



# **THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA**

( Set up by an Act of Parliament )



## **THE BEACON**

*A New Rise...*

### **PUNE BRANCH OF WICASA OF ICAI**

**ISSUE NO. 10 : OCTOBER 2020**

( Subscribers copy not for sale )



## CHAIRMAN'S COMMUNICATION



# CA Sameer Ladda

**Vice Chairman, Pune Branch of WIRC Of ICAI (2020-21)**  
**Chairman, Pune Branch Of WICASA ICAI**



Dear Students,

While very often, you have the "desire" to achieve something, but you don't have the "determination" to go to the end. To do this, we need "dedication" and to be "dedicated" we need the most important thing - 'Discipline'.

Now talking about the amazing activities carried out in the month of October and November we have various events like Swachh Bharat Abhiyan, Distribution of Stationary Kit to Needy Students on the occasion of 150th Birth Anniversary of Mahatma Gandhi ji, planning to industrial, educational & agro tourism visit etc.

Following our beloved prime minister's mission Swachh Bharat Abhiyan we had a campaign and clean many public places like bus stations in Pune and our WICASA team along with a lot of volunteers took part in this event. Its always said cleanliness begins from home and taking this initiative and making our own city clean is a great thing.

We also had an Industrial, Educational & Agro tourism Tour for students. Which helps to improve their knowledge. Now coming to the next important point, students who are going to give exams in November/December. All the very best wishes to them. ICAI has takes all precaution and care for your safety. I hope you all are ready to face the exams and do well and at the same time you are staying healthy along with your family.

Remember the words by APJ Abdul Kalam, "If you fail, never give up because F.A.I.L. means "First Attempt In Learning". End is not the end, if fact E.N.D. means "Effort Never Dies." If you get No as an answer, remember N.O. means "Next Opportunity", So let's be positive."



## TREASURER'S COMMUNICATION

### **Shravan Ladda**

**Treasurer, Pune Branch Of WICASA ICAI**



To all my dear friends!!

It is an honour to serve as Treasurer of Pune WICASA. WICASA is a platform given by ICAI for students, by students and of students. I would like to thank Pune ICAI and Pune WICASA for giving us this lifetime opportunity to perform and volunteer in activities of Pune WICASA.

Keeping in mind the GST and Tax Audit Season, we had organized Seven days Indirect Tax Practitioner Course and Two days Virtual Programme on Tax Audit for students to solve their queries regarding new amendments and approach to be kept while GST and Tax Audit. Students had made these programmes memorable by having the amazing interactive session with all the wonderful speakers.

In this month, on 20th September we had organized the a motivational lecture on Mindfulness by CA Rajesharee Sahal to keep students motivated and focused to study and prepare for forthcoming exams.

At the outset, I would like to extend my best wishes to all of you as you gear up for the November 2020 examination. This communication will reach you amidst your exam preparations. As you must be in the middle of your preparations, you must invest all your productive energy towards studies. Sincere efforts coupled with a disciplined approach will help you to attain the desired results. Your time is valuable therefore, you will have to meticulously plan and work accordingly to achieve success.

All the best for your exams and wish you many success.



## INDEX

Tax audit

Presumptive Taxation- A 'FRIEND'  
of SMALL TAXPAYERS.

Financial Scams And  
Detection of Such Scams.

The Art Corner

Glimpse from past events



## The Edits by-

*Anuja Toshniwal*

EDITOR, PUNE WICASA

*Manmath Shewalkar*

VICE CHAIRMAN, PUNE WICASA



# TAX AUDIT

—SADIK R. FARAS



## What is tax audit?

There are various kinds of audit being conducted under different laws such as company audit/statutory audit conducted under company law provisions, cost audit, stock audit etc.

Similarly, income tax law also mandates an audit called 'Tax Audit'. As the name itself suggests, tax audit is an examination or review of accounts of any business or profession carried out by taxpayers from an income tax viewpoint. It makes the process of income computation for filing of return of income easier.

