



## Contents

### **Section I: Client Alerts**

Direct Tax Updates

Indirect Tax Updates

Legal & Regulatory Updates

### **Section II: Thought Leadership**

The founder of Kayako – Varun Shoor

### **Section III: Column**

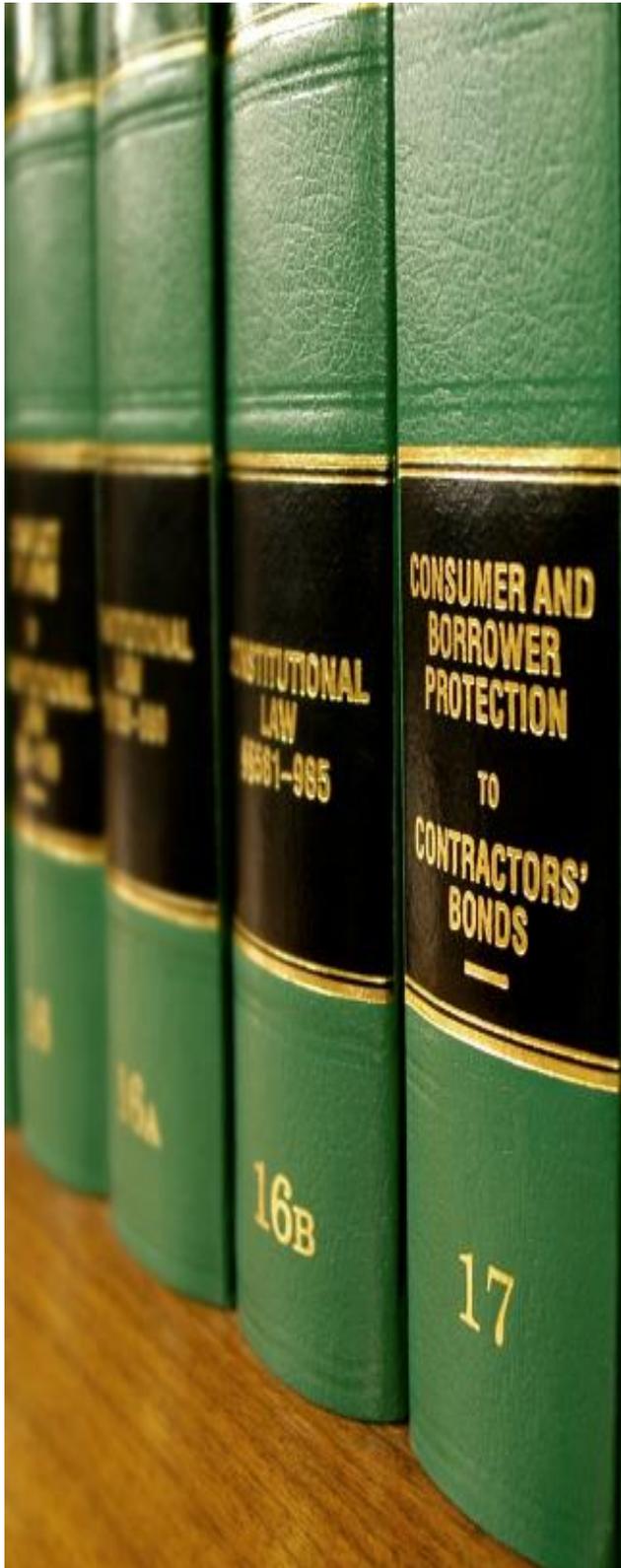
Impact of GST on IT Systems

### **Section IV: IBA's Club**

### **Section V: Compliance Calendar**

# Direct Tax

## CASE LAWS



### Case Law I

The Mumbai Tribunal in the case of Shell Information Technology International BV has held that where the assessee entered into a service agreement to provide IT services and provided restricted software/network access and access to software which was not for use of any copyright but for a copyrighted article, payments received could not be treated as 'royalty' under article 12(4) of the India-Netherlands DTA

### Facts

- Shell Information Technology International BV, the assessee was a tax resident of Netherlands. It was engaged in the business of providing information technology support services to Shell Group Companies.
- It had entered into 'Master Service Agreement' (MSA) with certain IT service providers' viz., WIPRO & IBM to provide IT services to Shell Group entities.
- In order to provide such IT services, WIPRO & IBM, were required to have access to network and software of the assessee-company.
- For the above transaction, the assessee received an amount from the IT Service companies which according to the assessee could not be considered as 'royalty' and also in absence of any PE, no business income will be taxable in India.
- The Assessing Officer giving reference to certain clauses of the MSA held that the amount received from these IT service providers for access/use of software were in the nature of 'royalty' both as per the Income Tax Act, 1961 and the DTA between the two countries.
- Aggrieved by the decision of the Assessing Officer, the assessee filed an appeal with the Commissioner (Appeals) wherein it was observed that the agreement for supply of software provided to WIPRO/IBM was only for use and access the copyrighted software of the assessee. The transaction did not involve provision of right to use the copyright embedded in the software.
- WIPRO/IBM only had the limited right to access the copyrighted software for rendering services to the assessee and was not either making copies or selling the software.

