whereas the return being filed after the due date.

In this regard, it is pertinent to note that, ITC is not unconditional and a registered person becomes entitled to ITC only if the requisite conditions stipulated therein are fulfilled. One of the conditions to make a registered person entitled to take ITC is prescribed under sub-section (4) of Section 16. In the case of *Gobinda Construction* [2023-TIOL-1178-HC-PATNA-GST] it is held that the provisions of section 16(4) of the CGST Act is not inconsistent with or in derogation of any of the fundamental right guaranteed under the Constitution of India.

While striving to meet the prescribed conditions for availing ITC, it becomes paramount to recognize the prevailing challenges faced by taxpayers. Notably, issues such as the inability to upload payable GST returns and the necessity to make GST payments to the government exchequer within the stipulated timeframe on due basis add significant complexity. Businesses may encounter situations where they have to pay GST to the government even if they have not yet received the corresponding payments from their customers. This can strain the working capital of the taxpayer impacting their ability to fulfill the condition of depositing tax amounts in a timely manner. Thus, such challenges are need to be represented to the GST council as well as during litigation which may help.

Additionally, it is pertinent to note that Section 16(4) of the CGST Act has now been amended and provides that a registered person shall not be entitled to take ITC in respect of any invoice or debit note for supply of goods or services or both after 30th day of November (post amendment), following the end of financial year to which such invoices or debit note pertain or furnishing of the relevant annual return, whichever is earlier.



Thus, going forward taxpayer should ensure to avail ITC of last FY before 30th November of the next FY. Further, implementing effective cash flow management strategies can help businesses navigate working capital challenges and meet their GST payment obligations.

Newly introduced Conditions for availment of ITC under GST Act

Recently, Section 16 of the CGST Act has been amended to prescribe the conditions given below for ITC availment

(aa) the details of the invoice or debit note referred to in clause (a) has been furnished by the supplier in the statement of outward supplies and such details have been communicated to the recipient of such invoice or debit note in the manner specified under section 37;". [Inserted (w.e.f. 1.01.2022 vide Notification No. 39/2021-C.T. by s.109 of The Finance Act, 2021 (No.13 of 2021)]

(ba) the details of input tax credit in respect of the said supply communicated to such registered person under section 38 has not been restricted;] [Inserted (w.e.f. 1.10.2022 vide Notification No. 18/2022 - CT by s.100 of The Finance Act 2022 (No. 6 of 2022)]

Accordingly, ITC is available only if detail of Invoice or debit note has been furnished by supplier in GSTR-1 and Communicated to the recipient and ITC communicated to such registered person under section 38 has not been restricted. Further, Section 38 of the CGST Act, is inserted so that to prescribe the condition when ITC is available and when same can't be claimed.

The imposition of numerous conditions for the availing of ITC on the recipient, rather than on the defaulted person, can be constitutionally questionable. Such approach places a substantial burden on the recipient, potentially affecting their ability to claim legitimate credits, while the onus of compliance should ideally rest on the party at fault. This perspective posits that the stringent conditions may impede the ease of doing business.

Additionally, it is pertinent to note that as per the Doctrine of Impossibility a legal principle where performance becomes impossible or that are beyond the control of the parties involved then the party may be excused from performing its obligations. It may be applicable in such scenario.

However, in order to mitigate the risk of potential litigation, leveraging technology to automate the reconciliation process proves instrumental. It will facilitate timely follow-up with vendors. This proactive approach not only enhances accuracy but also contributes to a smoother vendor management process, ultimately minimizing the risk of legal disputes.



A more comprehensive approach to allow ITC on a wider range of business expenses could improve the liquidity of businesses. Conducting regular awareness programs and training sessions for businesses can improve their understanding of the GST laws and compliance procedures. This can contribute to better compliance and a reduction in unintentional errors.

While the introduction of GST and the ITC mechanism aimed to simplify taxation and boost economic efficiency, addressing the challenges surrounding ITC is crucial for the system's success. A collaborative effort involving government bodies, businesses, and technology solutions can contribute to a more seamless and effective GST framework, ultimately benefiting the Indian economy as a whole.

(The Author is a Chartered Accountant, Founder and CEO of CA Vaishali B Kharde and Company. The author has authored and co-authored books on GST and litigation)

CA Vaishali Kharde



MANAGING FINANCIAL DATA

Importance and Best Practices

CA. Jagadish Somani and Rakshit Tandon

Financial Data - Introduction

- ∅ Financial data refers to information and records that pertains to the financial activities and performance of an individual, company, or organization. It includes a wide range of quantitative and qualitative data related to financial transactions, assets, liabilities, revenues, expenses, profits, and losses.
- ∅ Financial data is essential for decision-making, analysis, reporting, and compliance purposes.



