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18th All India C.A. Students' Conference

Dates: December 8 &
9, 2005

Venue: Ravindra Natya
Grah, R.N.T.
Marg, Indore

**Details of the programme will be
announced in the forthcoming
issues**

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Message from the Chairman, Board of Studies

Dear Students,

The Chartered Accountancy course requires a different kind of learning. Instead of just reading and memorizing, you need to go deep into standards, guidance notes, laws and other concepts and distil the knowledge. Learning does not stop there as you have opportunity of applying it in your practical training. This form of active learning is more vibrant and goes beyond mere reading and understanding. However, at the same time it takes considerably more effort.



Recently, in one of my interaction with the students, some students of Professional Education (Course - I) pointed out the need for inclusion of more contents relevant to them in this Newsletter. The concern was not unfounded. Contemporary issues and other developments that are often covered are more appropriate for the students of the latter stages. At the stages of Professional Education (Course - II) and Final Course working and expert knowledge are respectively required. Thereby, it is obvious that there will be lesser material for the students of first stage wherein only basic knowledge is expected in the examinations. In spite of this, this issue of the Newsletter is a special issue for the students of Professional Education (Course - I). Materials have been included in different subjects relevant to them.

Students of Professional Education courses, who have exhausted their five attempts have sighed relief with the amendments in the Regulations. With the changes, a candidate who has exhausted his/her five consecutive attempts in the Professional Education examinations, shall be eligible for five additional attempts. For details students should refer to the notification that was included in the August issue of the Newsletter. A announcement is also included in this issue. However, I must add that you should study rigorously and pass at the earliest. Looking forward to more number of attempts only reflect lack of preparedness and confidence.

In my earlier communication, I have mentioned about revamping of the Eligibility Tests Scheme. Students are finding the reduction in the workload a welcome change. The basic idea behind reduction in the number of papers that are to be submitted is to improve the quality of answers. With this reduction, I must share a few words of caution. When you are attempting lesser number of papers, you must remain self-motivated to keep a continuous touch with the studies. The responsibility to prepare adequately for the examinations is to be shouldered by you in an enhanced manner.

We have proposed some basic changes in the options of 250 hours compulsory Computer Training Programme and modular tests for which you may go through the announcement included in this issue. These changes intend to simplify the modular test scheme and reduce the duration of training from 3½ months to 3 months.

With best wishes,

Yours truly,



Jaydeep Narendra Shah

Grassroots of Accounting

Seema Gupta

Accounting

Accounting as a 'language of business' communicates the financial results of an enterprise to various stakeholders by means of financial statements. Accounting is the process of identifying, measuring, recording, classifying, summarising, analysing, interpreting and communicating the financial transactions and events. The aim of accounting is to keep systematic records to ascertain financial performance and financial position of an entity and to communicate the relevant financial information to the interested user groups. The end product of the financial accounting is the profit and loss account for the period (showing the profits earned or losses incurred) and the balance sheet as on the last day of the accounting period (depicting the financial position). The process of financial accounting (i.e. the preparation of financial statements) is based on generally accepted accounting principles enunciated by the accounting profession and is heavily constrained by legal regulations and accounting standards.

Book-Keeping System

Book-keeping is mainly concerned with recording of financial data relating to the business operations in a systematic and orderly manner. Book-keeping is the recording phase, accounting is concerned with the summarising phase of an accounting system. A book-keeper may be responsible for keeping all the records of a business or only of a minor segment, such as position of the customers' accounts in a departmental store. A substantial portion of the book-keeper's work is of a clerical nature and is increasingly being accomplished through the use of a mechanical and electronic devices. Book-keeping provides necessary data for accounting and accounting starts where book-keeping ends. Accountants normally plan and set up the accounting and book-keeping system for a business and turn over the day to day record keeping to the owner or one of his/her employees. In this age of computers more and more of the daily book keeping is being done using book-keeping

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This article is relevant
for the students of
Professional Education
Course - I.

software and computers although some businesses still maintain manual records. The recording of transactions may be done according to any of the two systems—Single Entry System and Double Entry System.

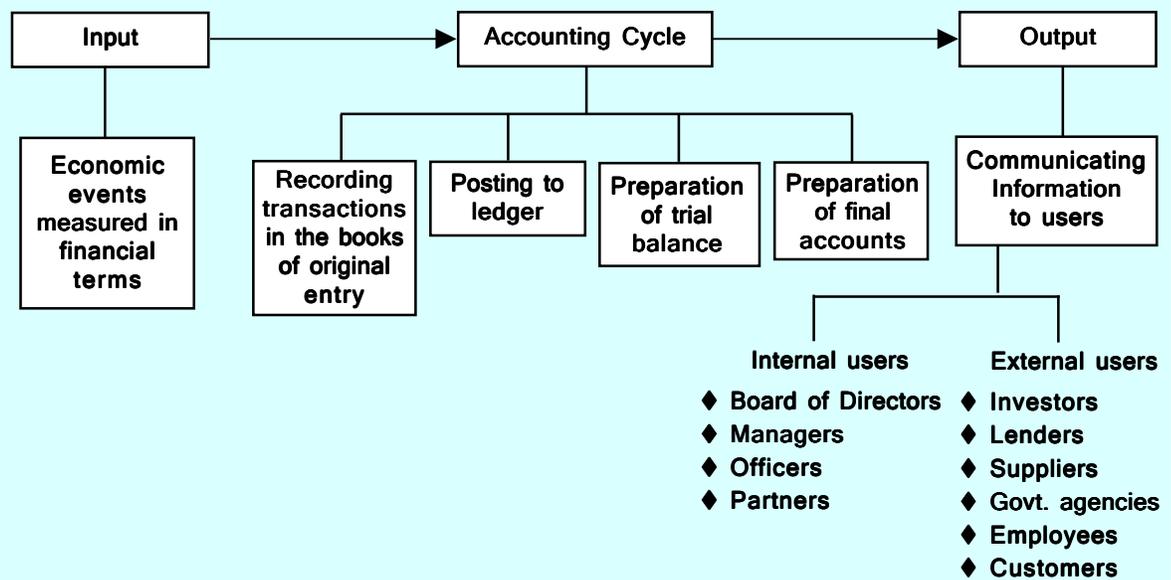
Single Entry System

An incomplete double entry system can be termed as a single entry system. In the words of Kohler, "It is a system of book-keeping in which as a rule only records of cash and personal accounts are maintained, it is always incomplete double entry, varying with circumstances". This system is developed by business entities, who for their convenience, keep only some essential records. Single entry systems are more practical and easy for a new small business, but they do not present a complete picture of the business and do not reflect initial investments and actual worth.

Double Entry System

A business transaction involves an exchange between two accounts. For example, for every asset there exists a claim on that asset, either by those who own the business or those who loan money to the business. Similarly the sale of a product affects both the amount of cash (or cash receivable) and the inventory held by business entity. Recognising the fundamental dual nature of transactions, merchants in medieval Venice began using a double entry book-keeping system that records each transaction in the two accounts affected by the exchange. In the late 1400's Franciscan monk and mathematician Luca Pacioli documented the procedure for double entry book-keeping as a part of his famous 'Summa' work, which described a significant portion of the accounting cycle. Thereafter the system of double entry

Chart 1 – Process of Accounting



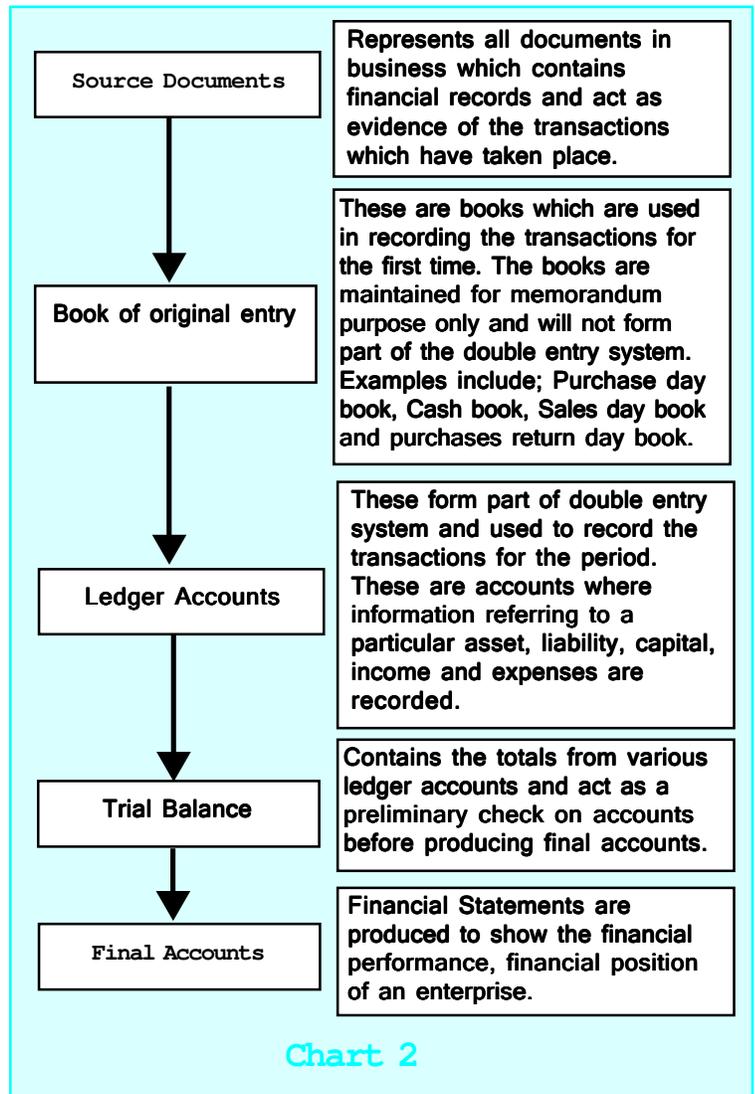
spread throughout Europe and became the fundamental of modern accounting.

Double entry accounting system is an important concept in accounting which states that every accounting transaction should always be recognised in the accounts, in one as a debit and another credit. Two notable characteristics of double entry system are that (i) each transaction is recorded in two accounts, and (ii) each account has two columns. It would have been very difficult to check the arithmetical accuracy of the transactions recorded in financial statements if there was no double entry accounting system.

Elements of Financial Statements

Before looking at double entry accounting we should first consider the following items which make up the financial statement.

- Assets:** An asset is defined as resource controlled by the enterprise as a result of past events and from which economic benefits are expected to flow to the enterprise. In simple terms an asset is defined as something valuable owned by the business. Assets are further subdivided into current and non current. Non current assets are those which are used in conducting business and are held for more than one accounting year with no intention of resale. Examples include land and buildings, vehicles and machinery. On the other hand current assets are those assets held in form of cash or those which can easily be turned into cash. Examples here include stocks, debtors and cash.
- Liabilities:** Liabilities are defined as "entity's obligation to transfer economic benefits to another enterprise or individual as a result of past transactions or events". Thus liabilities are amounts which the entity owes other businesses or individuals. Liabilities are classified into current and non current liabilities. Current liabilities are those amounts which are repayable within a period of less than 12 months while non current are those which should be repaid after more than 12 months.
- Capital:** Capital represents amount which the owners have invested in the business. Capital will always equal to assets less the liabilities. Capital is also referred to as owner's equity or net worth. It comprises the funds invested in the business by the owner plus any profits retained for use in business less any drawings distributed to the owners.
- Income:** Income is a broad term but covers all transactions which will result in gross inflow of benefits to the enterprise. Income is subdivided into revenues and gains.
Revenue is the gross inflow in economic benefits in ordinary activities of an enterprise like sales, dividends, interest, royalties or rent while gains represent other items that meet the definition of income and may, or may not arise in the ordinary course of an enterprise, i.e. profit made on the disposal of non current assets.
- Expenses:** A cost relating to the operations of an entity or to the revenue earned during the period or the benefits of which do not extend beyond that period.
Expenses are gross outflow of economic benefits arising in ordinary course of business. Any expense to acquire a new asset or to



enhance the capacity of an existing asset is called capital expenditure and should be included as part of the value of such asset.

Balance Sheet Equation

By adding up what the accounting records shows as belonging to the business and deducting what the business owe, one can identify what a business is worth. This conclusion is known as the Accounting equation or also known as the Balance sheet equation.

Resources supplied by the owner = Resources in the busines.

Amount of resources controlled by the business are called assets and the resources supplied by the owner are called capital. Thus the equation that can be re drawn as:

Capital = Assets

Not all resources in the business can be supplied by the owners only, sometime the business may get supplies from other sources with the intention of future repayments. These amounts are called liabilities

so the equation can be upgraded as:

$$\text{Capital (owners' equity)} = \text{Assets} - \text{Liabilities}$$

Dual Aspect Concept

This concept is the core of double entry book-keeping system. Accordingly every transaction or event has two aspects. Thus

- (a) An increase in an asset will result in an increase in a liability or an increase in owner's equity or a decrease in another asset.
- (b) A decrease in an asset will result in a decrease in a liability or a decrease in owner's equity or an increase in another asset.
- (c) An increase in liability will result in an increase in an asset or a decrease in owner's equity or a decrease in another liability.
- (d) A decrease in a liability will result in an increase in owner's equity, a decrease in asset or an increase in another liability.
- (e) An increase in owner's equity will result in an increase in an asset or a decrease in a liability or a decrease in another form of owner's equity.
- (f) A decrease in owner's equity will result in a decrease in an asset or an increase in liability or an increase in another form of owner's equity.

Accounting Cycle

Transactions and events recorded by suitable account headings are analysed in term of debit and credit; and thus assets become equal to equity and liabilities. Accounts are classified as personal, real and nominal types. Transactions and events are first journalised, then

posted to suitable ledgers accounts and all accounts are balanced at the end of year. Generally balances of the nominal accounts are transferred to profit and loss account for determination of profit or loss and balance of personal and real accounts are carried to balance sheet.

Chart 2 depicts the family tree of accounts showing how information flows from the source documents up to when the final accounts are prepared.

Significance of Double Entry System

Double entry system is in itself, a complete accounting system and focusses on the financial statements. This system combines the single entry system with additional information to provide a complete picture of the financial position of an entity. To appreciate the importance of double entry book-keeping, it is interesting to note that the industrial revolution might not have been possible without it. At that time, businesses increased tremendously in size and complexity. Due to the increased scale of operations, accurate book keeping was required for managers to understand the financial status of their businesses in order to keep them solvent and offer a degree of transparency to investors. While a single entry system can be adopted by a skilled book-keeper to meet some of these needs, only a double entry system provides the required detail systematically and by design. Most of the business enterprises have adopted the double entry system of bookkeeping because of its advantages over the single entry system. Double entry systems are more complete, do a crosscheck of entries, have more features, and are easy to do. Double entry accounting provides accurate calculation of profit or loss, recognition of assets and liabilities, preparation of financial statements directly from the accounts and easier detection of errors and frauds.