- Hence, it was concluded that payment received for allowing mere use of copyrighted article could not be held as payment for royalty.
  - Aggrieved by the decision of CIT(A), the Revenue filed an appeal at the Tribunal level.
4. Revenue's contention that making use or having access to the computer programs embedded in the software results in using the process that has gone into the software or acquisition of any rights in relation to the process was denied at the ITAT level.

### Decision by ITAT

The ITAT upheld the findings of Commissioner (Appeals) that the payment in question cannot be reckoned as "royalty" as the software continued to be owned by the assessee and what WIPRO/IBM was getting was mere access to the software and the source code embedded in the software has not been imparted to them.

The above conclusion was based on below findings of the ITAT –

1. The relevant terms of Agreement (MSA) between the assessee and the IT Services providers, i.e., WIPRO/IBM, were analyzed and below findings were noted by the ITAT –
  - All the right granted to WIPRO/IBM could not be passed on or transferred to any other person and only WIPRO/IBM was legally permissible to exercise this right.
  - The right which was given to WIPRO/IBM had a very limited use for the own business purpose and they do not get any right in the said software.
  - WIPRO/IBM shall use the software only for providing services to Shell entities
  - The access to software is not for use of any copyright but for a copyrighted articles during the course of providing service.
2. Further, the ITAT concluded that as per definition of Royalty under Article 12 of the DTAA, computer software does not fall under most of the terms used in the article barring "use of process" or "use of or right to use of copyrights."
3. It was further concluded that to fall within the realm and ambit of right to use copyright in the computer software programme, the aforesaid rights must be given and if the said rights are not given then, there is no copyright in the computer programme or software. Based on the terms of MSA, since no such rights has been given by the assessee to the IT service providers, it cannot be said that right to use of copyright has been given.

### Deputy Director of Income-tax, (IT) 2(1), Mumbai v. Shell Information Technology International BV, ITAT Mumbai Bench

#### Case Law 2

**The Mumbai Tribunal in the case of Atomstroy Export has held that income from offshore supplies couldn't be taxable in India in the absence of 'business connection'.**

#### Facts

- Assessee, Atomstroy Export was a company incorporated under the provisions of Russian legislation, having its registered office at Moscow, Russia.
- Two nuclear power plant units were to be set up at Kudankulam, Tamil Nadu by 'Nuclear Power Corporation of India Ltd' (NPCIL).
- The assessee and NPCIL were the authorized governmental bodies of Russian Federation and Government of India respectively to act as agency responsible for implementation of the nuclear power plant. Subsequently, contracts were entered between the abovementioned parties for offshore supplies and services.
- Service contracts included supply of 'detailed project report' for nuclear power station, 'elaboration of working documentation' for the Project, 'deputation of contractors' specialists' at nuclear power plant site, 'training of NPCIL's operation and maintenance personnel'. Offshore supply contract envisaged supply of equipment and materials from third countries on Free on Board [FOB] basis.
- The assessee, filed its return of income for the AY 2007-08 as a foreign company, declaring total income under Section 44BBB being the specific section for computing profits and gains of foreign companies engaged in the business of civil construction.
- The matter adjudged by the ITAT involved applicability of Section 44BBB on the assessee company and whether the income from supplying equipment, materials and spares to NPCIL will be taxable in India.

Contentions of both the parties were as below-

### **Revenue's contention**

#### **Revenue's primary contentions for taxing the transactions in India revolved around below observations –**

- The department contented that offshore supply contracts were not merely for sale and cannot be looked as separate and severable part from the entire work contract. Thus, all contracts for services as well as supplies were integrated activities for providing end to end service towards and workable methods of execution of the project.
- The department believed that while carrying out the project, the assessee had a direct and intimate business connection with India in terms of Section 9(1) of the Income Tax Act, 1961 (The Act) and had a permanent establishment in India in terms of Article 5(1) of the Double Taxation Avoidance Agreement (DTAA) between India and Russia and therefore, income attributable to offshore supply of goods is also taxable in India.
- Assessee was shipping the designs and drawings and technical services on the basis of the inputs given by the contractee namely NPCIL. These designs were used by NPCIL in constructing the nuclear power plant. The property in the drawings and designs was retained with the assessee and NPCIL paid only for the using the drawings and designs. Accordingly, AO concluded that the payment constituted 'royalty' under the Income Tax Act.
- Further, according to the AO, consideration received by assessee for deputation of specialists/consultants constituted 'fees for technical services'. Accordingly, AO taxed the above transaction of Royalty/FTS at 10% as per Article 12 of DTAA being the beneficial provision.
- One of the directions as concluded by the DRP included that Section 44BBB will not only apply to the payment under 'Service Contracts' but the payment made for 'offshore supply of goods and equipment' also formed part of turnover for the purpose of income computation u/s 44BBB.

