



Tuticorin Branch of Southern India Regional Council
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

(Set up by an act of Parliament)
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NEWS LETTER

Volume-1
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VOICE OF THE CHAIRMAN



Dear Colleagues,

I attended the chairmans' meeting at SIRC of ICAI Chennai on 14th & 15th February 2007 with my office bearers. This year the 33rd meeting of SIRC with 33 branches (Aubli the youngest branch of year 2006) was addressed by the immediate Past Chairman of SIRC CA. Kandasamy and the immediate Past President of ICAI, CA. T.N. Manoharan and the Present President CA. Sunil Talati and Vice President CA. Ved Jain.

Our proposed plan of action for the year 2007 was briefed to the present Chairman SIRC CA. Madhavamurthy and his team in the meeting. Our president's mission 2007 statement is a 5 point plan which will focus open in all the branch activities of the year 2007.

1. Hand in hand with Government in Nation Building.
2. Focusing on Technical and Research Activities
3. Infrastructure & HRD Initiatives
4. Members' services
5. Students' services

President's address stressed upon the networking concept of CA firms i.e. "Think Big Grow Big" and new avenues in moving from BPO to KPO. He encouraged members to spot the talent and "catch them young" in schools & colleges and to popularize the CA curriculum.

The Union Budget presented by the Hon'ble Finance Minister has evoked mixed response from various sections of the society, and the FM claims that all the measures outlined in his budget speech are focused on the development of Indian Economy.

Let's all contribute our mite for the progress of the Nation and the Profession
with warm regards,

CA A.C.G. Venantius

CPE SEMINAR :

*Seminar on Information System Audit in Bank and
Communication and soft skills*



Date : March 16, 2007, Friday

Venue : CA S. Karunakaran Conference Hall, ICAI Bhawan, Tuticorin

Time : 9 am. to 5.30 pm.

Faculty : Sri. S. RAMANATHAN, Chennai Sri.Prof. R. NEDUMARAN, Chennai

CPE Credit : 5 Hours

Learning without wisdom is a load of books on the back of an ass



PERSONA OF CHARTERED ACCOUNTANTS

The 'reforms' opened up in the 1990s by the 'finance brain' who is now the Prime Minister, is really growing like a wild tree and whose Patulous sprouts and tries to peep beyond Tibet. Who else would have thought then that India could stand close to the heels of the 'Kingdom of the Dragon?' However, India could just play to the heels for many lackadaisical reasons; its dependency on short-term port-folio capital inflows (rather than FDIs) - negligible ratio of tax - observants - low - productivity farming and the most imperative its poor infrastructure.

India spends a meek 4 p.c. of its GDP on infrastructure investment compared with the 'the of Dragon' 9 p.c. In absolute terms the Dragon spends seven times as much on its infrastructure. Indian Government has ambitious plans to increase total infrastructure spending to 8 p.c. of the GDP over the next five years.

Private investors who still shy away from sectors like electricity, roads, water, housing, education and health (because of uncertainty in earning a reasonable return) should be encouraged by the Government by a regularly authority to invest its own funds or / and to act as agents for Government funds. As the World Bank has put it in its recent report, 'when systems are failing' it is not enough to fix the pipes, one needs to fix the institutions that fix the pipes'. And the bank has cautioned that India should have better accessible education, labour market reforms and less red tape.

Being raised from the Rip-Van-Winkles' slumber, by a slap of the IMF, the Indian Government has meditated for the strategic five year plan to give a boost to the 60 p.c. of the population close to or below the poverty line to find an escape route through better health, infrastructure and education.

Professionals in particular, are expected to take the cue in the strategic planning. With private entrepreneur tried to enter the arena the accountability of those professional players could be monitored by the accountants. And with the advent of private entrepreneur the chartered accountants role, the Government thinks, becomes more crucial than ever, as public spending thro' private hands would enrich either way - public growth or a stunted / crooked growth.