Conclusion

The financial statements are basic means through which the management of an entity makes public communication of the financial information along with selected quantitative details. They are structured financial representations of the financial position and the performance of an enterprise. To have a record of all business transactions and also to determine whether all these transactions resulted in either 'profit or loss' for the period, all the entities will prepare financial statements viz., balance sheet, profit and loss account, cash flow statement etc. by following various accounting conventions and concepts like periodicity, business entity, money measurement, conservatism, etc.

"Financial statements are like fine perfume; to be sniffed but not swallowed". If the financial accounting process is not properly regulated, there is possibility of financial statements being misleading, tendentious and providing a distorted picture of business rather than the true state of affairs. In order to ensure transparency, consistency, comparability, adequacy and reliability of financial reporting, it is essential to standardise the accounting principles and policies. Accounting Standards provide framework and standard accounting policies so that the financial statements of different enterprises become comparable. The expanding globalisation of business and investment is driving increased interest to enhance the quality of financial reporting throughout the world so that the effective evaluation between companies can be made. □

An Introduction to Some Important Terminologies

Prem J Bhutani

Students you would have often come across a number of terms relating to money market and capital market but you may not know their meaning or importance. In this write-up some commonly heard terms have been explained for your benefit.

- ◆ **Financial Markets:** Markets that deal in financial assets like shares, debentures and bills are called financial markets. A financial market consists of (a) money market and (b) capital market.
- ◆ **Money Market:** Money market deals in short-term credit and it can be defined as a market for short-term money and financial assets that are near substitutes for money. The term short-term means generally a period up to one year and near substitutes to money is used to denote any financial asset which can be quickly converted into money with minimum transaction cost. Participants in money market consist of lenders and borrowers. Lenders are the entities which have surplus lendable funds like Banks (Commercial, Co-operative & Private), Mutual Funds, Corporate Entities with bulk lendable resources and Financial Institutions. Borrowers are entities with deficit funds and include the ones as above.
- ◆ **Capital Market:** Capital market deals with medium term and long term capital and consists of development banks, share market, mutual funds and also hire purchase companies, chit funds, financial companies etc.

Money Market Instruments: Some of the money market instruments are:

- | | |
|----------------------------------|------------------------------------|
| 1. Call/ Notice Money | 2. Treasury Bills |
| 3. Term Money | 4. Certificate of Deposit |
| 5. Commercial Papers | 6. Inter-Corporate Deposits |
| 7. Ready Forward Contract | 8. Commercial Bills |

1. Call/ Notice Money: Call/Notice money is an amount borrowed or lent on demand for a very short period. If the period is more than one day and up to 14 days it is called 'Notice money' otherwise the amount is known as Call money. Intervening holidays and/or Sundays are excluded for this purpose. No collateral security is required to cover these transactions. The Call market enables the banks and institutions to even out their day-to-day deficits and surpluses of money. It is a completely inter-bank market and non-banking entities are not allowed to access this market. Interest rates in this market are market determined.

2. Treasury Bills Markets: These are the lowest risk category

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This article is relevant for the students of Professional Education Course - I.

instruments in the short-term. These are issued by the Reserve Bank of India at a prefixed day and fixed amount. There are four types of treasury bills. (i) 14-day Tbill (ii) 91-day Tbill (iii) 182-day Tbill and 364-day Tbill. A considerable part of the government's borrowings happen through Tbills of various maturities. The usual investors in these instruments are banks [who invest not only to park their short-term surpluses but also since it forms part of their SLR (Statutory Liquidity Ratio) investments], insurance companies and FIs (Financial Institutions). These Tbills can be traded in the market. The transactions costs on Tbill are non-existent and trading is considerably high in each bill, immediately after its issue and immediately before its redemption. The yield on Tbills is dependent on the rates prevalent on other investment avenues open for investors. Low yield on Tbills, generally a result of high liquidity in banking system as indicated by low call rates, would divert the funds from this market to other markets. This would be particularly so, if banks already hold the minimum stipulated amount (SLR) in government paper.

3. Term Money: Inter bank market for deposits of maturity beyond 14 days and up to three months is referred to as the term money market. The term-money market instruments are growing because of volatility in the call market, growing desire for fixed interest rates instruments for a relatively longer duration.

4. Certificate of Deposits: After treasury bills, the next lowest risk category investment option is the certificate of deposit (CD) issued by banks and FIs.

Allowed in 1989, CDs were one of RBI's measures to deregulate the cost of funds for banks and FIs. A CD is a negotiable promissory note, secure and short term (up to a year) in nature. A CD is issued at a discount to the face value, the discount rate being negotiated between the issuer and the investor. Though RBI allows CDs up to one-year maturity, the maturity most quoted in the market is for 90 days.

The secondary market for this instrument does not have much depth but the instrument itself is highly secured. CDs are issued by banks and FIs mainly to augment funds by attracting deposits from corporates, high net worth individuals, trusts, etc. The foreign and private banks, especially, which do not have large branch networks and hence lower deposit base use this instrument to raise funds.

5. Commercial Papers: Commercial Paper (CP) is an unsecured money market instrument issued in the form of a promissory note. CP was introduced in India in 1990 with a view to enabling highly rated corporate borrowers to diversify their sources of short-term borrowings and to provide an additional instrument to investors. Highly rated corporate borrowers, primary dealers (PDs) and satellite dealers (SDs) and all-India financial institutions (FIs) which have been permitted to raise

resources through money market instruments under the umbrella limit fixed by Reserve Bank of India are eligible to issue CP. A company shall be eligible to issue CP provided – (a) the tangible net worth of the company, as per the latest audited balance sheet, is not less than Rs. 4 crore; (b) the working capital (fund-based) limit of the company from the banking system is not less than Rs.4 crore and (c) the borrowal account of the company is classified as a Standard Asset by the financing bank/s. All eligible participants should obtain the credit rating for issuance of Commercial Paper, from either the Credit Rating Information Services of India Ltd. (CRISIL) or the Investment Information and Credit –Rating Agency of India Ltd. (ICRA) or the Credit Analysis and Research Ltd. (CARE) or the Duff & Phelps Credit Rating India Pvt. Ltd. (DCR India) or such other credit rating agency as may be specified by the Reserve Bank of India from time to time, for the purpose. The minimum credit rating shall be P-2 of CRISIL or such equivalent rating by other agencies. Further, the participants shall ensure at the time of issuance of CP that the rating so obtained is current and has not fallen due for review. CP can be issued for maturities between a minimum of 15 days and a maximum up to one year from the date of issue.

CP may be issued to and held by individuals, banking companies, other corporate bodies registered or incorporated in India and unincorporated bodies, Non-Resident Indians (NRIs) and Foreign Institutional Investors (FIIs).

6. Inter-Corporate Deposits: Apart from CPs, corporates also have access to another market called the inter corporate deposits (ICD) market. An ICD is an unsecured loan extended by one corporate to another. Existing mainly as a refuge for low rated corporates, this market allows funds surplus corporates to lend to other corporates. Also the better-rated corporates can borrow from the banking system and lend in this market. As the cost of funds for a corporate is much higher than for a bank, the rates in this market are higher than those in the other markets. ICDs are unsecured, and hence the risk inherent in high. The ICD market is not well organised with very little information available publicly about transaction details.

7. Ready Forward Contract: It is a transaction in which two parties agree to sell and repurchase the same security. Under such an agreement the seller sells specified securities with an agreement to repurchase the same at a mutually decided future date and a price. Similarly, the buyer purchases the securities with an agreement to resell the same to the seller on an agreed date in future at a predetermined price. Such a transaction is called a Repo when viewed from the prospective of the seller of securities (the party acquiring fund) and Reverse Repo when described from the point of view of the supplier of funds. Thus, whether a given agreement is termed as Repo or a Reverse Repo depends on which party initiated the transaction. The lender or buyer in a Repo is entitled to receive compensation for use of funds provided to the counterparty. Effectively the seller of the security borrows money for a period of time (Repo period) at a particular rate of interest mutually agreed with the buyer of the security who has lent the funds to the seller. The rate of interest agreed upon is called the Repo rate. The Repo

rate is negotiated by the counterparties independently of the coupon rate or rates of the underlying securities and is influenced by overall money market conditions.

The Repo/Reverse Repo transaction can only be done between parties approved by RBI and in securities as approved by RBI (Treasury Bills, Central/State Govt securities). It helps banks to invest surplus cash. It helps investor achieve money market returns with sovereign risk. It helps borrower to raise funds at better rates. RBI uses Repo and Reverse repo as instruments for liquidity adjustment in the system.

8. Commercial Bills: Bills of exchange are negotiable instruments drawn by the seller (drawer) of the goods on the buyer (drawee) of the goods for the value of the goods delivered. These bills are called trade bills. These trade bills are called commercial bills when they are accepted by commercial banks. If the bill is payable at a future date and the seller needs money during the currency of the bill then he may approach his bank for discounting the bill. The maturity proceeds or face value of discounted bill, from the drawee, will be received by the bank. If the bank needs fund during the currency of the bill then it can rediscount the bill already discounted by it in the commercial bill rediscount market at the market related discount rate.

The RBI introduced the Bills Market scheme (BMS) in 1952 and the scheme was later modified into New Bills Market scheme (NBMS) in 1970. Under the scheme, commercial banks can rediscount the bills, which were originally discounted by them, with approved institutions (viz., Commercial Banks, Development Financial Institutions, Mutual Funds, Primary Dealer, etc.).

With the intention of reducing paper movements and facilitate multiple rediscounting, the RBI introduced an instrument called Derivative Usance Promissory Notes (DUPN). So the need for physical transfer of bills has been waived and the bank that originally discounts the bills only draws DUPN. These DUPNs are sold to investors in convenient lots of maturities (from 15 days upto 90 days) on the basis of genuine trade bills, discounted by the discounting bank.

Capital Market Instruments: Important capital market instruments are:

- | | |
|-------------------------|---------------------------------------|
| 1. Debentures | 2. Preference shares |
| 3. Equity shares | 4. Innovative debt instruments |

1. Debentures: Debentures are long term credit instruments issued by a company. They carry a fixed (coupon) rate of interest which is legally binding on the company. The holders of debentures become long term creditors of the company. As secured instruments they are in the nature of a promise (by the company) to pay interest and repay principal at stipulated times. The debenture issuing company is free to choose the coupon rate, which may be fixed or floating. These are generally secured by a charge on the present and future immovable assets of the company. Since they are issued for a fixed period of time, they carry the maturity period also. The company is free to issue convertible debentures. The conversion ratio and the period during which conversion can be affected are specified at the time of the issue of the debenture itself. The debenture-holder

has the freedom to opt for conversion or get the redemption (i.e. his dues back) at the maturity date.

2. Preference shares: Preference share is a unique long-term capital instrument in that it combines some of the features of equity shares as well some of the debentures. Like debentures they, carry a fixed rate of return (dividend), rank higher than equity as claimants to the company's income/assets, normally do not have voting rights and have no share in the residual earnings/assets. Like equity shares, they are paid out of divisible profits (i.e. they are not tax-deductible), dividend on them depends on the discretion of the management and irredeemable types of preference shares have no fixed maturity dates. Preference share dividends are fixed and expressed as a percentage of par values. Yet, it is not a legal obligation and failure to pay will not force bankruptcy. They are cumulative in the sense all unpaid dividends are carried forward and payable before any ordinary dividend is paid. They generally have a limited/specified/fixed life span after which they must be retired. They may sometimes be convertible partly/fully into equity shares/debentures at a certain ratio during a specified period. They ordinarily have no voting rights but under certain circumstances they are allowed to vote.

3. Equity Shares: Equity shares represent ownership capital and its holders share the reward and risk associated with the ownership of corporate entities. Equity shares typically have a par/face value in terms of the price of each share. However, companies are allowed to issue such shares at a premium (i.e. at a price higher than the face value) or at a discount (i.e. at a price lower than its face value). The equity shareholders have a residual claim to the income of the company. They are entitled

to the remaining income/profits of the company after all outside claims are met. In other words, when all debenture holders, other creditors and preference shareholders are paid their dues, the equity shareholders get their shares of profits. If the company earns no profits, they do not get any profits. As owners of the company, they have the right to control the operations of the company and participate in its management. They exercise their control over the company by utilizing their voting rights. Generally each share carries one vote and most of the decisions of the company are based on the majority votes. Although the equity holders share the ownership risk, their liability is limited to the extent of their investment in the share capital of the company.

4. Innovative debt Instruments: In order to enhance the attractiveness of fixed income securities, namely bonds and debentures, some new features have been added. As a consequence, a number of innovative debt instrument have emerged in India. These include, Convertible Debentures/Bonds (giving right to the holders to convert them into equity shares on certain terms); Callable/Puttable bonds/Debentures/Bonds Refunding (giving flexibility to the company to redeem them prematurely i.e. to refund its debts when it finds it is profitable to do so); Warrants (entitling its holders to subscribe to the equity capital of a company during a specified period at a stated/certain price); Zero Interest Bonds/Debentures (carrying no explicit/coupon rate of interest and sold at a discount from their maturity value, the difference between the face value of the bond and the acquisition cost being the gain to the investors); Floating Rate Bonds (carrying no fixed interest rate, interest rate is floating and is linked to a benchmark rate).

Writing Right

Aruna Bhosle

Put it before them briefly so they will read it, clearly so they will appreciate it, picturesquely so they will remember it, and above all, accurately so they will be guided by its light. – Joseph Pulitzer

Writing is a powerful and effective means of communication. Whether you are writing an examination or a financial report, effective writing is an essential skill which can lead to better academic grades, a highly successful career or goodwill in business. Thus it is vital for you to actively develop this skill. Good writing ability is similar to taking the CA exam. While most candidates are anxious about taking the exam, it is not insurmountable; similarly after just a few months of practice and reflection one can write effectively. The rules are basically the same for any type of writing. We shall address some of these basic rudiments.

Writing has two major roles: It Clarifies (for both the writer

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and the reader) and it Conveys information. It is this conscious dual aim which should form the focus of your writing activity. If you are having trouble expressing an idea, write it down; you (and possibly others) will then understand it. It may take you a long time to explain something "impromptu", but if you have explained it first to yourself by writing it down – the reader can study your logic not just once but repeatedly, and the information is efficiently conveyed. When you approach any document, follow this simple procedure:

- (a) Establish the AIM
- (b) Consider the READER
- (c) Create the STRUCTURE and TEXT

Every document must have an aim. For example to inform, persuade, entertain or generate goodwill etc. A specific, specified reason for being written. If you cannot decide what the document should achieve, it will not achieve it.