## Objectives of tax audit

Tax audit is conducted to achieve the following objectives:

- Ensure proper maintenance and correctness of books of accounts and certification of the same by a tax auditor.
- Reporting observations/discrepancies noted by tax auditor after a methodical examination of the books of account.
- To report prescribed information such as tax depreciation, compliance of various provisions of income tax law etc.



All these enable tax authorities in verifying the correctness of income tax returns filed by the taxpayer. Calculation and verification of total income, claim for deductions etc. also becomes easier.

### **Who is mandatorily subject to tax audit?**

A taxpayer is required to have a tax audit carried out if the sales, turnover or gross receipts of business exceed Rs 1 crore in the financial year. However, a taxpayer may be required to get their accounts audited in certain other circumstances. We have categorized the various circumstances in the tables mentioned below:

NOTE: The threshold limit of Rs 1 crore for a tax audit is proposed to be increased to Rs 5 crore with effect from AY 2020-21 (FY 2019-20) if the taxpayer's cash receipts are limited to 5% of the gross receipts or turnover, and if the taxpayer's cash payments are limited to 5% of the aggregate payments.

We present the various categories of taxpayers below:

- Category of person
- Threshold

### **Business**

#### **Carrying on business (not opting for presumptive taxation scheme\*)**

Total sales, turnover or gross receipts exceed Rs 1 crore in the FY  
Carrying on business eligible for presumptive taxation under Section 44AE, 44BB or 44BBB.



Claims profits or gains lower than the prescribed limit under presumptive taxation scheme Carrying on business eligible for presumptive taxation under Section 44AD .

Declares taxable income below the limits prescribed under the presumptive tax scheme and has income exceeding the basic threshold limit.

Carrying on the business and is not eligible to claim presumptive taxation under Section 44AD due to opting out for presumptive taxation in any one financial year of the lock-in period i.e. five consecutive years from when the presumptive tax scheme was opted

If income exceeds the maximum amount not chargeable to tax in the subsequent 5 consecutive tax years from the financial year when the presumptive taxation was not opted for Carrying on business which is declaring profits as per presumptive taxation scheme under Section 44AD

If the total sales, turnover or gross receipts does not exceed Rs 2 crore in the financial year, then tax audit will not apply to such businesses.

## **Profession**

### **Carrying on profession**

Total gross receipts exceed Rs. 50 lakh in the F.Y.

Carrying on the profession eligible for presumptive taxation under Section 44ADA



- Claims profits or gains lower than the prescribed limit under the presumptive taxation scheme
- Income exceeds the maximum amount not chargeable to income tax
- Business loss

In case of loss from carrying on of business and not opting for presumptive taxation scheme Total sales, turnover or gross receipts exceed Rs 1 crore

If taxpayer's total income exceeds basic threshold limit but he has incurred a loss from carrying on a business (not opting for presumptive taxation scheme) In case of loss from business when sales, turnover or gross receipts exceed 1 crore, the taxpayer is subject to tax audit under 44AB

Carrying on business (opting presumptive taxation scheme under section 44AD) and having a business loss but with income below basic threshold limit.

### **Tax audit not applicable**

Carrying on business (presumptive taxation scheme under section 44AD applicable) and having a business loss but with income exceeding basic threshold limit

Declares taxable income below the limits prescribed under the presumptive tax scheme and has income exceeding the basic threshold limit





## **What happens if a person is required to get his accounts audited under any other law for eg. Statutory audit of companies under company law provisions?**

In such cases, the taxpayer need not get his accounts audited again for income tax purposes. It is sufficient if accounts are audited under such other law before the due date of filing the return. The taxpayer can furnish this prescribed audit report under Income tax law.

## **What constitutes Audit report?**

Tax auditor shall furnish his report in a prescribed form which could be either Form 3CA or Form 3CB where:

Form No. 3CA is furnished when a person carrying on business or profession is already mandated to get his accounts audited under any other law.

Form No. 3CB is furnished when a person carrying on business or profession is not required to get his accounts audited under any other law.