Maintenance of Financial Data

- ∅ Any organization carrying out business is required to maintain and preserve its records – both from the perspective of functioning as well as to adhere to statutory requirements.
- ∅ A regular business may be required to maintain its invoices and debit notes for its receipts, while also preserving its expenditure vouchers, credit notes, etc. for its expenses. Also, other critical documents would include various agreements, memorandums, employee registers, besides other things.
- ∅ There may be specific business verticals, for instance, which may be laden with statutory responsibilities to maintain customer records (e.g., KYC records), internal and external audit records, cost audit reports, valuation reports etc.

In its own prudence, the business may preserve its records forever, but in law, the time period for which these records ought to be preserved is a matter of intense legal discussion.



Benefits of financial data for businesses

Financial data offers numerous advantages for businesses, empowering them with valuable insights and information to make informed decisions. Here are the key benefits:

- **Performance Assessment:** Financial data, including income statements, balance sheets, and cash flow statements, allows businesses to evaluate their overall financial health and performance, identifying strengths and weaknesses for strategic planning.
- **Informed Decision Making:** Utilizing financial data as a foundation, businesses can confidently assess the feasibility of projects, investments, and expansions, evaluating profitability and potential risks.
- **Accurate Budgeting and Forecasting:** Historical financial data aids in creating realistic budgets and forecasts, setting achievable financial goals, and planning for the future.
- **Regulatory Compliance and Reporting:** Accurate financial data ensures businesses meet their legal obligations and reporting requirements for tax authorities, shareholders, and stakeholders.
- **Assessing Financial Health:** Financial data provides crucial information about liquidity, solvency, and financial stability, enabling investors, creditors, and partners to assess risks effectively.

Let's analyze different acts and the data required to be maintained under such acts:-

The Companies Act, 2013

Under the Companies Act 2013, companies registered in India are required to maintain various records and data to ensure compliance with the law and facilitate transparency in their operations.

Some of the key data and records that companies are required to maintain include:

- **Statutory Registers including Register of Members, Directors, Debenture Holders, and Register of Charges**
 - Financial Records
 - Board Meeting Minutes
 - Annual Returns
 - Share Certificates
 - Directors Report
 - Books of Accounts
 - Appointment Letters and Agreements
 - Minutes of Shareholder Meetings
 - Registers for Contracts and Arrangements



Ø Section 128(1) of the Companies Act makes it mandatory for the companies to prepare and keep for every financial year, its books of account and other relevant books and papers, which shall give a true and fair view of the state of the affairs of the company.

Ø Under section 128(5) of the act, companies are directed to maintain such records for a minimum period of eight financial years immediately preceding a financial year. Thus, presently if we are running in F.Y. 2023-24, records ought to be maintained from F.Y. 2015-16 till present.

Ø As per Section 120 of the act, any document, record, register, minutes, etc, required to be kept by a company or allowed to be inspected or copies to be given to any person by a company under this Act, may be kept in electronic form

Books of Accounts refers to

- All sums of money received and expended by a company and matters in relation to which the receipts and expenditure take place.
- All sales and purchases of goods and services by the company. The assets and liabilities of the company.

The Indian Partnership Act, 1932



Under the Partnership Act, 1932, partners are required to maintain certain records and books of accounts to ensure transparency and proper management of the partnership business. Here are the key documents that are required to be maintained

- Partnership Deed
- Books of Accounts
- Income and Expenditure Records
- Tax Records
- Capital Accounts
- Retirement and Dissolution Records

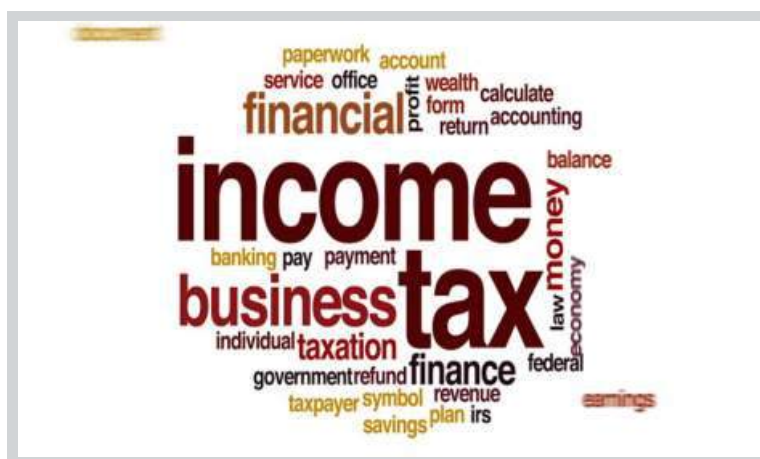


This Act does not specify a specific retention period for these records, it is advisable to keep them for a reasonable period of time to comply with tax and legal requirements. Proper data maintenance not only ensures compliance with the Partnership Act but also facilitates accurate financial reporting, smooth audits, and easy resolution of disputes among partners.