The key to effective writing is knowing your audience. As the writer, you have to decide what to tell and how best to tell it to the particular audience. Before you sit down to write, think about the recipient/s of your document. What are you trying to say? Arouse the reader's interest. Include thoughts and images that will capture your reader's attention and get them involved in what you have to say.

Structure is used to present the information in a clear, concise and orderly manner so that it is easy to understand. Consider the fact that normally time is in short supply for the reader. By organizing your thoughts beforehand, you can determine what exactly you want to convey. Decide what details must be included in the document. You have to provide the information in small manageable chunks, and to use the structure of the document to maintain the context. While still considering the aim and the reader, the document should be broken down into distinct sections. These sections are then each further composed into subsections (and sub-subsections) until you arrive at simple, small units of information - which are expressed as a paragraph or an illustration. Every paragraph in your document should justify itself; it should serve a purpose, or should be removed and each paragraph should convey a single idea. Look for graphic elements and illustrations to make it interesting and reader friendly. Not only do diagrams convey some information more effectively, but often they assist in the analysis and interpretation of the data. For instance, a pie chart gives a quicker comparison than a list of numbers; a simple bar chart is far more intelligible than the numbers it represents.

Avoid using long sentences. We tend to associate "unit of information" with "a sentence". If the sentence is too long, we lose the information either because of our limited attention span or because the information is poorly composed. When one is trying hard to write an impressive document, one tries to use grandiose words and phrases which convey nothing but noise. Be brief, whenever possible. Avoid wordiness and unnecessary

large words. For example "**within a comparatively short period of time**" becomes "soon" or "**in view of the fact that**" becomes "since". The simplest way is to use small words instead of big ones (cuts, bruises and scratches instead of lacerations, contusions and abrasions), to reduce the length of sentences and to write in the active voice.

Many spellings are confusing. Incorrect spelling distracts the reader and devalues the influence of the writer. When in doubt consult a dictionary. Avoid using vague words when a more precise word will do. A thesaurus and dictionary are valuable

tools and should be always at hand for ready reference. The grammar and punctuation of sentences are invariably linked in written language; therefore, it is useful to be aware of the grammar and punctuation errors that commonly occur. Grammar determines the way we put words together to create meaningful sentences while punctuation is used to clarify meaning and to highlight structure. Knowing the grammar of English means we are able to reorder the words in this meaningless string, like: "*Possible are outcomes win-win.*" into a meaningful sentence, "*Win-win outcomes are possible.*" Punctuation errors can create ambiguity or an unintended meaning. Following sentences illustrate how punctuation can completely change their meaning:

(i) Woman without her man is helpless.

(ii) Woman! Without her, man is helpless.

Effective writing needs improving vocabulary and regular practice. Pick a new word while reading

newspaper or an article and try to use it. Write a few lines daily-maintain a daily journal or write an interesting anecdote. If you are preparing for exams, after studying a particular topic try to write down the points, analyse and reflect on the clarity and presentation of the topic, from the examiners point of view. You can start practicing right away by attempting a small exercise given in the box. What is written without effort is in general read without pleasure. So make that special effort to improve your writing skills and reap rich dividends.

1. Find the correct meaning of these tricky words and make sentences

- | | |
|----------------------------|---------------------------------|
| (a) Apprise, Appraise | (b) Bloc, Block |
| (c) Canvas, Canvass | (d) Defuse, Diffuse |
| (e) Deprecate, Depreciate | (f) Disinterested, Uninterested |
| (g) Principal, Principle | (h) Seize, Siege |
| (i) Stationary, Stationery | |

2. Correct the following sentences having punctuation errors.

- "Harry did you do your homework."
- The swimmers compete at three levels beginner, intermediate, and advanced.
- After Sita filled her plate she moved over to join Ratna and Harsha.
- Who? was at the door.
- I have been writing for a long time, it is one of my favorite pastimes.
- I wrote letters to: my aunt the cable company, and my close friend Gita who moved to Delhi four years ago.
- They wanted very badly to see Harry Potters new filmbut fate in the form of the year's worst rainstorm intruded.
- They read they studied and they reviewed, yet they could not explain the term `Paralanguage' in the exam

Strategic Management

Shaleen Suneja

How does a company become successful? How a company remains at the top? How a company identifies its potential and is able to deliver its best? How an organisation is able to cope up and gain command over the dynamic and turbulent environment? Certainly, not through traditional ways of doing business. Organisations to perform and excel need a clearer sense of strategic vision and improved understanding of a rapidly changing environment. They need to strategically manage their enterprises.

Organisations compete by selling products that are similar in nature to the same group of customers. They differentiate their products in order to sell. Companies that are able to exploit some form of advantage are more profitable than their rivals. Advantages may be temporary or sustainable in nature. A sustainable competitive advantage is relatively enduring in nature. For example, a generic brand name may be advantageously used by an enterprise for a significant amount of time even in the presence of competition.

Strategy

A strategy of an organisation forms a comprehensive master plan stating how the corporation will achieve its mission and objectives. It is considered as a long range blueprint of an organisation's desired image, direction and destination what it wants to be, what it wants to do and where it wants to go. It is a consciously considered and flexibly designed scheme of corporate intent and action. Strategy is meant to fill in the need of organisations for a sense of dynamic direction, focus and cohesiveness. Strategy provides an integrated framework for the top management to search for, evaluate and exploit beneficial opportunities, to perceive and meet potential threats and crises, to make full use of resources and strengths, to offset corporate weaknesses and to make major decisions.

Hierarchical Levels of Strategy

A typical business firm can formulate strategies at three different levels – corporate, business unit, and functional. These are used simultaneously. The hierarchy refers to grouping and nesting of one strategy within another so that they complement and support each other. Different levels of strategy are briefly explained as follows:

- 1. Corporate Level Strategy:** A corporate level strategy describes a company's overall direction. It is fundamentally concerned with the selection of businesses and with the development and coordination of the chosen portfolio of businesses. It broadly describes an organisation's attitude towards growth and the management of its various businesses and product lines.
- 2. Business Level Strategy:** Business level strategy usually occurs at the business unit or product levels. A strategic business unit may be a division, product line, or other profit center that are capable of being planned independently. At this level, the strategic issues are less about the coordination of operating units and more about developing and sustaining a competitive advantage for the goods and services that are produced. At the business level, the strategy formulation will cover positioning the business against rivals, anticipating changes in

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This academic update is relevant for the students of Professional Education Course - I.

demand and technologies and influencing the nature of competition. Business strategies may fit within two overall categories, viz., competitive and cooperative. For example, in the telecom sector Reliance Infocomm adopts an aggressive competitive strategy against BSNL. On the contrary, BSNL and MTNL adopt cooperative strategies.

3. Functional Level: A functional level of an organization consists of operating divisions and departments. The strategic issues at the functional level are related to business processes and the value chain. At this level approaches are taken to achieve corporate and business unit objectives and strategies by maximizing resource productivity. Functional level involves the development and coordination of resources in the areas of marketing, finance, production and human resources.

Formulation of Strategy

Strategic planning process is uniquely designed to fit the specific needs of a particular organisation. Organisations develop specific strategies including strategic goals, action plans, and tactics. The several stages involved in formulating a corporate strategy are briefly discussed as follows:

- 1. Determination of corporate vision, mission and purpose:** Identification of the organization's vision and mission is generally the first step of any strategic planning process. Organisations need an image of the role they would like to play in the corporate world and in the larger society. They are stated in terms of a set of goals and objectives, which are pragmatic and long range and which take into account the interests and values of the several clientele groups who have a stake in the functioning of the organisation. The company mission refers to a vision of what the future course and path of development should be like.
- 2. External environmental appraisal:** An organisation has to define the extent and complexity of the external environment—the set of individuals, groups, organisations, factors and forces which directly and indirectly influence the functioning of the organisation. The external environment needs to be monitored on a regular basis to gauge its dynamics and trends to visualise the range of relevant opportunities and to perceive the emerging threats and problems. Organisations may size up external environment using STEEP analysis. The acronym STEEP stands for Social, Technological, Economic and Political environment.
- 3. Internal environmental appraisal:** The organisation, as an on-going entity, is supposed to have accumulated certain capabilities, strengths and distinctive advantages on the one hand and certain weaknesses, disabilities and dark spots on the other. It is necessary to make an honest appraisal of both the sets of elements and to prepare an internal profile of the organisation.
- 4. Evolving a propitious niche:** In this stage, the organisation seeks to relate its mission with the range of external opportunities and problems on the one hand and internal resources, strengths and weakness on the other. This step is necessary to enable the organisation to define its corporate scope and to carve out a distinctive sphere of activity, to utilise its resources most fruitfully, to exploit the external opportunities within the constraints of internal weakness and external problems. The constraints are of a residual nature about which the

Mission and Vision of the Institute of Chartered Accountants of India

- Mission** The Indian Chartered Accountancy Profession will be the valued Trustees of World Class Financial Competencies, Good Governance and Competitiveness.
- Vision**
- ◆ Recognise the changes in Economy/Business Environment such as focus on value, dynamic business and organisation structures, developments in Information Technology and Telecommunication, new Government policies, globalisation of business and competitive pressures.
 - ◆ Recognise the path to success by adapting to the changes, knowledge management and acquiring skills to work with future environment influenced by technological and other changes.
 - ◆ Recognise the opportunities for Chartered Accountants in the emerging areas such as new audit and assurance needs, performance measurement services, change management services, strategy management, general practice specialisation and servicing global organisations.
 - ◆ Recognise the Institute's role as a proactive, innovative and flexible organisation, in equipping Chartered Accountants with top quality education and values.
 - ◆ Recognise the need to be known as World Class Advisor.

organisation can do little.

5. Gap analysis: The organisation analyses critically its previous performance, its present condition and the desired future condition. Such an analysis helps to reveal the extent of gap that exists between the present reality and future aspirations of the organisation. The organisation also tries to estimate its likely future state if the present trends and activities continue as they are.

6. Strategic search: The discrepancy between the business aspirations and anticipations is sought to be sorted out through a process of strategic search for worthwhile opportunities and promising fields of endeavor either in the same area or in other areas. It involves examination of the possibility for internal restructuring of operations to derive synergistic advantages of the organisation's strengths and to offset the synergistic disadvantages of its deficiencies.

7. Choice of strategy: This is the final stage in the formulation of corporate strategy. The strategic choice made is flexible, tentative and dynamic. It is a well considered course of action which is chosen by

relating such factors as what the organisation wants to do (organisational objectives), what it might do (external opportunities), what it can do (corporate capabilities and limitation) and what it should do (societal expectations and compulsions).

Strategic Implementation and Control

A well framed and sound strategy may fail. When this happens, it is difficult to pinpoint the causes. The chosen strategy is implemented by means of the programs, procedures and budgets. Strategy implementation involves allocation and effective utilisation of resources to achieve objectives. Basic features of strategy implementation are:

- ◆ Strategy implementation is internal, operations-driven activity.
- ◆ It involves organizing, allocation and budgeting of resources.
- ◆ It requires motivating and culture-building,
- ◆ It involves supervising and leading.
- ◆ It is directed towards the success of strategy

Organisational members who have designed the strategy are different from the persons who will implement it. Adequate precautions must be taken to correctly communicate the strategy to the organisational members entrusted with the job of implementation of strategy. Persons who have been assigned the task must be also clear about the reasoning behind it. This will help in maintaining a sense of belongingness and motivation. Implementation may not succeed if the strategy is misunderstood or if some managers resist its implementation.

The implementation of the strategy must be monitored closely. Organisations should define different parameters that are to be measured and set and benchmark measurements. Strategy should be reviewed periodically and corrective actions should be taken. Periodically, the organisation should evaluate its strategies and review its strategic plan to identify major deviations and consider evolving changes and emergent strategies. Corrective adjustments may be made that may alter organisation's long-term direction, redefine the businesses, raise or lower performance objectives. □

SWOT Analysis

Acronym SWOT stands for strengths, weaknesses, opportunities and threats. SWOT is based on identifying the organization's internal strengths and weaknesses, and external threats and opportunities, and consequentially identifying the company's distinctive competencies and key success factors. These, along with considerations of societal and company values, lead to creation, evaluation, and choice of strategy.

	Strengths (S)	Weaknesses (W)
Opportunities (O)	Pursue opportunities that are good-fit to the strengths of the company.	Overcome weaknesses to pursue opportunities.
Threats (T)	Identify ways that help the organisation to take advantage of its strengths and reduce vulnerability to threats posed by the external environment.	Establish approaches to prevent weaknesses, to reduce susceptibility to external threats.

Income-tax

Dr. Vinod K. Singhania

About the assessee

1. The assessee is X Ltd. It is a company engaged in (a) manufacturing rice and (b) manufacturing chemicals. It has a factory in Himachal Pradesh for manufacturing rice and a factory in Andhra Pradesh for manufacturing chemicals. The manufacturing of rice was started in January 2004 whereas the company is in the business of manufacturing chemicals since 1960. Besides the company has dividend income from shares in Indian companies.

Issues on which your opinion is required

2. X Ltd. approaches you for the following issues regarding computation of taxable income and tax deduction at source –

Issue No. 1: Whether company can claim deduction under section 80-IB.

Issue No. 2: Whether company can obtain advance ruling in respect of tax deductible under section 195.

Issue No. 3: Whether company is supposed to deduct tax at source under section 194C or section 194-I.

Issue No. 1-Whether company can claim deduction under section 80-IB

3. The controversy in the present case centers around the question of number of workers employed in rice manufacturing process carried on by the industrial undertaking owned by X Ltd. Section 80-IB(2) (iv) requires that the industrial undertaking should employ 10 or more workers in a manufacturing process carried on with the aid of power or employ 20 or more workers in a manufacturing process carried on without the aid of power.

The company has an automatic rice plant. To manufacture rice and rice bran, paddy is stored at one point of the machine and when the machine is started the paddy is sucked by the machine automatically and the rice and rice bran come out of the plant from the other end. To run this plant, X Ltd. has one mechanic and two labourers. Since the process is automatic not more than 3 persons are required to handle

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the manufacturing process.

Controversy – The entire controversy is about the number of workers employed for manufacturing process. The head of the taxation department of the company is of the opinion that the company employs only 3 workers for manufacturing rice and it cannot claim deduction under section 80-IB. Consequently, advance tax should be paid during the financial year 2005-06 without considering deduction under section 80-IB.