And the Government, before it takes its step forward wants chartered accountants to armor themselves in :

- talent management and
- IT technology / environmental changes

Every Indian is eager that his/her economy is to sprint like a tiger rather than amble like an elephant. Yet the Government with the help of the chartered accountants, think that few animals have an elephant's stamina and can travel as far in a day.

CA-M.R.A.-XAVIER

CROSSWORD PUZZLE



1	2	3	4	5	6	7
8						
9						
				10		
11			12			
		13			14	15
16					17	

ACROSS

- A Greek and an Engineer sat over tea to become famous (7)
- Ace Seed ! A lonely separation indeed (1,6)
- The international arson is discovered in men's reasonableness (4,3)
- The Danish losing his grade and being furious is shown the extreme (3)
- Putting an atom in between a big Lad and a small sod will invigorate with activity around (5)
- Dodi finds a confused Nadia his playmate (5)
- A little longer than a foot (4)
- The crunched pig tract may be 3 feet long (2)

DOWN

- Beg aims and find in the rugged bowl cards and horse races to play with (7)
- Royal Society in England switches to their acronym (3)
- No to Mrs. Edel She has to do by the evening for John Milton's The Paradise Lost (3,2,2)
- A junior member of the Company Secretary (3)
- Easter engulf this sweet loving Albanian legend (6)
- The first parents find need filled in their homeland (4)
- Mr. Andrews sheds his three directions, perturbed enters the study room (4)
- Daniel ornamented with the Indian Pulse now disrobed stands absurd (3)
- Statue of Liberty is short - stitched here for 120 years (2)
- During two thousand years after Christ (2)

(ANSWER - Next issue)

CA M.R.A. Xavier

LIGHTER VEIN

" What do you bachelors know about women, anyway "
 " A lot! That's why we're still bachelors "



Pretty Girl : " It must have taken a lot of courage to rescue me as you did
 Rescuer : " Yeah. I had to knock down two other guys who wanted to do it" "

Chief Accountant : Are you going to pay us something against that account?
 Debtor : I can't just now
 Chief Accountant : If you don't, I'll tell all your other creditors
 that you had paid us in full



SUCCESS STORY OF "Inc "

- CA N. Srikanth

15 years ago, India was a different country. The sudden 70% jump in crude Import bill during 1990, drop in remittances from West Asia and a host of other factors led to a huge Balance of Payment crisis. The country borrowed from International Lenders and pledged its Gold. The crisis provided a momentum for structural reforms. The Reforms Process started in the year 1991 and from then onwards there was no looking back for India Inc.

Today, the economy is on a roll, having clocked a 9.1% growth rate. Record money is pouring into Stock Market, India has emerged as a Global outsourcing destination not just for software and back office work, but also Manufacturing.

While looking back in retrospect, we are proud to present the Comparative Business and economic indicators prevailed then and now.

	1991	2006
Sensex	1000 Pts.	14000 Pts.
Market Cap at BSE	90,836 Ct.	35,01,467 Cr.
IT Export	250 Cr.	1,05,300 Crs.
Per Capita Income	Rs. 9193	Rs. 15,357
GDP growth rate	1.30 %	8.43 %
FDI	\$ mn. 103	20,243
Share of ServiceSector in GDP	41 %	54 %
Forex reserves	\$ 1.1 bn.	\$ 156 bn.
Peak Customs Duty	150 %	12.5 %
PLR	18.20 %	10.25-10.75 %
Inflation	16.90 %	5.32 %
Literary Rate	52.2 %	65.49 %
Life Expectancy	58 Yrs.	64 Yrs.
Poverty	38 %	22 %
Food Grain Production	168 mn. Tons	208 mn. Tons

SUCCESS STORY

The figures presented above, reflects India's success story from the reform process.

A Goldman Sacks report of October 2003 made the following stunning observations

" If things go right, India, China, Russia and Brazil could be larger than G6 in US Dollar terms in the next 10 to 15 years "

The journey ahead of India is going to be much more exciting with many more reforms in the offing such as Capital Convertibility, FDI foray into Retail Sector, Consolidation of Banking Sector and so on. No doubt, India will emerge as a Super Power in the next 7 to 10 years.