In case of either of the aforementioned audit reports, tax auditor must furnish the prescribed particulars in Form No. 3CD, which forms part of audit report.

## **How and when tax audit report shall be furnished?**

The tax auditor shall furnish tax audit report online by using his login details in the capacity of 'Chartered Accountant'.



Taxpayer shall also add CA details in their login portal. Once the tax auditor uploads the audit report, same should either be accepted/rejected by taxpayer in their login portal. If rejected for any reason, all the procedures need to be followed again till the audit report is accepted by the taxpayer.

You must file the tax audit report on or before the due date of filing the return of income. It is 30 November of the subsequent year in case the taxpayer has entered into an international transaction and 30 September (extended to 31 October for AY 2020-21) of the subsequent year for other taxpayers.

### **Penalty of non-filing or delay in filing tax audit report**

If any taxpayer who is required to get the tax audit done but fails to do so, the least of the following may be levied as a penalty:

1. 0.5% of the total sales, turnover or gross receipts
2. Rs. 1,50,000



## **PRESUMPTIVE TAXATION- A 'FRIEND' OF SMALL TAXPAYERS.**

-pranav chikodikar



### Presumptive Taxation- A 'FRIEND' of SMALL TAXPAYERS.

As the title suggests, this is an article on 'Presumptive taxation' in India. The word 'Presumptive' in simple terms means 'pre assumption' by the Income Tax Department of Income Tax to be paid to the Income Tax Department on a portion of Income or Profit when reaching a specified amount as contained in Income Tax Act, 1961.

### **Why need arose for Presumptive Taxation?**

Post-Independence, India adopted Mixed Economy policy and realized that Small Scale Businesses(SSB) will help the Economy boost rapidly as it will provide employment to a large number of people than Large Industries. Industrial Policy Resolution of 1948 and 1956 helped SSB to lay deep roots in the Indian Economy. Presumptive taxation was levied to overcome avoidance; tax evasion because of involvement of high information costs for verifying the self-declaration of Income; and difficulty in compliance with the then Income Tax laws, difficulty of book-keeping or establishing a well-designed accounting systems for certain business/(es).

A Real Life example for the need for introduction of the scheme- My friend Mr. Monesh owns a Sweet Shop in Karvenagar, Pune. His shop timings are 10 am to 7 pm. After a casual talk with him,



I found that on an average, he sells to approximately 500-600 customers on daily basis. Can one imagine, he giving the goods; as well as maintaining detailed record as to quantity sold; rate of the product; name of the customer(s) who visit(s) his shop; amount collected from each customer(s) etc. on a daily basis? He can maintain proper records for few customers, but not for all. Friends, it is practically impossible. Imagine this situation on all India Basis in different Industries!

Hence, to overcome so many difficulties faced by such taxpayers, a scheme of 'Presumptive Taxation' was introduced in the year 1961 i.e. when Income Tax Act was made applicable in the country.

### **Income Tax Act has divided this Scheme into 3 parts-**

#### **Presumptive Taxation Scheme**

- Under Section 44AD
- Under Section 44ADA
- Under Section 44AE

Scheme under Section 44AD-This scheme being referred to in section 44 AD, is applicable to 'eligible business' as defined in the act for assesses deriving Income not more than Rs. 2 crores from such eligible business being chargeable under the head 'Profits and Gains of Business or Profession'. It is applicable to eligible businesses carried on by Resident Individuals or HUF's or Partnership Firms(excluding LLP's)



For the purpose of this section, eligible business excludes business of plying, hiring and leasing of goods carriages referred to in Section 44AE.

This Scheme is not applicable to-

- A person carrying on a profession as referred to in Section 44 AA(1).
- A person earning income in the nature of commission or brokerage.
- A person carrying on any agency business.
- An LLP as defined under LLP Act, 2008.
- An assessee who has claimed deduction under section 10AA or any deduction under Chapter VIA.