One of the directors of the company is of the view that the words "employs 10 or more workers in the manufacturing process" normally would cover the entire process carried on by the industrial undertaking of converting the raw material into finished goods. The work of 10 or more persons employed in the manufacturing process should be integrally connected with the manufacturing of rice. Their work should be reasonably connected with and be part of the manufacturing process of rice. According to him, the head of taxation department while holding that only two or three persons are required to run an automatic rice plant has interpreted the words "manufacturing process" in a very narrow manner. The manufacturing process includes within its ambit that the raw material to be filled in the plant in

such a shape and condition, which may be acceptable or can be fed in the plant. In the case of rice mill the palledars are required to bring paddy from the store or godown to the starting point of the plant. Drying of paddy is also necessary before putting the paddy in the plant. The workers are also required to clean the plant and remove bhoosi, husk, etc. According to the director, the manufacturing process starts after the point of purchase of paddy. Paddy is cleaned and dried and thereafter brought and put into the machine. The rice comes out of the machine along with broken rice thereafter. There is further cleaning of rice to make it fit for marketing. The finished product emerges only when it is marketable. All these activities are integral parts of the manufacturing process of rice. These activities have to be necessarily carried out to obtain the finished product, i.e., rice in marketable condition after removing the broken rice and cleaning it if it is necessary. If the opinion of the director



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Case Studies and replies will also be hosted on our web site. You may send your responses to this Case Study by e-mail to ssuneja@icai.org with the subject line 'Case Study Income-tax' by the end of September. The best reply will be awarded a certificate and cash prize of rupees one thousand.

of company is accepted, then number of workers in manufacturing (including activities supporting the main manufacturing process) is more than 10.

Your opinion is required whether a manufacturing process for the purpose of section 80-IB means –

- a only manufacturing activity; or
- b not only manufacturing activity but also other activities supporting the main manufacturing process.

Issue No. 2 – Whether company can obtain advance ruling in respect of tax deductible under section 195

4. During the previous year 2005-06, X Ltd. has to pay a sum of Rs. 32 lakh in US dollars to a non-resident consultancy company net of taxes. The tax deductible in respect of this payment will be borne by X Ltd. In order to find out whether tax is deductible or not deductible (which is to be paid by X Ltd. out of its own pocket) the company wants to obtain advance ruling from Authority for Advance Rulings, New Delhi. The head of the taxation department is of the opinion that advance ruling cannot be obtained because of the following reasons –

1. The return filed by the company for the assessment year 2004-05 is pending. Although, notice under section 143(2) has not been issued so far, the Assessing Officer has not taken any action even under section 143(1). According to the head of taxation department, under section 245R(2) (i) the Authority for Advance Rulings will reject the application (if such an application is submitted), as the assessment for the assessment year 2004-05 is already pending before the Assessing Officer.
2. Under section 245N(a) (ii), advance ruling can be obtained in relation to tax liability of a non-resident arising out of a transaction which has been undertaken by a resident with such non-resident.

According to the head of taxation department, TDS has to be borne by X Ltd. It is the liability of X Ltd. to deposit TDS. A resident taxpayer cannot obtain advance ruling in relation to his own tax liability.

Your opinion is required whether X Ltd. can obtain advance ruling.

Issue No. 3 – Whether company is supposed to deduct tax at source under section 194C or section 194-I

5. X Ltd. has appointed A Ltd. as clearing and forwarding agents (C&F agent). The appointment of A Ltd. as C&F agents is necessitated for a smooth and proper distribution of its goods over a particular area. In other words, A Ltd. is a link between the manufacturer and the consumers. It is a part of sales and distribution network of X Ltd. X Ltd. dispatches

goods to the C&F agents, who in turn forwards the same to various destinations either to wholesalers or stockiest for onward movement to retailers and consumers. In short, the essence of this arrangement is that the goods reach their ultimate destination smoothly without any interruption. It is just one of the modes of making available the goods in the market. However, there is a time-gap between the receipt of goods by the C&F agent and their onward dispatch. Obviously the C&F agent has to store these goods during the intervening period.

Controversy – The head of the taxation department is of the opinion that tax is deductible under section 194-I. According to him, the dominant purpose of the above agreement is use of the premises for storage of goods. Some of the clauses of the agreement with A Ltd. are reproduced below –

1. A Ltd. provides physical space for storing goods.
2. The agreement is not an outright sale to A Ltd. but the property in goods remained with X Ltd.
3. X Ltd. has free access to the property at all times and has powers to inspect the goods, to make inventory, to take charge of and remove the goods without any hindrance.
4. Minimum guarantee is fixed to be paid to A Ltd.
5. Expenses incurred for certain minor services are reimbursed by X Ltd. to A Ltd.

The head of taxation department is of the opinion that tax is deductible under section 194-I. On the other hand, A Ltd., the C&F agent, is of the view that tax is deductible under section 194C and not under section 194-I. According to A Ltd., the C&F agent has to store these goods during the intervening period. But then, simply because the C&F agent has to hold the goods in the interregnum, the distribution arrangement between the manufacturer and the C&F agent is not converted into an arrangement as may be obtaining between a landlord or tenant, or between a tenant and a sub-tenant. In case of an arrangement which is a part of the distribution network, the payment made by the manufacturer to the C&F agent is for the services rendered by the latter to the former, the services being those of distribution of goods. This also explains as to why service tax is levied on the C&F agents. Merely because the C&F agent stores the goods in the intervening period, the character of the payment made by the manufacturer to the agent does not undergo any change so as to call it rent either under general law or for the purposes of section 194-I.

Your opinion is required whether tax is deductible under section 194C or under section 194-I.



Important Amendments in Customs and Service tax

Smita Mishra

Students may note that the Study Material as amended by Finance (No.2) Act, 2004 is relevant for November 2005 examinations. Circulars/Notifications issued up to 31.10.2004 have been incorporated in this Study Material. However, for the students appearing in November 2005 examinations amendments made by Notifications, Circulars etc. up to 30.04.2005 are also relevant. The amendments made up to 30.04.2005 in respect of Customs and service tax have been detailed in this write up. The amendments relating to Central Excise have already been given in the previous issue.

Customs

Baggage Rules have been amended vide **Notification No.30/2005-Customs (N.T.) dated 04.04.2005**. The changes have been given in bold.

Class of Tourist	Articles allowed free of duty
Tourists of Indian origin coming to India other than tourists of Indian origin coming by land routes as specified in Annexure IV	(i) Used personal effects and travel souvenirs, if a these goods are for personal use of the tourist, and b these goods, other than those consumed during the stay in India, are re-exported when the tourist leaves India for a foreign destination (ii) Articles as allowed to be cleared duty free under the basic allowance for passenger depending upon the country from which he is coming.
Tourist of foreign origin other than those of Nepalese origin coming from Nepal, or Bhutanese origin coming from Bhutan.	(i) Used personal effects and travel souvenirs subject to the same conditions as that of a person of Indian Origin. (ii) Articles other than those mentioned in Annexure-I upto a value of Rs. 8,000/- for making gifts.
Tourists of Nepalese origin coming from Nepal or of Bhutanese origin coming from Bhutan	No Free Allowance.
Tourists - (i) of Pakistani origin coming from Pakistan other than by land routes; (ii) of Pakistani origin or foreign	(i) Used personal effects and travel souvenirs, if- (a) these goods are for personal use of the tourist, and (b) these goods, other than those consumed during the stay in India, are re-exported when the

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This academic update covers important amendments for the period 01.11.2004 to 30.04.2005. It is relevant for the students of Final Course appearing in November 2005 examinations and afterwards.

tourists coming by land routes as specified in Annexure IV; (iii) of Indian origin coming by land routes as specified in Annexure IV	tourist leaves India for a foreign destination. (ii) Articles up to a value of Rs. 6000 for making gifts.
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Annexure IV specifying the land routes is given below:

Annexure IV

Amritsar: (1) Amritsar Railway Station (2) Attari Road (3) Attari Railway Station (4) Khalra **Baroda:** (5) Assara Naka (6) Khavda Naka (7) Lakhpat (8) Santalpur Naka (9) Suigam Naka **Delhi:** (10) Delhi Railway Station **Ferozpur District:** (11) Hussainiwala **Jodhpur Division:** (12) Bamer Railway Station (13) Munabao Railway Station **Baramullah District:** (14) Adoosa

Service Tax

Exemptions

1. With effect from 01.01.2005, 75% of the value of the taxable service provided by a goods transport agency to a customer, in relation to transport of goods by road in a goods carriage has been exempted from the payment of service tax. Thus, service tax shall be calculated on 25% of the gross amount charged from the customer by such goods transport agency for providing the said taxable service.

However, this exemption shall not apply in such cases where -

- (i) the credit of duty paid on inputs or capital goods used for providing such taxable service has been taken under the provisions of the Cenvat Credit Rules, 2004; or
- (ii) the goods transport agency has availed the benefit under the Notification No. 12/2003-ST, dated 20.06.2003. **[Notification No. 32/2004 ST, dated 03.12.2004]**

2. With effect from 01.01.2005, the taxable service provided by a goods transport agency to a customer, in relation to transport of fruits, vegetables, eggs or milk by road in a goods carriage, has been exempted from the whole of service tax leviable thereon. **[Notification No. 33/2004 ST, dated 03.12.2004]**

3. With effect from 01.01.2005, the taxable service provided by a goods transport agency to a customer, in relation to transport of goods by road in a goods carriage, has been exempted from the whole of service tax, where, -

- (i) the gross amount charged on consignments transported in a goods carriage does not exceed Rs.1500; or
- (ii) the gross amount charged on an individual consignment transported in a goods carriage does not exceed Rs.750.

It has been clarified that "an individual consignment" means all goods transported by a goods transport agency by road in a goods carriage for a consignee. **[Notification No. 34/2004 ST, dated 03.12.2004]**

4. **Basic exemption for small service providers.** An exemption scheme for small service providers has been prescribed by the Central

Government vide **Notification No. 6/2005 ST, dated 1.3.2005**. The exemption scheme (hereinafter referred to as the 'said exemption') has been made applicable from 1.04.2005.

The taxable services of "aggregate value not exceeding Rs.4 lakhs" in any financial year have been exempted from the whole of service tax leviable thereon. The exemption is however, subject to the following conditions:

- (i) the provider of taxable service has the option not to avail the exemption contained and pay service tax on the taxable services provided by him and such option, once exercised in a financial year, shall not be withdrawn during the remaining part of such financial year;
- (ii) the provider of taxable service shall not avail the Cenvat credit of service tax paid on any input service under Rule 3 or Rule 13 of Cenvat Credit Rules, 2004, used for providing the said taxable service, for which the said exemption is availed;
- (iii) the provider of taxable service shall not avail Cenvat credit under Rule 3 of Cenvat Credit Rules, 2004 on capital goods received in his premises during the period in which the said exemption is availed;
- (iv) the provider of taxable service shall avail the Cenvat credit only on such inputs or input services which are received on or after the date on which the service provider starts paying service tax and are used for the provision of taxable services for which service tax is payable;
- (v) the provider of taxable service who starts availing the said exemption shall be required to pay an amount equivalent to the Cenvat credit taken by him, if any, in respect of such inputs lying in stock or in process on the date on which the provider of taxable service starts availing the said exemption;
- (vi) the balance of Cenvat credit lying unutilized in the account of the taxable service provider after deducting the amount referred to in sub-paragraph (v), if any, shall not be utilized as per rule 3(4) of the Cenvat Credit Rules, 2004 and shall lapse on the day such service provider starts availing the said exemption;
- (vii) where a taxable service provider provides one or more taxable services from one or more premises, the exemption under this notification shall apply to the aggregate value of all such taxable services and from all such premises and not separately for each premises or each services; and
- (viii) the aggregate value of taxable services rendered by a provider of taxable service from one or more premises, does not exceed Rs.4 lakhs in the preceding financial year.

As per Explanation B to the Notification "aggregate value not exceeding Rs.4 lakhs" shall include the sum total of first consecutive payments totaling to Rs.4 lakhs received during a financial year towards the gross amount, as prescribed under section 67, charged by the service provider towards the taxable services. However, payments received towards such gross amount, which are exempt from whole of service tax, shall not be covered within such limit of Rs.4 lakhs.

In case of goods transport agency services, the payments received towards taxable service in respect of which the service tax thereon is paid by the person paying freight pursuant to section 68(2) shall not be considered for the above limit of Rs.4 lakhs.

The above exemption shall not apply to:

- (i) taxable services provided by a person under a brand name or trade name, whether registered or not, of another person (use of

own brand name will not be a disqualification for the exemption); or

- (ii) such value of taxable services in respect of which service tax shall be paid by such person and in such manner as specified under sub-section (2) of section 68 of the said Finance Act read with Service Tax Rules, 1994. These services have been detailed in Point No. 5 under the heading "Other Amendments".

As per Explanation A to the Notification "brand name" or "trade name" means a brand name or a trade name, whether registered or not, that is to say, a name or a mark, such as symbol, monogram, logo, label, signature, or invented word or writing which is used in relation to such specified services for the purpose of indicating, or so as to indicate a connection in the course of trade between such specified services and some person using such name or mark with or without any indication of the identity of that person.

The provisions regarding monetary limits can be summarized as under:

- (a) where the previous year's value of taxable service provided exceeds Rs.4 lakhs, service tax would be payable even if the current year's turnover is less than Rs.4 lakhs.
- (b) where the previous year's value of taxable service provided is Rs.4 lakhs or below and the current year's turnover exceeds Rs.4 lakhs, no service tax is payable upto Rs. 4 lakhs if the specified conditions are complied with.

It is to be noted that while considering the limit of Rs.4 lakhs of the current year, it is the payment 'received' for the taxable service that has to be taken. However, in respect of the previous year's limit of Rs.4 lakhs, it is the value of taxable service 'rendered' that is to be considered.

5. The Finance (No.2) Act, 2004 had brought services in relation to "production of goods on behalf of the client" within the ambit of service tax under the category of business auxiliary services w.e.f 10.9.2004.

However, w.e.f. 01.03.2005, such service of production of goods on behalf of the client has been exempted from service tax subject to the following conditions:

- (i) goods are produced using raw material or semi-finished goods supplied by the client;
- (ii) the goods so produced are returned back to the client for use in or in relation to the manufacture of any other goods (goods falling under the First Schedule of the Central Excise Tariff Act, 1985) on which "appropriate excise duty is payable" i.e. the final product should not be wholly exempt or subject to 'Nil' rate of duty.

