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Mr. Kamal Roshia
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What Happened To Puerto Rico?

- > Between 2007 to 2017, Puerto Rico's Gross National Income fell by 14%.
- > 46% of the population lived below federal poverty line.
- > As of May 2017, it had \$74 billion in debt and another \$49 billion in unfunded pension liabilities.
- > In 2017, Puerto Rico's government filed for the largest Municipal bankruptcy in US history.

A few months later situation even worsened off by the strike of Hurricane Maria demolishing the island's power grid and causing billions of dollars of damage.

The debt crisis began in 2014 when 3 credit rating agencies downgraded various bonds issued by Puerto Rico to "junk status" after the government was unable to show that it could pay back its debt. This prevented the government from selling more bonds in the open market. The government then began to use its savings to repay its debt, however warning that the savings would exhaust too.

To prevent such a scenario US congress set up an Oversight board. The board began exerting control that government sought to raise taxes and cut expenditures by reducing public services and pensions. This provoked social distrust and unrest amongst public.

But how the government run into a debt crisis?

The government of Puerto Rico was authorised to issue triple tax-exempt municipal bonds. These were highly attractive to US investors and the cost of issuing these bonds was very low.

Puerto Rico was colonized by Spain. At the end of Spanish-American War, it was ceded to US. The people of Puerto Rico now had neither independent nor colonial citizenship. In the early 1900s, Supreme Courts' decisions defined Puerto Rico as an unincorporated territory appurtenant and belonging to US, but not a part of the United States.

Constitutional amendment in 1952 relaxed the balanced budget requirements for Puerto Rico. Another in 1961 loosened the regulations on debt capacity encouraging to continue to fund shortfalls by issue of municipal bonds.

Puerto Rico was subject to favourable tax laws from US government, however in 1996 these were phased out over 10 years ending in 2006. The end of subsidies led the companies in Puerto Rico flee away from the island which inturn led to tax shortfalls. The shortfall was met by issuing bonds :)

Some newspapers also state that main problem is with the local government rather than lack of funds. The department of treasury also tends to publish its annual reports late and fails to comply with the disclosure requirements timely.

The government's accounting, payroll, and fiscal oversight information systems and processes also have deficiencies that significantly affect its ability to forecast expenditures.

After years, Puerto Rico exits officially from bankruptcy on March 15th, 2022 following the largest public debt restructuring.



Uday Kumar Sahu

CRO0752200

Short brief on introduction of concept of Equalization levy Scheme in India

There was a great need of the time following the era of digitalisation in India during the last decade, as use of smart phones have increased to a significant extent, which in turn have rapidly increased the promotional and advertising activities through digital modes like various business and corporate houses, start-ups in India has started promoting their products and services digitally through facebook, instagram, you tube and various other applications, the server of which are located outside India. The biggest challenge before the Income tax authorities was that they cannot tax such income as business was conducted without regard to national boundaries and may dissolve the link between an income producing activity and a specific location. In digital Domain the business doesn't occur in any physical location but instead takes place in cyberspace due to which it becomes difficult to determine the taxability of Income.

To overcome this situation and to protect the interest of revenue the Central Government of India has introduced the concept of Equalization levy Scheme vide VIII Chapter in the Finance Act, 2016 with effect from 1st June 2016 to whole of India except Jammu and Kashmir. The Idea of this levy was taken from BEPS Action plan 1, which provides 3 recommendations out of which India has implemented 2 recommendations i.e. equalization levy and significant economic presence concept.

But what actually equalization levy means and to whom it is applicable, lets understand more analytically through the wordings of bare text;

Meaning of Equalization levy: Equalization Levy means the tax leviable on consideration received or receivable for any *specifies service*.

What is specified service?

i). Online Advertisement;

ii). Any provision for digital advertising space or any other facility or service for the purpose of online advertisement or any other service as may be notified by the central government in near future.

Charge of levy (Section 165 of Finance Act, 2016 is the charging section)

Equalization levy is levied at the rate of 6% on the amount of consideration for specified service (as mentioned above) received or receivable by a person, being non-resident from-

- (a) A person resident in India and carrying on business or profession or
- (b) A non-resident having a PE in India.

Equalization levy is not chargeable, where-

- (a) The non-resident providing the specified service has a PE in India and the specified service is effectively connected with such PE;
- (b) The aggregate amount of consideration for specified service received or receivable in a previous year by the non-resident from a person resident in India and carrying on business or profession, or from a non-resident having a PE in India, does not exceed **INR 1 lakh** or
- (c) Where the payment for the specified service by the person resident in India or the PE in India is not for the purposes of carrying out business or profession.

Conclusion: The introduction of such tax regime proves to be boon for the Indian Economy as it helps in increasing the tax revenue of the nation and to have a check and control over the payments made to such E-commerce companies which are not having PE or place of business in India.

For more info copy of short video clip which is available on YouTube is attached herewith,

<https://youtu.be/xMfDD8Agdck>

74th CA Foundation Day was celebrated with lot of fanfare for a week. Lets have the glimpses of the activities.



Tree Plantation & Swaccha Bharat Abhiyan



Cyclothon



Walkathon



Health Check Up & Blood Donation Camps



Flag Hoisting



Badminton Competition



Carrom & Chess Competition



Box Cricket Tournament



CSR Activity - Educational Kit Distribution



Inaugural of Accountancy Meuseum



Cultural Evening