The Limited Liability Partnership Act, 2008

In case of Limited Liability Partnerships also, the Act prescribes that books of account be maintained for a period of eight years from the date on which they are made. The definition of books of account is similar to the definition laid down in the Companies Act, 2013.

The Income-tax Act, 1961



This Act provides that an assessee should keep the records of his books of accounts and other documents for at least six years from the end of the relevant assessment year (AY).

In case the assessment for any assessment year has been reopened under section 147 of the Income-tax Act, 1961 ('IT Act'), the books of account shall be maintained till such assessment has been completed.

Section 44AA(1) of the Act

As per the provisions of section 44AA of Income Tax Act, every person carrying on the legal, medical, engineering, architectural, accountancy, interior decoration, technical consultancy, film artist, authorised representative or company secretary as a profession must compulsorily maintain books of accounts.

Ø Assessee must maintain the books of accounts if the gross receipts are more than Rs. 1,50,000 in the three preceding years for a person carrying on profession. The same is also applicable to a newly established profession whose gross receipts are expected to be greater than Rs. 1,50,000.



Ø In case the gross receipts of the above-listed professions are not more than Rs. 1,50,000 in any of the three preceding years then the professional need not maintain the books of accounts under section 44AA.

Section 44AA(2) of the Act

Every person carrying on business or profession (not being a profession referred to in sub-section (1)) shall keep and maintain such books of account and other documents as may enable the Assessing Officer to compute his total income:-

- if his income from business or profession exceeds one lakh twenty thousand rupees or his total sales, turnover or gross receipts in business or profession exceed or exceeds ten lakh rupees in any one of the three years immediately preceding the previous year; or
- Where the business or profession is newly set up in any previous year, if his income from business or profession is likely to exceed one lakh twenty thousand rupees or his total sales, turnover or gross receipts, in business or profession are or is likely to exceed ten lakh rupees, during such previous year; or
- Where the profits and gains from the business are deemed to be the profits and gains of the assessee under section 44AE or section 44BB or section 44BBB, as the case may be, and the assessee has claimed his income to be lower than the profits or gains so deemed to be the profits and gains of his business, as the case may be, during such previous year; or
- Where the provisions of sub-section (4) of section 44AD are applicable in his case and his income exceeds the maximum amount which is not chargeable to income-tax in any previous year.

What is meant by books of account?

- Cash Book
- Journal
- Ledger
- Carbon copies of bills (not applicable in case sums does not exceed twenty-five rupees)
- Receipts for expenditure (not applicable in case sums does not exceed fifty rupees)
- Specified books for professionals covered under section 44AA(1).

Ø In Income Tax Act, there are different provisions for opening or re-opening of any proceedings or assessment. It is advisable to keep the relevant documents preserved for atleast 10 years in order to enable the assessing officer to assess the total income of the assessee.



Goods and Services Tax Act, 2017

Under this act, every registered person shall keep and maintain at his principal place of business a true and correct account of:

- Production or manufacture of goods.
- Inward and outward supply of goods or services or both.
- Stock of goods.
- Input tax credit availed.
- Output tax payable and paid.
- Goods or services imported or exported.
- Supplies involving payment of tax on reverse charge basis.
- Details of suppliers, customers, and premises where goods are stored.
- Detailed account of maintenance of stock



The period of retention or maintenance of the above-mentioned records is 72 months from the due date of furnishing of annual return for the year pertaining to such accounts and records. In case there are any pending proceedings (e.g., appeal, revision, investigation for an offence etc.) then in such case the records shall be maintained till one year after the disposal of such proceedings (or 72 months as above, whichever is later).

The Employees' Provident Funds and Miscellaneous Provisions Act, 1952

The PF (Provident Fund) Act in India requires certain data to be maintained by employers in relation to their employees. Below are the data points that employers are required to maintain:

- Employee Details
- PF Account Number
- Salary and Contributions
- Attendance and Leave Records
- PF Contribution Remittance Details
- PF Contribution Remittance Details
- PF Withdrawal and Transfer Details
- Nomination Forms
- PF Challans and Receipts



It's essential for employers to maintain accurate and up-to-date records to comply with the PF Act and avoid any legal issues.