In this context the expression "production of goods" means working upon raw materials or semi-finished goods so as to complete part or whole of production, subject to the condition that such production does not amount to "manufacture" within the meaning of clause (f) of section 2 of the Central Excise Act, 1944. Thus, the job work done for a manufacturer who pays excise duty on the finished product has been exempted from service tax. [**Notification No. 8/2005 ST, dated 1.3.2005**]

6. The exemption available to taxable services, the payment for which is received in India in convertible foreign exchange has been withdrawn w.e.f. 15.3.2005. **Notification No. 21/2003-ST, dated 20-11-2003** granting such exemption has been rescinded. [**Notification No. 10/2005 ST, dated 03.03.2005**]

7. The exemption available to taxable services provided by an aircraft

operator in relation to transport of export cargo has been withdrawn w.e.f. 15.03.2005. *Notification No. 28/2004 ST, dated 17.09.2004* granting such exemption has been rescinded. **[Notification No. 10/2005 ST, dated 03.03.2005]**

Amendments in Service Tax Rules, 1994

1. The person liable for paying service tax in certain specific cases has been defined in Rule 2(1) (d). Two more clauses viz., clause (v) and (vi) have been inserted in this definition.

Ⓐ Clause (v) provides that in relation to taxable service provided by a goods transport agency, where the consignor or consignee of goods is-

- (a) any factory registered under or governed by the Factories Act, 1948;
- (b) any company established by or under the Companies Act, 1956;
- (c) any corporation established by or under any law;
- (d) any society registered under the Societies Registration Act, 1860 or under any law corresponding to that Act in force in any part of India;
- (e) any co-operative society established by or under any law;
- (f) any dealer of excisable goods, who is registered under the Central Excise Act, 1944 or the rules made thereunder; or
- (g) any body corporate established, or a partnership firm registered, by or under any law,

the person liable for paying service tax is any person who pays or is liable to pay freight either himself or through his agent for the transportation of such goods by road in a goods carriage. This amendment has come in to effect from 01.01.2005. **[Notification No. 35/2004 ST, dated 03.12.2004]**

(ii) Clause (vi) provides that in relation to business auxiliary service of distribution of mutual fund by a mutual fund distributor or an agent, as the case be, the person liable for paying service tax is the mutual fund or asset management company, as the case may be, receiving such service. This amendment has come in to effect from 01.04.2005. **[Notification No. 7/2005 ST, dated 01.03.2005]**

2. Rule 4 specifies that application for registration has to be made by every person liable for paying the service tax within 30 days from the date on which service tax is levied or within 30 days from the date of commencement of business, whichever is later. However, this time period of 30 days had been extended in the case of taxable service provided by a goods transport agency. Service tax has been levied on this service from 01.01.2005. In this case, the person liable for paying service tax was allowed to make an application for registration on or before 31.03.2005. **[Notification No. 2/2005 ST, dated 14.02.2005 as amended by Notification No. 3/2005 ST, dated 26.02.2005]**

3. Prior to 01.04.2005, Rule 4 prescribed that if taxable services were provided from more than one premises or offices, separate applications for registration were to be made in respect of each such premises or office. However, in case of centralised billing, the assessee had the option of registering only the premises or office from where such centralised billing was done. Where the assessee had a centralised accounting system, the Commissioner of Central Excise could permit the registration of only that premise or office from where such centralised accounting was done, if he was satisfied that such registration would not be detrimental to the interests of the revenue. With effect from 01.04.2005, Rule 4 has been amended to enable

centralized registration of more than one premises. The amended rule provides that if centralized billing or centralized accounting systems are located in one or more offices or premises, the assessee may, at his option, register such premises or offices from where such centralized billing is done or where such centralized accounting systems are located. Thus the assessee may obtain more than one registration under centralized billing or centralized accounting system.

All registration under the centralized billing or centralized accounting system shall be granted -

- (a) by the Commissioner or the Chief Commissioner, as the case may be, in whose jurisdiction all the premises or offices providing taxable service and the premise or office from where centralized billing or centralized accounting is done, are located; and
- (b) in cases other than (a) above, by such authority, as may be specified by the Board.

However, the above changes have not affected the registrations already being granted to the premises or offices having such centralized billing or centralized accounting systems, prior to 1.04.2005.

In respect of those assesses who provide taxable service from more than one premises or offices and do not have any centralized billing systems or centralized accounting systems, the existing rule would be applicable i.e. he shall make separate application to the jurisdictional Superintendent of Central Excise for registration of each premises/offices from where the services are provided.

It is to be noted that registration in case of centralized billing will be granted by the Commissioner/Chief Commissioner/specified authority as against the earlier practice of it being granted by the Superintendent in the normal course. In case of centralized accounting system, the registration will be granted only by the Commissioner/Chief Commissioner/specified authority as against the old requirement of getting the permission of the Commissioner. **[Notification No. 7/2005 ST, dated 01.03.2005]**

4. Rule 4A prescribes that every person providing taxable service has to issue an invoice, a bill or as the case may be, a challan. A second proviso has been inserted in Rule 4A(1) which lays down that in relation to taxable service provided by a goods transport agency, an invoice, a bill or, as the case may be, a challan shall include any document, by whatever name called, which shall contain the following information:

- Ⓐ details of the consignment note number,
- (ii) date,
- (iii) gross weight of the consignment and
- (iv) other information as required under this sub-rule.

This amendment has come in to effect from 01.01.2005. **[Notification No. 35/2004 ST, dated 03.12.2004]**

5. As discussed above, Rule 4A makes it mandatory for every service provider to issue an invoice/bill/challan containing certain prescribed information. Rule 4A has been amended to provide that w.e.f. 01.04.2005, the invoice/bill/challan has to be issued within a period of 14 days from the date of completion of provision of services or receipt of payment towards value of such taxable services, whichever is earlier. Thus, it appears that even if any payment is received as advance towards provision of services, it would be covered by this rule and accordingly an invoice would have to be issued for advance payments. **[Notification No. 7/2005 ST, dated 01.03.2005]**

6. After Rule 4A, Rule 4B prescribing the provisions in respect of issue of consignment note has been inserted. The Rule provides that any goods transport agency which provides service in relation to transport of goods by road in a goods carriage shall issue a consignment note to the customer. However, where any taxable service in relation to transport of goods by road in a goods carriage is wholly exempted the goods transport agency shall not be required to issue the consignment note.

It has been clarified that for the purpose of Rule 4B and the proviso to Rule 4A, "consignment note" means a document, issued by a goods transport agency against the receipt of goods for the purpose of their transport by road in a goods carriage. Such note is serially numbered and contains-

- ❶ the name of the consignor and consignee,
- ❷ registration number of the goods carriage in which the goods are transported,
- ❸ details of the goods transported,
- ❹ details of the place of origin and destination,
- ❺ person liable for paying service tax whether consignor, consignee or the goods transport agency.

This amendment has come in to effect from 01.01.2005. **[Notification No. 35/2004 ST, dated 03.12.2004]**

7. Rule 6(1) specifies the due dates for payment of service tax in case of different class of assesseees. Rule 6(1) has been amended to provide that service tax on the value of taxable services received during the month of March, or the quarter ending in March, as the case may be, shall be paid to the credit of the Central Government by the 31st day of March of the calendar year. **[Notification No. 1/2005 ST, dated 14.01.2005]**

8. With effect from 01.04.2005, the due dates for payment of service tax has been pre-poned from 25th of the following month/quarter to 5th of the following month/quarter. The new due dates have been summarised as under:

a) In case of individuals, proprietary concerns and partnership firms:

Payable on amounts received during the quarter	Due date
April to June	5 th July
July to September	5 th October
October to December	5 th January
January to March	31 st March

b) In cases other than those mentioned above:

Payable on amounts received during the month	Due date
April to February	5th of the following month
March	31st March

Further, the rule has been amended to provide that no service tax shall be payable for the part or whole of the value of services, which is attributable to services provided during the period when such services were not taxable. The time of receipt of payment towards the value of services will not be relevant for this purpose. **[Notification No. 7/2005 ST, dated 01.03.2005]**

Other amendments

1. Section 68(2) provides that in respect of any taxable services notified by the Central Government in the Official Gazette the service

tax thereon shall be paid by such person in such manner as may be prescribed at the specified rate. With effect from 01.01.2005, the Central Government has notified the following taxable services for the purposes of the said sub-section: -

- (A) the services,-
 - ❶ in relation to a telephone connection or pager or a communication through telegraph or telex or a facsimile communication or a leased circuit;
 - ❷ in relation to general insurance business;
 - ❸ in relation to insurance auxiliary service by an insurance agent; and
 - ❹ in relation to transport of goods by road in a goods carriage, where the consignor or consignee of goods is,-
 - (a) any factory registered under or governed by the Factories Act, 1948;
 - (b) any company established by or under the Companies Act, 1956;
 - (c) any corporation established by or under any law;
 - (d) any society registered under the Societies Registration Act, 1860 or under any law corresponding to that Act in force in any part of India;
 - (e) any co-operative society established by or under any law;
 - (f) any dealer of excisable goods, who is registered under the Central Excise Act, 1944 or the rules made thereunder; or
 - (g) any body corporate established, or a partnership firm registered, by or under any law
 - (v) in relation to business auxiliary service of distribution of mutual fund by a mutual fund distributor or an agent, as the case may be (this clause is effective from 1.04.2005).

(B) any taxable service provided by a person who is a non-resident or is from outside India and does not have any office in India.

[Notification No. 36/2004 ST, dated 31.12.2004 as amended by Notification No. 5/2005 ST, dated 01.03.2005]

2. 67% of the gross charges received for providing construction services had been exempted from service tax vide **Notification No. 15/2004-S.T., dated 10.09.2004** subject to fulfillment of certain conditions. Thus, service tax is being levied only on 33% of the gross charges. **Notification No. 4/2005-S.T., dated 1.03.2005** has added an explanation in the above notification to clarify that the "gross amount charged" shall include the value of goods and materials supplied or provided or used by the provider of the construction service for providing such service.

Export of Services Rules, 2005

C.B.E.& C. vide Circular No. 56/5/03 - S.T., dated 25.04.03 had clarified that the service tax is a destination-based consumption tax and it is not applicable on export of services. However, 'export of services' was not specifically defined in any of the service tax provisions. It was felt that there was a need to evolve a scientific criteria to decide what is 'export of service'. Thus, Export of Service Rules, 2005 have been notified vide **Notification No. 9/2005, ST, dated 3.03.2005**. These rules

have become effective from 15-3-2005. The rules make it clear that exemption from service tax/rebate of service tax and excise duty paid is admissible only if there is 'export of service' as defined in these rules. Consequently, the exemption Notification No. 21/2003-ST, dated 20-11-2003 providing exemption to taxable services, the payment for which is received in India in convertible foreign exchange has been withdrawn w.e.f. 15-3-2005.

Rule 2 – Definitions

1. "Act" means the Finance Act, 1994 [Rule 2 (a)].
2. "input" shall have the meaning assigned to it in clause (k) of rule 2 of the CENVAT Credit Rules, 2004 [Rule 2 (b)].
3. "input service" shall have the meaning assigned to it in clause (l) of rule 2 of the CENVAT Credit Rules, 2004 [Rule 2 (c)].

Rule 3 – Export of taxable service

Rule 3 of Export of Services Rules, 2005 classifies the taxable services in three categories-

- (a) when the immovable property in respect of which the service is rendered is situated abroad [Rule 3(1)]
- (b) when the service is performed outside India [Rule 3(2)] and
- (c) when service is provided from India, but recipient of service is outside India [Rule 3(3)].

In order to be treated as export of services, different requirements in each of the three categories have to be fulfilled.

- (a) As per Rule 3(1), the following services rendered in relation to an immovable property shall be eligible for exemption as 'export of service' only when the immovable property is situated abroad:

Clause of section 65 (105)	Service covered
(i)	General insurance services
(j)	Architects' services
(k)	Interior decorator's services
(l)	Real estate agent's services
(zzc)	Construction service

Thus, in the first category, the service shall be treated as 'export of taxable service' only if the immovable property is situated abroad.

- (b) As per Rule 3(2), the following services shall be eligible for exemption as 'export of services' only if they are performed outside India:

Clause of section 65 (105)	Service Covered
(a)	Stock broking
(b)	Courier agency's services
(c)	Custom house agent 's services
(d)	Steamer agent 's services
(e)	Clearing and forwarding agent 's services
(f)	Air travel agent 's services
(m)	Mandap keeper's services
(n)	Tour operator's services
(o)	Rent-a-cab scheme operator's services
(p)	Practising chartered accountant's services
(q)	Practising cost accountant's services
(u)	Practising company secretary's services
(w)	Security agency's services

(x)	Credit rating agency's services
(y)	Market research agency's services
(z)	Underwriter's services
(zb)	Photography services
(zc)	Convention services
(zd)	Video tape production services
(ze)	Sound recording services
(zn)	Port services
(xo)	Authorised service station's services
(xj)	Beauty parlour's services
(zk)	Cargo handling services
(tl)	Dry cleaning services
(zu)	Event management services
(zv)	Fashion designer's services
(zw)	Health club and fitness centre's services
(zza)	Storage and warehousing services
(zbc)	Commercial training or coaching services
(zbd)	Erection, commissioning or installation services
(zbf)	Internet café's services
(zbg)	Maintenance and repair services
(zch)	Technical testing and analysis services
(zci)	Technical inspection and certification services
(zcl)	Authorised service station's services in respect of light motor vehicle
(zcm)	Other port services
(zcn)	Airport services
(zco)	Transport of goods by air services
(zcp)	Business exhibition services
(zcq)	Transport of goods by road
(zcs)	Opinion poll services
(zct)	Outdoor caterer's services
(zcv)	Survey and exploration of mineral services
(zcw)	Pandal or shamiana contractor's services
(zcx)	Travel agent services
(zcy)	Forward contract services

It has been clarified that even if such a taxable service is partly performed outside India, it shall be considered to have been performed outside India. Thus, part performance of service in India is permissible under these rules. 'Perform' means physical performance of the service. For example, sending market research report from India to a foreign client will not be 'performance of service'. However, if some part of market research is done in India and some part abroad, it will be treated as 'export of service'.