### **Income Tax to be paid-**

The Presumptive Rate of tax will be 8% of total turnover or gross receipts in the Financial Year relevant to the relevant Assessment year provided the amount is not received by an account payee cheque or by an account payee bank draft or by use of Electronic Clearing system(ECS) through a bank account; in which case only, it would be 6% ;which should have been received in the P.Y. or before the due date of filing of Income Tax Return as per section 139(1).



If an assessee chooses to pay tax as per Section 44AD, he is not obliged to get his accounts audited as per Section 44AB (Tax Audit of Accounts) and vice-versa.

**Where an eligible assessee to whom section 44AD becomes applicable, fails to declare in more than one Assessment Year (AY), the profits as per section 44AD(1) for five consecutive AY's, then, he is thrown out of the applicability of section 44AD for a further period of five consecutive AY's commencing from the succeeding AY immediately after defaulting P.Y .**

### **Scheme under Section 44ADA-**

This scheme is specifically designed for Professionals referred to in section 44AA. Eligible professions which are recognized are as follows-1) Legal 2) Profession of Company Secretary 3) Accountancy and such other Professions as may be specified by CBDT in Official Gazette.

The assesses engaged in above professions should have total gross receipts **less than or equal to Rs.50 Lakhs** to avail benefits of this scheme. The assessee has to pay **Income Tax which is 50%** of Total Gross Receipts or such higher of the aforementioned Gross Receipts as the case may be.

### **Scheme Under Section 44AE-**

This Scheme applies to owner of goods carriages who derives income from plying, hire or by leasing of such goods carriages (Provided the owner owns not more than 10 goods carriages in the P.Y.)



If an assessee chooses to pay tax as per Section 44AD, he is not obliged to get his accounts audited as per Section 44AB (Tax Audit of Accounts) and vice-versa.

**Where an eligible assessee to whom section 44AD becomes applicable, fails to declare in more than one Assessment Year (AY), the profits as per section 44AD(1) for five consecutive AY's, then, he is thrown out of the applicability of section 44AD for a further period of five consecutive AY's commencing from the succeeding AY immediately after defaulting P.Y .**

### **Scheme under Section 44ADA-**

This scheme is specifically designed for Professionals referred to in section 44AA. Eligible professions which are recognized are as follows-1) Legal 2) Profession of Company Secretary 3) Accountancy and such other Professions as may be specified by CBDT in Official Gazette.

The assesses engaged in above professions should have total gross receipts **less than or equal to Rs.50 Lakhs** to avail benefits of this scheme. The assessee has to pay **Income Tax which is 50%** of Total Gross Receipts or such higher of the aforementioned Gross Receipts as the case may be.

### **Scheme Under Section 44AE-**

This Scheme applies to owner of goods carriages who derives income from plying, hire or by leasing of such goods carriages (Provided the owner owns not more than 10 goods carriages in the P.Y.)



## **Type of Goods Carriage**

Heavy Goods Vehicle (If Weight > 12000 Kgs)

## **Presumptive Income Rs.1,000**

per ton of Gross Vehicle Weight or of Vehicle weight (excluding weight of driver, attendant etc.) for every month or part of the month. and for any other vehicle Rs 7500 for every month or part of the month.

Note: The assessee must legally own any of the above mentioned carriages during the relevant P.Y. If the transport agency is a Partnership Firm, then salary and interest paid to such Partners is allowed as deduction subject to section 40(b).

## **Any Assessee mentioned in any of the above sections shall be-**

- a) Deemed to have taken deductions under sections 30 to 38, and no additional deduction will be allowed;
- b) Deemed to have claimed depreciation as per WDV Method only.
- c) Relieved from Provisions of maintenance of Accounts u/s 44AA.
- d) Relieved from Tax Audit u/s 44AB.
- e) Liable to pay Advance Tax by 15th March of the relevant P.Y





# Financial Scams And Detection of Such Scams.

—PRANAV KOTALWAR



## Winsome Diamond Scam. (Jatin Mehta Case)

Jatin Mehta entered into Diamond Business in 1985, when he founded India's first Diamond Public Trading company Su-Raj Diamonds Limited. He used his stint in this company to build up a reputation as a stable presence in the diamond and jewellery making industry. He conducted his business with transparency and repaid all his loans when required. In fact, Mehta won several awards while at the helm of Su-Raj Diamonds, Such as the Diamantaire of the year.