#### **Assessee's Contention for holding the transaction of Offshore supplies as not taxable in India were as below -**

- The prime argument of the assessee was that 'offshore supply contracts' [OSC] remittances are not taxable at all and hence cannot be considered for computing the income of the u/s 44BBB.
- Since the income was not taxable in the first place as relating to supplies, computational provision of section 44BBB should not include such income and therefore cannot enlarge the scope of total income. In other words, The income, otherwise exempt as per statutory provisions cannot be brought to tax by the computational provisions.
- Placing reliance on the intercompany agreement, the assessee explained that the ownership/title of goods passed from assessee to NPCIL as the cargo crosses the ship's rail at the port of dispatch or when it was handed over to the air carrier, as the case may be. Considering this, the ownership in equipment and plant and machinery should be considered to be passed outside India. Also, the consideration for the supply contract was paid in USD outside India.
- The assessee further contended that offshore supply contract cannot be integrated with service contracts and regarded as composite contracts by drawing attention towards the "General Terms & Conditions" of the contract between the parties dealing with supply of goods, equipment only.
- The assessee justifying the income as not taxable in India contented that taxability would depend upon the fact whether any operation in connection with the earning of such income were carried out in India. Applying the said principle, the assessee believed that offshore supply contracts, which have been entirely performed outside India, cannot be brought to tax in India.
- Lastly, the assessee specified that the contracts have been entered into between two Government representatives and hence the contracts are real and not bogus or sham and therefore no question of tax evasion can arise.

### **Decision by ITAT**

ITAT deciding the case in favor of the assessee, concluded that the offshore supply contract entered between NPCIL and the assessee,

relating to supply of equipment, materials and spares used in preparation, construction, erection and commissioning of a turnkey project will not attract tax under section 9(1) and DTAA provisions and accordingly, no income therefrom can be said to accrue or arise in India.

Thus, receipts thereof would not form part of receipts for purpose of computational provisions of section 44BBB

**Atomstroy Export v. Deputy Director of Incometax, (International Taxation) Rangel(1), Mumbai, ITAT Mumbai Bench**

### Case Law 3

**The Supreme court in the case of Equinox Solution (P.) Ltd has held that where the assessee has sold its entire business including all assets and liabilities in one go. It would be taxed as a long-term capital gain considering sale as slump sale of long term capital assets and sale cannot be treated as sale of short term capital asset under section 50(2) of Income Tax Act 1961.**

### **Facts**

- Equinox Solution (P.) Ltd, the assessee was tax resident of India. It was engaged in the business of manufacturing sheet metal components out of CRPA & OP sheds at Ahmedabad.
- It sold its entire running business in one go including all assets and liabilities on 31.12.1990.
- The assessee filed the income tax return for Assessment Year 1991-1992 and for the above transaction assessee claimed deduction under Section 48(2) treating the sale as slump sale long term capital gain.
- The Assessing Officer giving reference to Section 50(2) contented that the above sale should be considered as sale of short term capital assets.
- Aggrieved by the decision of the Assessing Officer, the assessee filed an appeal with the Commissioner wherein it was observed that the gain on sale of business will be considered as long term capital gain under section 48(2) on Income Tax Act 1961.
- Hence, it was concluded that the above sale of business should be considered as sale of long term capital asset.

- Aggrieved by the decision of CIT(A), the Revenue filed an appeal at the Tribunal.
- ITAT decided the case in favor of the assessee and dismissed the Revenue's appeal by agreeing on the same grounds as given by Commissioner of Appeal.
- The Revenue filed an appeal to High Court as it was aggrieved by the decision of ITAT but the High court made the decision in favor of assessee.

### **Decision by Supreme Court**

Supreme court upheld the findings of Commissioner that the sale of business in one go with assets and liabilities cannot be considered as "short term capital gain" rather it would be considered as long term capital gain and would be taxed accordingly.