- (c) Rule 3(3) covers the following remaining services:

Clause of section 65 (105)	Service Covered
(i)	Telephone services
(j)	Pager services
(k)	General insurance services (other than immovable property)
(l)	Advertising agency's services
(m)	Consulting Engineer's services
(n)	Manpower recruitment agency's services
(o)	Management Consultant's services
(za)	Scientific and technical consultancy services

(zd)	Leased circuit services
(ze)	Telegraph services
(zf)	Telex services
(zg)	Facsimile (FAX) services
(zh)	Computer network (On-line information and data base access or retrieval services)
(zk)	Broadcasting services
(zl)	Insurance Auxiliary (General Insurance) services
(zm)	Banking and Financial services
(zn)	Cable Operator's services
(zo)	Life insurance services
(zp)	Insurance Auxiliary (Life insurance) services
(zq)	Rail travel agent's services
(zr)	Business auxiliary services
(zs)	Franchise services
(zt)	Foreign exchange broking services
(zu)	Intellectual property services
(zv)	Programme Production (of TV or Radio programmes) services

The abovementioned remaining services shall be eligible for exemption as 'export of services' when the recipient of such services are located outside India. The services under this category can be further classified as below:

(i) Taxable service provided and used in or in relation to commerce or industry

Where the recipient located outside India has commercial or industrial establishment or any office relating thereto in India and the taxable service is provided and used in relation to commerce and industry, the service shall be treated as 'export of service' only if the following conditions are satisfied -

- (a) order for provision of such service is made by the recipient of such service from any of his commercial or industrial establishment or any office located outside India;
- (b) service so ordered is delivered outside India and used in business outside India; and
- (c) payment for such service provided is received by the service provider in convertible foreign exchange.

The above restrictions shall apply only if:

- (a) the recipient has any commercial or industrial establishment or any office relating thereto, in India and
- (b) the taxable service is used in relation to commerce and industry.

It is to be noted that this provision applies only to services falling under the third category and not in respect of all services.

(ii) Taxable service provided and used other than in or in relation to commerce or industry

Service provided outside India for purposes other than in relation to commerce and industry (e.g. service provided to UNO, UNESCO, WHO, Foreign Government, a Charitable organization, etc.) shall be treated as 'export service' if the recipient of the taxable service is located outside India at the time when such service is received. Additional conditions that apply when the recipient has establishment or office in India shall not be relevant for service provided to an organization that is not a commercial or industrial organization. The only condition to be fulfilled is that the recipient of the taxable service should be located

outside India at the time when such service is received.

It has been clarified by an Explanation in Rule 3 that "India" includes the designated areas in the Continental Shelf and Exclusive Economic Zone of India. The 'Exclusive Economic Zone' extends up to 200 nautical miles inside the sea from baseline. 'India' also includes territorial waters, i.e., up to 12 nautical miles from landmass. Thus, service tax is leviable if services are provided within territorial waters or in designated areas of continental shelf and exclusive economic zone. In other words, services provided in this area/zone will be treated as 'service provided in India'.

Rule 4 - Export without payment of service tax

Any service, which is taxable under clause (105) of section 65 of the Act, may be exported without payment of service tax.

Rule 5 - Rebate of service tax

Where any taxable service is exported, the Central Government can grant rebate of service tax paid on such taxable service or service tax or duty paid on input services or inputs, as the case may be, used in providing such taxable service. Such rebate will be granted by issuing a notification. The rebate shall be subject to such conditions or limitations, if any, and fulfillment of such procedure, as may be specified in the notification.

1. Rebate of service tax paid on exported taxable services

Notification No.11/2005 ST, dated 19.04.2005 has been issued by the Central Government under Rule 5 of the Export of Services Rules, 2005 (hereinafter referred to as said rules). Such notification grants rebate of the whole of the service tax and cess paid on all taxable services exported in terms of rule 3 to any country other than Nepal and Bhutan, subject to certain conditions, limitations and procedures.

Conditions and Limitations:

- (a) the taxable service should have been exported in terms of rule 3 of the said rules and payment for export of such taxable service should be received in India in convertible foreign exchange;
- (b) the service tax and cess, rebate of which has been claimed, should have been paid on the taxable service exported;
- (c) the amount of rebate of service tax and cess admissible should not be less than Rs.500; and
- (d) in case,-
 - (i) the service tax and cess, rebate of which has been claimed, have not been paid; or
 - (ii) the taxable service, rebate on which has been claimed, has not been exported,

the rebate paid, if any, shall be recovered with interest as per the provisions of section 73 and section 75 of the Finance Act, 1994 as if no service tax and cess have been paid on such taxable service.

Procedure:

- (i) claim of rebate of service tax and cess paid on all taxable services exported shall be filed with the jurisdictional Assistant/Deputy Commissioner of Central Excise;
- (ii) such application shall be accompanied by,-
 - a documentary evidence of receipt of payment against taxable service exported and for which rebate is claimed, payment of service tax and cess on such taxable service exported;
 - b a declaration that such taxable service, rebate of service tax

and cess paid on which is claimed, has been exported, in terms of rule 3 of the said rules, along with the documents evidencing the export of such taxable service;

- (iii) The jurisdictional Assistant/Deputy Commissioner of Central Excise, if satisfied that the claim is in order, shall sanction the rebate either in whole or in part.

Here, "Cess" means education cess on taxable service levied under section 91 read with section 95 of the Finance (No.2) Act, 2004.

2. Rebate of excise duty/service tax paid on inputs/input service used in providing exported taxable services

Notification No. 12/2005 ST, dated 19.04.2005 has been issued by the Central Government under Rule 5 of the Export of Services Rules, 2005. Such notification grants rebate of the whole of the duty paid on excisable inputs or the whole of the service tax and cess paid on all taxable input services (hereinafter referred to as 'input services'), used in providing taxable services exported in terms of rule 3 to any country other than Nepal and Bhutan, subject to certain conditions, limitations and procedures.

Conditions and Limitations:

- (a) the taxable service should have been exported in terms of rule 3 of the said rules and payment for export of such taxable service has been received in India in convertible foreign exchange;
- (b) the duty, rebate of which has been claimed, should have been paid on the inputs;
- (c) the service tax and cess, rebate of which has been claimed, should have been paid on the input services;
- (d) the total amount of rebate of duty, service tax and cess admissible should not be less than Rs.500;
- (e) no Cenvat credit should have been availed on inputs and input services on which rebate has been claimed; and
- (f) in case,-
 - (i) the duty or, as the case may be, service tax and cess, rebate of which has been claimed, have not been paid; or
 - (ii) the taxable service, rebate for which has been claimed, has not been exported; or
 - (iii) Cenvat credit has been availed on inputs and input services on which rebate has been claimed,

the rebate paid, if any, shall be recoverable with interest as per the provisions of section 73 and section 75 of the Finance Act, 1994 as if no service tax and cess have been paid on such taxable service.

Procedure:

1. Filing of declaration: The provider of taxable service to be exported shall, prior to date of export of taxable service, file a declaration with the jurisdictional Assistant/Deputy Commissioner of Central Excise describing the taxable service intended to be exported with,-

- (a) description, quantity, value, rate of duty and the amount of duty payable on inputs actually required to be used in providing taxable service to be exported;
- (b) description, value and the amount of service tax and cess payable on input services actually required to be used in providing taxable service to be exported.

2. Verification of declaration: The Assistant/Deputy Commissioner of Central Excise shall verify the correctness of the declaration filed

prior to such export of taxable service, if necessary, by calling for any relevant information or samples of inputs. If after such verification, the Assistant/Deputy Commissioner of Central Excise is satisfied that there is no likelihood of evasion of duty, or as the case may be, service tax and cess, he may accept the declaration.

3. Procurement of input materials and receipt of input services: The provider of taxable service shall,-

- (i) obtain the inputs required for use in providing taxable service to be exported, directly from a registered factory or from a dealer registered for the purposes of the Cenvat Credit Rules, 2004 accompanied by invoices issued under the Central Excise Rules, 2002;
- (ii) receive the input services required for use in providing taxable service to be exported and an invoice, a bill or, as the case may be, a challan issued under the provisions of Service Tax Rules, 1994.

4. Presentation of claim for rebate:

- (a) (i) claim of rebate of the duty paid on the inputs or the service tax and cess paid on input services shall be filed with the jurisdictional Assistant/Deputy Commissioner of Central Excise after the taxable service has been exported;
- (ii) such application shall be accompanied by, -
 - a invoices for inputs issued under Central Excise Rules, 2002 and invoice, a bill, or as the case may be, a challan for input services issued under Service Tax Rules, 1994 in respect of which rebate is claimed;
 - b documentary evidence of receipt of payment against taxable service exported, payment of duty on inputs and service tax and cess on input services used for providing taxable service exported, rebate of which is claimed;
 - c a declaration that such taxable service, has been exported in terms of rule 3 of the said rules, along with documents evidencing such export.
- (b) The jurisdictional Assistant/Deputy Commissioner of Central Excise having regard to the declaration, if satisfied that the claim is in order, shall sanction the rebate either in whole or in part.

Here, "Cess" means education cess on taxable service levied under section 91 read with section 95 of the Finance (No.2) Act, 2004. "Duty" means, duties of excise leviable under the following enactments, namely:-

- (a) the Central Excise Act, 1944;
- (b) the Additional Duties of Excise (Goods of Special Importance) Act, 1957;
- (c) the Additional Duties of Excise (Textiles and Textile Articles) Act, 1978;
- (d) National Calamity Contingent duty leviable under section 136 of the Finance Act, 2001;
- (e) special excise duty collected under a Finance Act;
- (f) additional duty of excise as levied under section 157 of the Finance Act, 2003;
- (g) Education Cess on excisable goods as levied under section 91 read with section 93 of the Finance (No.2) Act, 2004; and
- (h) the additional duty of excise leviable under clause 85 of the Finance Act, 2005. □

Important Circulars/Notifications in Income-tax and Central Sales Tax

Priya Subramanian

I Income-Tax

1. Prerequisite rule in respect of accommodation provided by employer [Rule 3, Sub-rule (1)] not to apply in certain cases – Notification No. 277/2004 dated 3.11.2004

The proviso to sub-rule (1) of Rule 3 has been amended by the Income-tax (Thirteenth Amendment Rules), 2004 with retrospective effect from 1.10.2004. It has now been provided that the sub-rule (1) relating to valuation of rent-free or concessional accommodation provided by employer would not apply to any accommodation provided to an employee working at:

- (a) mining site; or
- (b) an onshore oil exploration site; or
- (c) a project execution site; or
- (d) a dam site; or
- (e) a power generation site; or
- (f) an offshore site.

It is to be noted that the non-application of sub-rule (1) to the abovementioned accommodations is subject to such accommodations being:

- (i) of a temporary nature and
- (ii) having plinth area not exceeding 800 sq. feet and
- (iii) located not less than 8 kms away from the local limits of any municipality or a cantonment board.

Further, sub-rule (1) would also not apply if the any of the accommodations referred to in (a) to (f) above are located in a remote area.

2. Prerequisite value of free food and non-alcoholic beverages [clause (iii) of sub-rule (7) amended] – Notification No.277/2004 dated 3.11.2004

(i) The existing Clause (iii) of sub-rule (7) provides that the value of free food provided by the employer to an employee would be the amount of expenditure incurred by the employer.

(ii) This sub-rule has been amended to include non-alcoholic beverages within its scope. Therefore, with effect from 1.10.2004, the value of free food and non-alcoholic beverages would be the amount of expenditure incurred by the employer.

(iii) Consequently, the proviso to this sub-rule has been substituted to provide that this sub-rule would not apply to free food and non-alcoholic beverages provided by the employer:

The author is Senior Education Officer, ICAI.

Notifications/Circulars in Income-tax are relevant for both PE-II and Final students whereas Notifications in Central Sales Tax are relevant only for PE-II students.

- (1) during working hours at office or business premises or
- (2) through paid vouchers which are not transferable and usable only at eating joints.

(iv) However, the value should not exceed Rs.50 per meal in either case.

(v) Further, this sub-rule does not apply in respect of provision of tea or snacks or free food and non-alcoholic beverages during working hours in a remote area or an offshore installation.

3. Benefit of deduction under section 10B to be available to undertakings set up in Domestic Tariff Area (DTA) subsequently approved as a 100% Export Oriented Undertaking

The CBDT has issued the following clarifications regarding the scheme of tax holiday under section 10B vide Circular No. 1/2005, dated January 6, 2005:

If an undertaking set up in Domestic Tariff Area (DTA) and deriving profit from export of articles or things or computer software manufactured or produced by it, is subsequently approved as a 100% EOU by the Board appointed by the Central Government in exercise of powers conferred under section 14 of the Industries (Development and Regulation) Act, 1951, it shall be eligible for deduction under section 10B. The deduction would be available only from the year in which the undertaking has got the approval as a 100% EOU. Further, the deduction would be available only for remaining period of ten consecutive assessment years, beginning with the assessment year relevant to the previous year in which the undertaking begins to manufacture or produce articles or things or computer software, as a DTA unit. Also, in the year of approval, the deduction is restricted to the profits derived from exports, from and after the date of approval of the DTA unit as a 100 per cent EOU. Moreover, the deduction to such units in any case will not be available after A.Y.2009-10.

To clarify the above position, the following illustrations are given:

Under-takings	Year in which the under-taking is set up in a DTA/ manufactures or produces computer software	The year in which approval as 100 per cent EOU is granted	Previous years for which deduction is available u/s 10B
A	1999-00	2004-05 (w.e.f. September 10, 2004)	2004-05 (w.e.f. 10.9.04) to 2008-09
B	1996-97	2007-08	No deduction as the 10 year time-limit expires with the P.Y. 2005-06
C	2000-01 (set up as a DTA in this	2002-03 (in this year, it also	No deduction as there is

	year. However, engaged in the business of providing computer related services, other than those notified u/s 10B)	acquires more than 20% old plant and machinery to start manufacture of computer software)	transfer of old plant and machinery
D	2003-04	2006-07	2006-07 to 2008-09
E	1992-93	2004-05	No deduction as the 10 year time-limit has expired before 2004-05

4. Deduction under section 80G to be admissible in certain cases on the basis of certificate issued by employer

As per Circular No.2/2005 dated 12.1.2005, in cases where employees make donations to the Prime Minister's National Relief Fund, the Chief Minister's Relief Fund or the Lieutenant Governor's Relief Fund through their respective employers, it is not possible for such funds to issue separate certificate to every such employee in respect of donations made to such funds as contributions made to these funds are in the form of a consolidated cheque. An employee who makes donations towards these funds is eligible to claim deduction u/s. 80G of the Income-tax Act, 1961. Therefore, it has been clarified that the claim in respect of such donations as indicated above will be admissible u/s 80G of the Income-tax Act, 1961 on the basis of the certificate issued by the Drawing and Disbursing Officer (DDO) /Employer in this behalf.

I Central Sales Tax

1. Effective date of applicability of Central Sales Tax (Amendment) Act, 2001 notified

The Central Government has, vide Notification No. SO 326 (E) dated 17.3.2005, notified that the Central Sales Tax (Amendment) Act, 2001 would come into force with effect from 17th March, 2005.