Period of Retention – Annual PF Statement and PF Slip need to be maintained for a period of 7 years from the date of the last entry and PF Returns, Accounts Books, and other relevant documents need to be maintained for a period of 10 years from the date of the last entry



Employees' State Insurance Act, 1948

Employees' State Insurance Corporation (ESIC) Act is a social security and health insurance scheme in India that provides medical and cash benefits to employees and their dependents.

Under the ESIC Act, certain records and data are required to be maintained by employers. The specific data to be maintained includes:

- Employee Records
- Wages and Contribution Records
- Attendance Records
- ESIC Challans and Returns
- Accident Reports
- Medical Records

This Act mandates that the employer must preserve the required records for a period of five years from the date of last entry therein.

Profession Tax Act

Professional tax is a direct tax that is levied on professionals, salaried employees or self-employed individuals by the state government and thus can vary depending on the state assesse lives in.

Following documents shall be preserved under this act:-



- Employee and Employer Details
- Salary and Wages Details
- Profession Tax Deduction Details
- Payment Records
- Return and Reports
- Statutory Forms

The Period of retention of documents under this act is different for all states as drafted under their respective state acts. For example, under Maharashtra Profession Tax records are to be preserved for at least eight years.

Value Added Tax Act

Value-added tax (VAT) is a consumption tax on goods and services that is levied at each stage of the supply chain where value is added, from initial production to the point of sale. Following documents shall be preserved under this act:-

- Sales and Purchase Records
- VAT Identification Numbers
- VAT Invoices and Returns
- C Form – for dealers making interstate purchase of goods
- F Form – for dealers transferring goods from one state to another without recognising it as a sale

It is essential for businesses to maintain accurate and organized records for the period required by the relevant VAT legislation. Additionally, businesses must ensure that their VAT data is easily accessible for review by tax authorities during audits or inspections.

The Period of retention of documents under this act is different for all states as drafted under their respective state acts and which varies from five to eight years.

Customs Act, 1962

The Customs Act varies from country to country, and each country may have its own specific requirements regarding the data that needs to be maintained under its customs laws.





Here are some common types of data that are typically required to be maintained under customs laws:

- Import and Export Declarations
- Shipping and Cargo Documents
- Commercial Invoices
- Customs Entry Forms
- Importer/Exporter Records
- Transportation Records
- Financial Records
- Certificates and Licenses
- Documentation of Origin
- Record of Duty/Tax Payments

This Act provides for the retention of the documents for a period of five years from the date of presentation of the relevant document for import and export.

“Security of Data – An Important Concept”

The security of financial data is of paramount importance due to its sensitive nature and potential implications. Protecting this information is crucial to prevent financial fraud and unauthorized access to sensitive accounts.

Cybercriminals and hackers are constantly looking for vulnerabilities to exploit, making it essential for businesses and financial institutions to implement robust security measures to safeguard against data breaches.

There are various threats involved in automation of data. Listing some of the common threats below:

- Ø **Data Breaches:** Electronic data is vulnerable to breaches and cyberattacks. If proper security measures are not in place, hackers or unauthorized individuals may gain access to sensitive information, leading to data breaches.
- Ø **Data Loss:** Electronic storage systems can be prone to data loss due to hardware failures, software bugs, or accidental deletions.
- Ø **Lack of Control:** When data is stored electronically, it may be more challenging to control access and track its movement.
- Ø **Privacy Concerns:** Electronically stored data may contain sensitive personal or financial information. If this data falls into the wrong hands, it can lead to identity theft, financial fraud, or other privacy violations.



Ways to Keep your Data “Secured”

- Ø Encryption: Implement strong encryption methods to protect sensitive financial data both during transmission and storage. This ensures that even if data is intercepted or accessed, it remains unintelligible to unauthorized users.
- Ø Access Controls: Enforce strict access controls and user authentication mechanisms. Limit access to financial data only to authorized personnel based on the principle of least privilege, where employees can access only the data necessary for their roles.
- Ø Employee Training and Awareness: Conduct regular training sessions to educate employees about data security best practices, including identifying phishing attempts and other social engineering techniques.

CA. Jagadish Somani and Rakshit Tandon



Pune Branch of WIRC of ICAI

Plot No. 08, Parshwanath Nagar, CST No. 333,
Sr. No. 573, Munjeri, Opp. Kale Hospital,
Near Mahavir Electronics, Bibwewadi, Pune 411037
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