NEWS IN BRIEF

Compiled by : CA R. SRIRAM



Deferment of AS-15 approved by ICAI

Companies may soon get some relief on the applicability of revised accounting standard on employee benefits (AS-15) - a key accounting code that also covered accounting treatment of retirement benefits. Acting on representations from organisations such as State Bank of India (SBI) the Institute of Chartered Accountants of India (ICAI) said that it has approved the deferment of the applicability of this accounting code.

CII asks for simplification of corporate TDS

Industry body Confederation of Indian Industry (CII) asked the Government to simplify the provisions of tax deducted at sources (TDS) for the corporate sector. There are a number of provisions of TDS, such as stipulations, rates for TDS exemption limit etc., which need to be rationalised under a single section, CII said in a release.

Employers not collecting TDS liable to pay penalty

The newly inserted section 271CA provide for imposition of penalty on any person who is responsible for collecting tax and has failed to collect TDS in accordance with the provisions of Act. This amendment will take effect from April 1, 2007, and will, accordingly, apply in relation to the assessment year 2007-08 and subsequent assessment years, sources said employers, who fail to collect TDS, will have to pay a penalty equal to the amount of tax which they fail to collect at source and will be imposed by the Joint Commissioner of Income Tax.

PAN likely to be a must for all financial dealings

Investors may soon have to quote PAN (permanent account number) for all financial transactions, irrespective of the quantum of investment. PAN is set to become the common business number for all transactions in the financial sector, ranging from equities to debt, in the first stage. Small saving schemes may be covered in the second stage. The proposal is to make PAN compulsory for all investments, irrespective of the size, so that all transactions can be monitored and later matched with the tax payer's returns.

CBDT seeks clarity on foreign entities

The Central Board of Direct Taxes (CBDT) has sought a clear definition of the term "permanent establishment" for assessment of tax payable by foreign entities in India. Currently, the Act defines a "permanent establishment" as a fixed place of business. According to sources in the tax department, the new definition may be included after amending the Income-tax Act, 1961.

VALUE ADDED TAX

Mr. N. RAGAVAN
Lecturer, Dept. of Commerce
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VAT as the name suggests, is a tax on the value added to the commodity at each stage in production & distribution chain. It is a kind of indirect tax.

HISTORICAL BACKGROUND:

VAT was introduced first by France in 1954. In 1986, India introduced VAT in a different way under the name of Modified Value Added Tax (MODVAT). Indian Modvat, unlike the VAT system of other countries, was designed to cover manufacturing of goods by giving credit of excise duty paid on inputs. The scope of it has been extended over the years and has since been renamed as Central Value Added Tax (CENVAT), which covers services also.

With the objective to introduce State - level VAT in India in 1992 the Government of India constituted a Tax Reform Committee headed by Dr. Raja, J. Chelliah. In 1993, the committee recommended the introduction of VAT in place of existing tax system. Thereafter, the government appointed NIPEP (National Institute of Public Finance & Policy), New Delhi as the Nodal Agency to work out the modalities of VAT.

The report submitted by Dr. Vijay Kalkar, Advisor to the Union Finance Minister, in the year 2002, on direct & indirect taxes have far reaching implications. At the very outset he stated that VAT eliminates the cascading effect of taxes; it promotes competitiveness of exports, it has a simple and transparent culture and it improves compliance.

Haryana stood first to implement VAT w.e.f., April 1, 2003.

OBJECTIVE OF VAT :

Vat is preferred over other methods of indirect taxation to meet the following objectives:

- ❖ *Eliminate multiplicity of taxes such as entry tax, turnover tax, sales tax, surcharge etc.*
- ❖ *Prevent double taxation with cascading effect.*
- ❖ *Eliminate inter - state tax (eg: Central Sales Tax)*
- ❖ *Rationalise over all tax burden in process of goods & service until sold for consumption*
- ❖ *Make the tax structure simple, efficient, transparent.*
- ❖ *Improve tax compliance.*
- ❖ *Develop fair and healthy competition in the interest of consumers.*
Create level playing field to enable industry & trade to meet the challenge of globalised economy.