After his success at Su-Raj Diamonds, Mehta expanded and created two more companies, Winsome Diamonds & Jewellery Limited & Forever Diamonds. In early 2000's Mehta started using his company Winsome Diamonds to export to clients in the UAE.

Let us understand how the diamond business worked back then—

Jatin Mehta and his company would import uncut diamonds from abroad. They would then proceed to cut and polish the diamonds, make jewellery pieces with them and export the finished & final jewellery to their clients in the UAE. Most businesses function on credit.



They take loans from several banks to first buy the materials required. After production they sell those products to earn revenue. And the bank debt is paid from such revenue.

For the jewellery business, Mehta bought gold on credit from several international bullion banks such as Bank of Nova Scotia, Standard Chartered. Bullion banks normally refers to those banks which are active in the precious metals markets. They deal in activities such as trading, clearing, physical metal distribution, intermediating between metal lenders and borrowers.

In this case, the international bullion banks provided Mehta with the material required for his jewellery business. However, when it comes to international banking transactions, there are several procedures in place to ensure that neither party is cheated and the contract is carried out to completion. For instance, if the bullion banks lend the gold to Jatin Mehta in good faith, and then Jatin Mehta refuses to repay the amount, the banks will be left at a disadvantage as it will not be possible for them to chase down a man in a foreign country. The reverse situation is also possible.

To ensure that these situations do not crop up, bullion banks require that the company asking for the gold loan submit a standby letter of credit from a domestic bank. This is a guarantee of sorts, where the domestic bank accepts responsibility for the loan. If the company defaults, it falls upon the domestic bank to repay the existing debt. It is an agreement to pay for the entire gold amount themselves. Banks do not give out standby letters to anyone off the road. Jatin Mehta obtained standby letters of credit from several Indian banks such as Bank of Maharashtra, Canara Bank, Union Bank and others.



For years line of transaction proceeded smoothly. Mehta would obtain gold on credit from bullion banks, that gold would be converted into jewellery pieces by Winsome Group. Finished products would then be exported to the existing group of 13 buyers in the UAE. Until 2012, this arrangement functioned like a well-oiled machine. And then, suddenly, it broke down without any warning.

At the end of 2012, Mehta defaulted on his payments. He claimed that his regular group of 13 buyers had incurred huge losses and they are not able to pay him for the supply of jewellery. Mehta said he is not able to pay for the gold that he took from the bullion banks. This was disastrous for the group of Indian banks who had extended the standby letter of credit for Jatin Mehta. In the event that he defaults on his payments, the onus would fall upon this group of banks to clear all the dues.

Three Companies of Mehta Comprised of Winsome , Su-Raj And Forever Collectively owned an amount of 7000 Crores In Indian Rupees. And Repayment was not an option that is why Group of Indian Banks decided to conduct their own investigations into the matter.

### **The Investigation Part-**

Jatin Mehta had claimed that he had 13 individual buyers in the UAE. Investigation revealed that this was false. All 13 companies were controlled by one man, namely Salman. This man had been associated with the Winsome Group for the last 8-9 years. Further, it was also revealed that out of the 13 companies, 10 had been created in 2012 itself. In fact, five of those companies were registered on the same day.



Once these facts revealed the banks realized he did fraud with them. They realised that there were no buyers in the UAE. It was all an elaborate scheme created by Jatin Mehta in order to cheat the Indian economy out of a few thousand crores. Later CBI took this case. For three years, investigations were carried out by CBI against Jatin Mehta. The Mumbai police got involved as well, & along with CBI, they raided Mehta's office and properties.

However, in spite of all their best efforts, they did not manage to build up the case against Mehta. Before any major charges could be filed, Jatin Mehta and his entire family left India for good.