2. Authority for Advance Rulings to function as the Central Sales Tax Appellate Authority on and from 17.3.2005, being the date when the Central Sales Tax (Amendment) Act, 2001 came into force

Section 24(1) of the Central Sales Tax Act, 1956 provides that the Authority for Advance Rulings constituted under section 245-O of the Income-tax Act, 1961 shall be notified by the Central Government in the Official Gazette as the Authority under the CST Act till such time an Authority is constituted under section 19 of the CST Act.

Accordingly, the Central Government has, vide Notification No. SO 327 (E) dated 17.3.2005, declared that the Authority for Advance Rulings constituted under section 245-O of the Income-tax Act, 1961 shall also be the Central Sales Tax Appellate Authority to settle inter-State disputes falling under section 6A, read with section 9, of the Central Sales Tax Act, 1956, on and from 17.3.2005, being the date when the Central Sales Tax (Amendment) Act, 2001 came into force till such time the Central Sales Tax Appellate Authority is constituted under section 19 of the CST Act.



Merit List – May 2005 Examinations

List of Candidates Declared Successful in the Order of Merit Upto 50th Rank in the Professional Education (Examination - II)

Roll No.	Name & Place	Marks Obtained (Out of 600)	Rank	Roll No.	Name & Place	Marks Obtained (Out of 600)	Rank
43707	Ajay Shyamsunder Banka, Surat	443	1	14099	Vineet Garg, Delhi	394	26
29023	Priti Agarwal, Kolkata	433	2	14322	Gaurav Sehgal, Delhi	394	26
45487	Soumya Mary Ninan, Trivandrum	429	3	27541	Amit Rungta, Kolkata	394	26
32159	Geetanjali Shashikant Tulsian, Mumbai	426	4	47245	Venkata Naga Lakshmi Vudatha, Vijayawada	394	26
00450	Neethi Venugopal Nair, Ahmedabad	424	5	35372	Shantanu Makarand Gharpure, Thane	393	27
12493	B Abinaya, Coimbatore	424	5	40387	Tanmayee Sunil Marathe, Pune	393	27
46704	Dinakar Naidu G N, Chittoor	422	6	48031	Prasad Nunnagoppula B S, Gokavaram	393	27
40450	Rohan Sunil Umranikar, Pune	421	7	14290	Piyush Chawla, New Delhi	392	28
12491	Hari Shankar S, Tinupur	419	8	17020	Sanchit Jain, New Delhi	392	28
00343	Kushal Ashok Goyal, Ahmedabad	417	9	23638	Sunny Chhabra, Bilaspur	392	28
00387	Vinay Vishwanathan Menon, Ahmedabad	417	9	29372	Shweta Gera, Kota	392	28
20150	Anuj Mittal, Hisar	417	9	10040	R. Srinivasan, Chennai	391	29
11376	I Sowmya, Chennai	416	10	15717	Ankita Handa, Amritsar	391	29
00282	Dhaval Navinchandra Vohera, Ahmedabad	415	11	27635	Ravi Shankar Malani, Kolkata	391	29
10440	Mukund M, Chennai	412	12	31127	Ashok Charan H R, Mangalore	391	29
17021	Sharad Sodhani, Delhi	411	13	46349	Ravikiran Yeluri, Guntur	391	29
32728	Arvind Murarilal Chaudhary, Mumbai	411	13	48459	Mayank Gumber, Saharanpur	391	29
26013	Harsh Vardhan Babel, Kolkata	410	14	43569	Aditya Narendra Chhawchharia, Surat	390	30
31703	Jigar Hasmukh Maniar, Mumbai	409	15	02011	Gaurav Agarwal, Ajmer	389	31
27861	Rinku Goyal, Kolkata	408	16	04220	Shantanu R Sonde, Bangalore	389	31
53707	Ravi Kumar Jain, Kota	408	16	23339	Abhishek Bansal, Indore	389	31
14966	Sakshi Uberoi, New Delhi	407	17	24481	Deepa Jayantilal Shah, Jamnagar	389	31
18848	Kapil Bansal, Gaziabad	406	18	24855	Ruchir Baheti, Pali - Marwar	389	31
39868	Mustafa Saleem, Burhanpur	406	18	28691	Pankaj Lunawat, Howrah	389	31
51251	Deepak Jindal, New Delhi	406	18	50148	Manish Kumar Badola, Beawar	389	31
00634	Shashvat Dhiraj Kumar Shah, Ahmedabad	405	19	15830	Himanshu Malhotra, Delhi	388	32
17761	Pinky Abraham, Kochi	405	19	23831	Rachna Bansal, Jaipur	388	32
26021	Rahul Agarwal, Kolkata	405	19	27320	Aditi Agarwal, Kolkata	388	32
31158	Sandeep Nayak Sujir, Mangalore	405	19	40336	Anand Nandkishor Mandhane, Pune	388	32
41894	Bhavdeep Bhikhalal Vora, Una. Saurashtra	405	19	45952	Priya G Rao, Udupi	388	32
36128	Govindnath Amarjeet Jaiswar, Ulhasnagar	403	20	14128	Vineet Bagga, New Delhi	387	33
27266	Smita Swaika, Kolkata	400	21	43758	Ritesh Rajkumar Nandwani, Surat	387	33
32631	Rahul Vijaykumar Daga, Mumbai	400	21	06592	Ankur Ashwinbhai Patel, Baroda	386	34
15099	Dilip Agrawal, New Delhi	399	22	13890	Vipin Kumar, New Delhi	385	35
33436	Saroj Bharat Kadge, Mumbai	399	22	15676	Akhil Bansal, Delhi	385	35
00990	Udit Vijaybhai Shah, Ahmedabad	398	23	33566	Darshan Jayesh Shah, Mumbai	385	35
18681	Vinay Garg, Distt. Faridabad	398	23	13532	Arjun Khandelwal, New Delhi	384	36
31041	Pradeep Bhat M, Manjeshwar	398	23	15867	Sunil Garg, Delhi	384	36
53082	Anshul Jain, Indore	398	23	20023	Naval Sood, Gwalior	384	36
08127	Meena Narayanan, Calicut	396	24	23882	Ankur Jain, Jaipur	384	36
27979	Anurag Poddar, Kolkata	396	24	34351	Rasesh Vrajeshkumar Thakore, Mumbai	384	36
36342	Dipti Dayaram Diwani, Dombivli (East)	396	24	42515	Pardeep Kumar, Jind	384	36
46846	Reddy Narapa Reddy B C, Ongole	396	24	25582	Inran Abdulmajid Milla, Kolhapur	383	37
28777	Anurag Singal, Kolkata	395	25				

EXAMINATION

Roll No.	Name & Place	Marks Obtained (Out of 600)	Rank	Roll No.	Name & Place	Marks Obtained (Out of 600)	Rank
34818	Aditya Rajkumar Jain, Thane	383	37	40601	Ashish Jaju, Ponda	374	45
36327	Rajesh Navnitlal Ravani, Kalyan (West)	383	37	17130	Megha Mittal, Delhi	373	46
43662	Abhishek Balkishan Mundra, Surat	383	37	22089	Raja Rajeswar Nunna, Manuguru	373	46
00727	Abhishek Atulbhai Shah, Ahmedabad	382	38	22511	Venkatarami Reddy Chimalammari, Ganapavaram	373	46
11221	Sowmya S, Chennai	382	38	27846	Shikha Saraf, Kolkata	373	46
25871	Amulya Kumar Pradhan, Kolkata	382	38	28990	Sunayana Sharma, Howrah	373	46
31739	Pinal Jagdish Panchigar, Mumbai	382	38	31312	Anuj Garg, Mathura	373	46
40564	Shweta Prakash Sancheti, Pune	382	38	34383	Vishal Meghshyam Gujarati, Mumbai	373	46
48457	Amit Kumar Goyal, Saharanpur	382	38	36878	Sunil Sivaraman Menon, Navimumbai	373	46
57104	Deepak Somani, Suratgarh	382	38	50159	Vimal, Kishangarh	373	46
14187	Virender Kumar Gupta, New Delhi	381	39	53079	Pooja Patidar, Neemuch	373	46
23836	Vandan Somani, Jaipur	381	39	53606	Sonu Gupta, Jaipur	373	46
23892	Devendra Sharma, Jaipur	381	39	00340	Deepak Prahladkumar Khatri, Ahmedabad	372	47
24872	Preeti Parihar, Jodhpur	381	39	01021	Ravi Hareshkumar Kariya, Ahmedabad	372	47
26058	Yogesh Patwari, Kolkata	381	39	24863	Abhishek Chopra, Pali - Marwar	372	47
30309	Aakshi Sareen, Ludhiana	381	39	31095	Mithun S J Dsouza, Mangalore	372	47
37789	Amruta Arvind Taley, Nagpur	381	39	36173	Sunil Manoharlal Gera, Ulhasnagar	372	47
46460	Kalyan Kumar Guggilam, Vijayawada	381	39	40484	Kirti Ashoklal Firodiya, Ahmednagar	372	47
00076	Vivek Goyal, Agra	380	40	48073	V S Nagesh Krishna J, Kakinada	372	47
04710	Asha M, Bangalore	380	40	53098	Hemant Kumar Suryavanshi, Betul	372	47
14868	Pranav Aggarwal, New Delhi	380	40	23742	Sudeep Agarwal, Jaipur	371	48
17154	Sonia Rai, Delhi	380	40	24452	Saurabh Natwarlal Kotecha, Jamnagar	371	48
30699	M Selvakumar, Madurai	380	40	29022	Darshan Bhansali, Howrah	371	48
32375	Globin Thomas, Mumbai	380	40	32130	Anup Pradeep Bhide, Mumbai	371	48
36289	Jiten Bharat Mehta, Dombivali (East)	380	40	37829	Neeraj Kumar Kalkotwar, Nagpur	371	48
01068	Ravi Kamleshbhai Nagar, Ahmedabad	378	41	04117	Prithvi G, Bangalore	370	49
15971	Arun Luitel, New Delhi	378	41	13557	Ashish Jain, New Delhi	370	49
17114	Shuchi Bansal, Delhi	378	41	14224	Deepak Verma, New Delhi	370	49
23789	Swati Taneja, Jaipur	378	41	15573	Shashi Ranjan Kumar, Delhi	370	49
27445	Chitra Nawal, Kolkata	378	41	23634	Devesh Sharma, Satna	370	49
00378	Harit Ashok Dhariwal, Ahmedabad	377	42	25631	Alpesh Ambrish Surati, Kolhapur	370	49
02013	Prashant Tulsani, Ajmer	377	42	32748	Mansi Shaillesh Shah, Mumbai	370	49
14195	Gagandeep Singh Bindra, New Delhi	377	42	34385	Nishith Bharat Sanghavi, Mumbai	370	49
27980	Sikha Rawat, Kolkata	377	42	34435	Amit Rakesh Rathod, Mumbai	370	49
33567	Priyesh Ambalal Karia, Mumbai	377	42	34752	Ramvikas Babulal Nag, Bhayandar (East)	370	49
36281	Jai Rajesh Nadar, Kalyan (East)	377	42	36080	Jyotsana K Poovathingal, Kalyan (E)	370	49
40265	Deepa Ravishanker, Pune	377	42	36317	Seema Hareesh Budhwani, Thane - Distt.	370	49
14924	Deepanshu, New Delhi	376	43	39957	Aseema Vishwas Dake, Pune	370	49
17061	Amit Kumar Murarka, Delhi	376	43	00053	Prerit Agarwal, Agra	369	50
23294	Anshita Pukhraj Jain, Neemuch	376	43	00631	Chintan Kantibhai Lakhani, Ahmedabad	369	50
09041	Dhannya Sara Mathew, Chennai	375	44	02200	Anshul Dubey, Satna	369	50
10284	Hamsa Jananee Ramkumar, Chennai	375	44	18646	Sachin Mangla, Faridabad	369	50
32376	Lakshmi Ramakrishnan, Mumbai	375	44	18892	Prince Garg, Ghaziabad	369	50
35275	Ankur Bhanji Nishar, Mumbai	375	44	23815	Shuchi Bhargava, Jaipur	369	50
13936	Shashank Gupta, New Delhi	374	45	28812	Dipak Kumar Agarwal, Kolkata	369	50
17143	Vikash Kumar Paul, Delhi	374	45	32696	Ravi Ramanuj Inani, Mumbai	369	50
30566	Sivaram R D, Virudhunagar	374	45	46008	Acharya Jyothi Anand, Chikmagalur	369	50
35389	Avani Jitendra Shah, Mumbai	374	45	50385	Avinash Goyal, Alwar	369	50

250 Hours Compulsory Computer Training Programme

Revised Guidelines Applicable for Students Joining from October 1st, 2005

The Board of Studies has designed a new scheme for organizing 250 Hours Compulsory Computer Training Programme w.e.f. 1.10.2005. The salient features of the new scheme are as given below:

1. The minimum duration to complete the computer training is three months. Two options for undergoing the programme are as follows:

Option I : Duration – Three months (classes may be conducted 4 hours/day, 5 days/week)

Option II: Duration – four months (classes may be conducted 7 hours/day, on Saturday and Sunday)

2. Training will be organized in a batch system. A batch will be started only in the first week of each month.

3. There shall be four module tests.

4. Students will be allowed to appear for online examination only after completion of minimum duration of the course as well as all curriculum given in the prospectus and reference manual, i.e., after clearing the four Module Tests, submission of project and adherence to minimum attendance criteria of ninety percent.

5. Online examinations will be conducted on second Sunday of every month. Students fulfilling all the criteria stated in Point No. 4 above could appear for the final online exam. The examinations are generally conducted from 10 a.m., duration of which is 3 hours. Students are advised to contact their accredited training centres for further details in this regard.

Other important points to remember are:

- (i) Students should register for 250 Hours Compulsory Computer Training Programme while undergoing Professional Education (Course – I) or Professional Education (Course – II). It is advised that students may plan the computer training in such a manner that they are able to complete it well in advance of declaration of results of Professional Education (Examination – II).
- (ii) Students should also take care that they first register with the Board of Studies for 250 Compulsory Computer Training Programme by submitting the requisite application form. Once the application is found to be complete in all respects, a registration letter will be issued for undergoing the computer training. The students may note that the concerned Regional Office takes minimum 15 days to issue this letter. Thereafter

they can start their 250 Hours Compulsory Computer Training with any of the accredited training institutes / centres.