VARIANTS OF VAT

It has 3 Variants :

1. **Gross Product Variant** : Tax levied on all sales with no deduction for Capital inputs.
2. **Income Variant** : Tax levied on all sales with set-off for depreciation on Capital goods.
3. **Consumption Variant** : Tax levied on all sales with deduction for all Business Inputs. It has 3 methods:
 - a. **Addition method** : Aggregating all the factor payments and profit.
 - b. **Invoice method** : Deducting tax on inputs from tax on sales for each tax paid.
 - c. **Subtraction method** : It is subdivided into:
 - i. **Direct subtraction method**: Deducting aggregate value of purchase exclusive of tax from the aggregate value of sales exclusive of tax.
 - ii. **Intermediate subtraction method** : Deducting tax inclusive value of purchase from the sales and taxing the difference between them.

INPUT TAX CREDIT:

The essence of VAT is in providing set-off for the tax paid earlier, and this is given effect through the concept of input tax credit/rebate. This input tax credit means tax paid on purchase of any goods will be adjusted / rebated against the tax payable by the dealer on his sales - Input tax credit on Capital goods will also be available for traders, manufacturers. There is a negative list for capital goods not eligible for input tax credit.

VAT - INVOICES :

The tax system mainly requires the dealers to maintain account of sales, purchases, input tax, output tax and the VAT payable. In the absence of invoices, VAT paid by the dealer earlier cannot be claimed as set off. Every registered dealer having turnover of sales above an amount specified, shall issue to the purchaser serially numbered tax invoice, cash memo or bill.

TAX RATES UNDER VAT :

- ❖ **4% VAT Rate Category** : *It comprises of items of basic necessities such as medicines & drugs, all agricultural and industrial inputs, capital goods and declared goods.*
- ❖ **12% General VAT Rate** : *The remaining commodities in all States will fall under the general rate of 12.5% (Residuary Category)*
- ❖ **1% Special VAT Rate** : *It is meant for Precious stones, Bullion, Gold and Silver ornaments etc.,*

SCOPE :

All Sales / Purchase of goods made within the State except the exempted goods would be subjected to VAT.

TIN - Tax Payer's Identification Number is given to the tax payer. It is a code to identify a tax payer

ASSESSMENT UNDER VAT :

The VAT liability will be self-assessed by the dealer himself in terms of submission of returns upon setting off the tax credit, return forms etc., Correctness of self-assessment may be checked through a system of audit, where a percentage of dealers may be taken for audit on a scientific basis.

MERITS :

- ❖ *It has anti - cascading effect.*
- ❖ *There is certainty and transparency. The scope of tax avoidance and evasion will be very less.*
- ❖ *It is a harmonised system of taxation.*
- ❖ *It results in better revenue collection.*



DEMERITS :

- ❖ *Since the tax is payable on the final sale price, the VAT usually increases the prices of the goods.*
- ❖ *The administration cost to the State can increase significantly as the number of dealers to be administered will go up significantly.*
- ❖ *It is argued that for compliance with the VAT provisions, the accounting cost will increase*
- ❖ *Since the tax is to be imposed or paid at various stages, it would increase the working capital requirements and the interest burden on the same*

CONCLUSION :

Economic and fiscal reforms in indirect taxation through VAT has twin objectives :

- a. Provide level playing field to Indian trade and industry to meet cut throat and fierce competition from imports and for exports under globalization of economy within framework of WTO agreements.
- b. increase revenue realization at lower rate of tax from consumers by efficient system.

Success of any reforms depends on involvement, co-operation dedicated commitment of all concerned stakeholders, individuals, institutions and organizations working in common interest for welfare of country as a Nation. ↵