CBI continued their investigation against Mehta. They launched FIRs against the other noteworthy members of the company, namely Ramesh Parekh and Ravichandran Ramaswami. Furthering the battle of CBI against Jatin Mehta, they declared him to be a wilful defaulter. This means, even though his company was not bankrupt and he had the money with him, Mehta had knowingly chosen to not repay the amount.

By 2017, the ED got involved in the Jatin Mehta case. It so happened that the entire amount had been taken from government banks. That means, it was essentially the taxpayers' money that Mehta had escaped with. Out of these, Punjab National Bank had suffered the biggest loss amounting more than Rs. 1,700 crores. Among the others, Central Bank of India had lost Around Rs. 700crores and IDBI Bank had lost Around Rs. 400crores.

ED chose to not let go of this wilful fraud and mounted pressure to complete the investigation and gather the evidence against Mehta.



After much effort, they managed to obtain evidence of the money laundering in the UAE. This took a large amount of skill and tact as such international matters are very sensitive and have to be broached with caution.

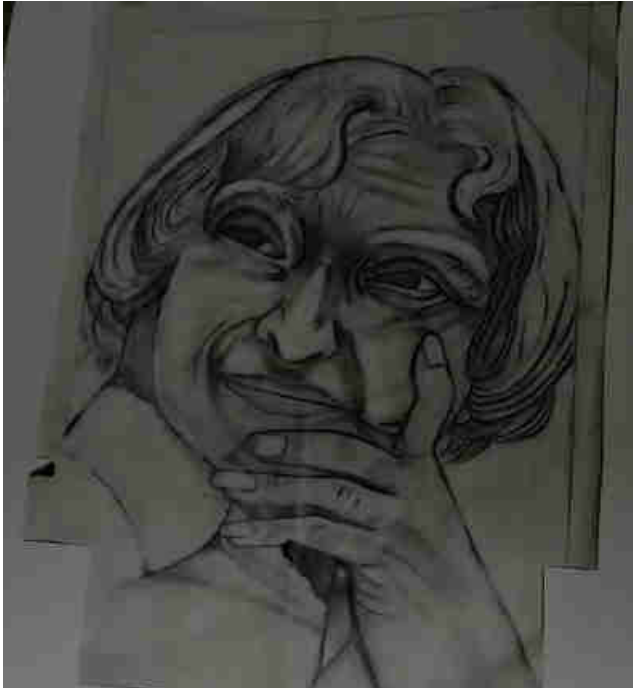
**Investigation later revealed that even some bank officials were in on the fraud. This is the only explanation for the fact that Mehta had only kept collateral worth Rs. 250 crores even though the line of credit was valued at Rs. 7,000 crores.**

Currently ED & CBI are working together for the justice of Taxpayers money. Jatin Mehta too escaped from india just like Vijay Mallya ,NiravModi.





# *The Art Corner*



**Bharati Kishor Biyani**  
(WRO 0686651)

**THE BEACON**



**Khushbu Tarachand Desarda**  
(WR00580713)



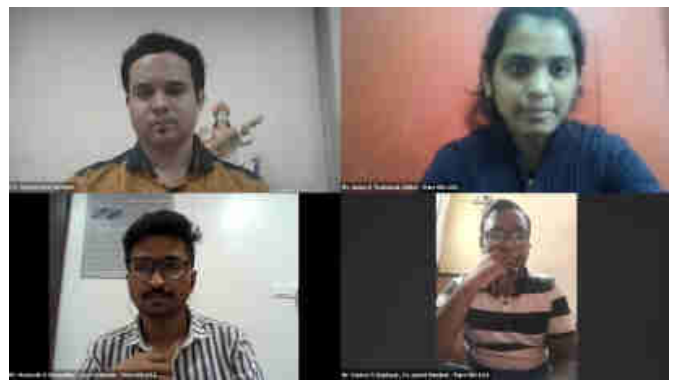


# GLIMPSE OF PAST EVENTS

## Kit Distribution on the occasion of Mahatma Gandhi Jayanti



B





## Industrial & Educational Visit at Aryan industry, Ujjani Dam and Rachana agro tourism