- (iii) As there will be a batch system, students are advised to register with the authorized accredited institutions in advance.
- (iv) Students are advised to take admission only in the listed accredited training institutes/centres. The updated list of accredited training institutes / centres is available on the website of the Institute, <http://www.icai.org/students/index.html>, in the prospectus and Reference Manual supplied to students registering for 250 Hours Compulsory Computer Training Programme. In case of any doubt or clarification, you may contact the concerned Regional Offices or Board of Studies at the given e-mail id: bosnoida@icai.org.
- (v) The CCT Completion certificate will be issued by the concerned Regional Office within 25 days from the date of final online examination.
- (vi) Many students face hardship on account of delay in their registration for articleship due to non-receipt of 250 Hours Compulsory Computer Training Completion Certificate. It is reiterated that completion of the computer training is a prerequisite for registration of the articleship. It is suggested that students may plan the computer training in such a manner that they are able to complete it well in advance of declaration of results of Professional Education (Examination – II). In case they fail to do so, there is a delay of at least 3 months if not more. Students should also keep in mind that the final online test is conducted once in a month. Thus, the time loss on account of non-completion of the computer training in time will be much more.

It is further clarified that **there is no change in the syllabus** at present for 250 Hours Compulsory Computer Training Programme in this new scheme, only the modalities of imparting training have been modified for implementation of the scheme in a simplified manner. Students are advised to lodge complaints for difficulties faced in pursuing 250 Hours Compulsory Computer Training Programme with the accredited institutes / delay in getting Compulsory Computer Training Programme Completion Certificate/difficulties faced for appearing in the online examination at e-mail id indu@icai.org.



Announcements

1. Scholarship Schemes w.e.f. 1st October, 2005

Name of Scholarship	Number	Amount (Rs.)	Duration (Months)	Eligibility
1. Merit	3	500	18	S. No. 1-3 Merit List PE-I Exam-May 2005
	3	500	30	S.No. 1-3 Merit List PE-II Exam-May 2005
2. Merit-cum-Need based	5	500	18	Merit List PE-I Exam-May 2005
	5	500	30	Merit List PE-II Exam-May 2005
3. Need-based	15	300	12	Students of PE-I Course
	17	300	18	Students of PE-II Course
	17	300	30	Students of Final Course

ANNOUNCEMENTS

Note:

1. ₹ The income of parents/guardians should not exceed Rs.1,50,000 p.a. in case Merit-cum-Need scholarships and Rs.1,00,000 p.a. in case of Need-based.
 - (ii) Students who belong to SC/ST/OBC category will be paid an additional amount of Rs.25 p.m.
 - (iii) Two scholarships are reserved for physically handicapped students in Need-based category.
 - (iv) Applicants for the grant of Need-based scholarships should be registered students of PE-I/PE-II. Students of Final Course will be paid scholarship for 30 months/ balance period of articleship.
 2. Scholarship is liable to be discontinued if the recipient does not clear PE-I Exam and Both Groups of PE-II and Final Course conducted by the Institute in the first two available chances. (Non-appearance at the Examination will be considered as non-clearance of the Examination).
 3. For Serial Nos. 1 to 3 as per the table given above, the scholarships will be released in October, 2005. The duly completed application should be submitted in the prescribed form marked distinctly on the top the name of the Scholarship applied for and it should reach to Director of Studies, The Institute of Chartered Accountants of India, Post Box No. 36, C-1, Sector-1, NOIDA-201 301, latest by September 21, 2005. The application forms can be had from the Institute's offices at New Delhi, NOIDA and Regional Offices by sending a request alongwith a self-addressed envelope affixed with a postal stamp of Rs.5. Alternatively application form can be down loaded from web site of the Institute.
- In addition, there are scholarships available under different endowment schemes, which will be separately notified.

2. New Eligibility Test Paper Scheme

In order to improve quality of the answers submitted by the students to Postal/Sunday Test Papers, the Board of Studies emphasizes that students should be well prepared and attempt the test papers in an examination condition. Reviewing the time frame of the study period, the Board of Studies decided to reduce the number of Postal Test Papers to be submitted by a student as well as Sunday Tests to be appeared by PE-II and Final students which are given below:

Course	New Eligibility Test Paper Scheme	Old Eligibility Test Paper Scheme
PE (Course-I)	To submit and pass in 4 Postal Test Papers consisting of one test paper in each subject.	Students were required to answer two test papers in each of the four papers.
PE (Course-II)	To submit and pass in 6 Postal Test Papers or appear and pass in 6 Sunday Tests consisting of one test paper in each subject. Paper 3: Business Laws and Corporate Laws and Paper 4: Cost Accounting and Financial Managements are not to be treated as separate subjects.	Students were required to pass in 10 test papers choosing at least one test paper in each of the 8 subjects (treating Paper 3: Business laws and Corporate Laws and Paper 4: Cost Accounting and Financial Management as separate subjects) and two additional papers of their choice.
Final Course	To submit and pass in 8 Postal Test Papers or appear and pass in 8 Sunday Tests consisting of one test paper in each subject.	Students were required to pass at least 8 papers per group, 16 papers for both the groups. The requirement are applicable to both Sunday Test Paper Scheme and Postal Test Paper Scheme

New Eligibility Test Papers Scheme is applicable for May 2006 Examination and thereafter

Physically handicapped students as defined in Para 6.4 of the Prospectus - Gateway to the Chartered Accountancy are required to submit only 2 Test Papers under the new eligibility scheme as stated above. Such students will be provided with a specially designed test papers by the respective Regional Offices. These specially designed test papers will be available on and from September 1, 2005.

Cut off dates for submission Postal Test Papers / appearance in Sunday Tests to become eligible to appear in May 2006 Examinations:

PE (Course-I) and PE (Course-II):	1st January, 2006
Final Course	31st January, 2006

Pass mark in each of the eligibility test paper is 45 marks.

Students seeking eligibility for appearing in May 2006 examination might have already submitted certain number of postal test papers. They will get full credit for such test papers, if qualify obtaining 45 marks in each of such test papers. They have to submit balance number of test papers only as per the New Eligibility Test Paper Scheme.

Similarly, PE (Course II) and Final Course students, who are under Sunday Test Scheme, seeking eligibility for appearing in May 2006 Examination might have already appeared in certain number of Sunday Tests. They will get full credit for such tests. They have to appear in balance number of tests, if any, as per the New Eligibility Test Paper Scheme.

Students those who have already complied with the requirements of the New Eligibility Test Paper Scheme by appearing in the required number of Sunday tests or more will be issued Eligibility Certificate once they pass such tests. Similarly, students who have already submitted the required number of Postal Test Papers or more will be issued the Eligibility Certificate once they pass such test papers.

ANNOUNCEMENTS

3. Professional Education Courses – Number of Attempts

The PE-I and PE-II students who had already exhausted or who will be exhausting their five eligible/consecutive attempts, are granted five additional attempts as per the approval of the Central Government.

There is no need for re-registration in order to avail the benefit of these additional attempts. Similarly, there is no need to obtain fresh eligibility certificate.

Students can appear for the additional attempt/s in any of the examination/s to be held on or before December 31, 2007 and not beyond that date.

The benefit of five additional attempts upto December 31, 2007 is equally applicable for those students who have joined the course through erstwhile Intermediate Stream and are now appearing for PE-II Examination. The above benefit is available to all the students of PE-II Examination irrespective of the fact whether they have passed earlier in one group or not.

4. Change of Phone Numbers

In order to upgrade the existing communication facility new digital EPABX ISDN Systems have been installed at Headquarters and at NRO. The new numbers are as follows:

- | | |
|---|----------|
| 1. Headquarters, Indraprastha Marg, New Delhi | 39893989 |
| 2. NRO, Vishwas Nagar, New Delhi | 39893990 |

Complete lists of direct phone numbers are available at the Institute's website <http://www.icaai.org> under announcements section.

5. Announcement for Final Students relating to Taxation

Final students may please note that securities transaction tax is not part of the syllabus of Final examination since it is not part of the Income-tax Act, 1961. However, the Finance (No.2) Act, 2004 has amended the provisions of Income-tax Act by providing for exemption of long-term capital gains tax and reduction of rate of tax on short term capital gains in respect of those transactions chargeable to securities transaction tax. These provisions forming part of the Income-tax Act, 1961 have to be studied by the students. However, they need not study the provisions relating to securities transaction tax. The provisions relating to securities transaction tax have been included in the supplementary study paper – 2004 for Final Course only to facilitate better understanding of the related Income-tax provisions.

Invitation to Write Articles

Students, Members and other readers are invited to contribute original articles and other write-ups of academic interest for the benefit of chartered accountancy students. Contributions accepted and included in the Newsletter will be suitably rewarded.

The contributions may be sent to Dr T.P. Ghosh, Director of Studies, C-1, Sector - 1, Noida 201301

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Dr. T P Ghosh

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Electronic Furnishing of Return of Income Scheme, 2004

Introduction: Income Tax Department has launched the Electronic Furnishing of Return of Income Scheme, 2004 vide Notification dated 30.9.2004 (Annexure-1) Under this scheme, eligible assesseees can file their returns of income electronically through persons authorized to act as e-return intermediaries. The intermediaries will digitize the data of such returns and transmit the same electronically to the e-filing server of Income Tax Department under their digital signatures.

Who can adopt this scheme ?

Eligible assesseees – Any person, except an Association of Persons/ Body of Individuals, who has been allotted a permanent account number (PAN) and who is assessed or is assessable to tax in any of the sixty cities, which are presently on Income Tax network (Refer schedule A of the notification), would be eligible to file his return of income under this scheme. The returns of income required to be filed u/s 139(1) of the Income Tax Act for the assessment year 2004-05 onwards can be file under this scheme at the option of the assessee.

Who can act as an e-intermediaries ?

Persons eligible for appointment as e-Intermediaries

- ◆ A registered company/statutory body as an employer
- ◆ A firm of Chartered Accountants
- ◆ A firm of Advocates
- ◆ A Chartered Accountant
- ◆ An Advocate
- ◆ A registered company/bank providing financial services

Provided they are fulfilling the eligibility criteria laid down in the Scheme, and have set up computer hardware and software as prescribed in Schedule B of the Scheme.

Registration Procedure

Registration of e-intermediary: A person eligible to be appointed, as e-intermediary will have to apply with the M/s National Securities Depository Ltd. (NSDL) has been appointed as 'Registrar' vide CBDT Order **F.No. 225/109/2004-ITA-II dated 27th October, 2004**. The applicant shall have to make an on-line application through web-based facility available on www.tin-nsdl.com. The on-line application shall be signed digitally by either a class II or class III digital certificate. It will have to be followed by sending paper documents of proof of fulfillment of eligibility criteria, a due diligence certificate certifying that the applicant has set up the prescribed hardware & software, application processing fee and refundable security deposit payable to the Registrar, as under to the Registrar:-

Particulars	Amount (Rs.)
Interest Free Security Deposit (Refundable)	25,000

Application Processing Fee (Non-Refundable)	2,000
Correction/Updation Processing Fee (Non-Refundable)	500
Renewal Fee (Non-Refundable)	2,000

Security Deposit will be refunded if the application is rejected or if a registered e-Return Intermediary surrenders its registration or allows the registration to lapse. Service Tax will be applicable (at present it is 10.2%).

Detailed Procedure for application is available at www.tin-nsdl.com

The Registrar will verify that the application is complete and all the necessary documents certifying the eligibility conditions have been submitted. The registrar will verify Contents of the **registration application Form** and the **Due Diligence Certificate**. Due Diligence Certificates can be issued either by a System Auditor certified by the Information Systems Audit and Control Association (ISACA) or an authorised Information Systems Auditor (ISA) of Institute of Chartered Accountants of India.

On successful submission of the application, a temporary user ID and password along with the URL for the data transmission test will be communicated to the applicant by the Registrar by e-mail. On receipt of these details the applicant shall log on to the Server of Income Tax Department for passing the data transmission tests before he is authorised to act as e-Intermediary and allotted his E-Return Intermediary Identification Number (ERIIN). The data transmission tests would be carried out on-line to ensure that the applicant has necessary technical skills to transmit data to Income Tax Department Server in safe/secure mode and as per prescribed data structure. These would be on-line and necessary guidelines for taking the same would be available on the Department's website. After successfully completing the data transmission tests, an appointment order will be issued by Director General of Income-tax (systems) in his capacity as the e-filing administrator, containing E-Return Intermediary Identification Number (ERIIN) and password valid for two years. These are defined **Role and responsibilities of e-return intermediary**.

Filing of Return of Income under the e-filing scheme: An eligible person opting to file his return of income under this Scheme shall approach and give his consent to any one of the e-intermediaries to act as his agent for the purpose of furnishing his re-return for the relevant assessment year. The intermediary shall receive the paper return of income, along with all its enclosure, duly verified by the assessee or shall prepare the return of income on the basis of the documents furnished by the assessee, as the case may be. He will then transmit the data of return in the prescribed data structure under his digital signature at <http://incometaxindiaefiling.gov.in> to Income

Tax Department. On successful validation of data structure and PAN, the Department will issue on-line acknowledgement of the return. The e-intermediary will have to submit signed paper return to the Assessing Officer affixing a print out of on-line acknowledgement within 15 days.

Date of Filing of Return.

The date of on-line acknowledgement will be deemed to be the date of filing of the return provided the paper copy is submitted within 15 days. In case the PAN of the assessee is not in the jurisdiction of the Assessing Officer before whom the e-return is being filed, it will be necessary to first get the jurisdiction transferred before filing the e-return under this Scheme before the new Assessing Officer.

Acknowledgement slip will be issued in the following manner by the e-return Intermediary

Acknowledgement Slip	
Acknowledgement No.	_____
Received a sum of Rs.	_____
DP Account No.	_____
Document Received	
1	_____
2	_____
3	_____
Chartered Accountants' Name and Phone	

This is only a temporary acknowledgement for receipt of documents mentioned above and is not an official acknowledgement for the acceptance of the return Official acknowledgement issued by the Income Tax Department along with Xerox copies of the documents submitted by you will be sent to you in due course. Neither of these the acknowledgement n can be considered as an assessment orders passed by the income tax department.	
Our responsibilities are:	
Ensure that the assessee is an eligible person under this scheme.	
Ensure that the assessee has quoted correct and valid permanent account number	
Ensure that particulars of advance tax, self-assessment tax and tax deducted at source are in accordance with the documents enclosed.	
Ensure the accuracy of the data entry while transcribing the return of income and during its transmission.	
Ensure that the electronic portion of the return of income is transmitted on or before the due date for filing the return of income.	
Ensure the paper return is filled with the assessing officer having jurisdiction over the concerned assessee.	
Provide to the assessee a paper copy of the E-Return and the acknowledgement receipt of paper return.	