**Commissioner of Income-tax. Ahd. v. Equinox Solution (P.) Ltd.\*  
SUPREME COURT OF INDIA**

## NOTIFICATION

### 1. Mandatory Quoting of Aadhaar for filing of Return of Income or for making an application for PAN with effect from July 1, 2017

As per the recent Finance Act 2017, a new section 139AA has been introduced which provides for mandatory quoting of AADHAAR/Enrolment ID of AADHAAR application form, for filing of return of income and for making an application for allotment of Permanent Account Number with effect from July 1, 2017.

It has also been clarified that such mandatory quoting of Aadhaar shall apply only to a person who is eligible to obtain Aadhaar number.

### 2. Key Changes in the ITR Forms:

- **Reduced No of Forms:** For the AY 2017-18, only 7 ITR Forms have been notified by the CBDT as compare to 9 with the previous AY 2016-17.
- **One Pager "ITR- 1 "form:**
  - ✓ To simplify the process of filing Income tax return process for the assessee, a crisp one pager form, 'ITR-1 Sahaj' has been notified.
  - ✓ Assessee having the Income from the following heads can file ITR 1, if their total income does not exceed Rs. 50,00,000
    - Income from Salary
    - Income from House Property
    - Income from Other sources
  - ✓ Inter alia, this form will not be eligible in case the assessee also has following income:
    - Dividend income exceeding INR 10 lakhs covered under Section [115BBDA](#) of the Income tax Act, 1961 ("the Act"),
    - Unexplained cash credit or investment taxable at 60% under Section [115BBE](#) of the Act,
    - Agriculture income exceeding INR 5,000.

### 3. Other important Changes

- For Section 80G: The details for donations made under section 80G like name, PAN and or Address of Donee is not required to be mentioned anymore.
- Disclosure of Cash deposit made due demonetization scheme: All the assessee must mandatory report the detail of cash deposit made during demonetization in the Income Tax Return.
- Only one schedule has been specified for the reporting of TDS and TCS.

# Indirect Tax

## CASE LAWS



### Case Law 1

**CENVAT credit refund allowed on service exports from unregistered premises due to absence of statutory provision**

Assessee was engaged in providing IT and Business Support Services. All premises of assessee were registered under service tax (except one). Assessee filed refund of tax paid on input services used for export of output services. Revenue allowed only part refund and rejected the balance on grounds of non-registration of premise from where export of output service was provided. Held, refund of unutilized CENVAT credit in respect of services exported from unregistered premises allowed, making note that Notification No. 5/2006-CE (NT) provides for procedure for claiming refund of unutilized input service credit and Rule 5 of CENVAT Credit Rules provides that the amount of refund will be restricted to the extent of ratio of export turnover to total turnover and does not specifically state that registration of the premise was mandatory for availing input tax credit. This is a settled provision as decided in the case of mPortal India Wireless Solutions (P) Ltd. Vs. Commissioner of Service Tax, Bangalore, 2012 (27) S.T.R. 134 (Kar.). Therefore, assessee could not be denied refund of unutilized cenvat credit on input services merely due to absence of a statutory provision.

**Commissioner of Service Tax, Chennai vs. SCIOinspire Consulting Services (India) Pvt Ltd. [TS-93-HC-2017(MAD)]**

### Case Law 2

**Food provided by employer outside business premise not a service**

Whether food supplied by an employer to the workers at a subsidized rate, would come within the meaning of 'Service', irrespective of whether food is supplied within the premises or outside the premises. The revenue authorities levied tax on food supplied in an area outside registered premises. HC observed that any supply of subsidized food to the workers by the management of a company has to be seen as part of the pay packages that the workers have negotiated with the employer under the Factories Act, 1948. Even under the Industrial Disputes Act, 1947, the expression 'wages' would include within its purview, anything that is supplied at a subsidized rate.

Once the activity undertaken by the petitioner in the form of supply of food to its workers at a subsidized rate is understood to be part of their industrial obligation, it is unthinkable that the same can be constructed as services falling within the definition of 'Services' under section 65B(44) of the Finance Act. Held, food supplied by an employer to its employees at a subsidized rate shall not be subject to service tax, even if outside the business premise.

**M/s. Bhimas Hotels Pvt. Ltd. Versus The Union of India, rep. by its Secretary, Ministry of Finance [TS-92-HC-2017(TEL\_and\_AP)]**

### Case Law 3

**Time limit for reclaiming ITC reversed during job work - neither mandatory nor ultra vires**

Rule 20 of Punjab VAT Rules ('the Rules') prescribes that ITC reversed at the time when goods sent for job work can be re-availed only if goods received back within 90 days. Assessee sent certain goods for job work and received the processed goods after 90 days. Revenue denied re-availment of ITC on such goods due to lapse of limitation period. Assessee contended that Section 13(3) of Punjab VAT Act ('the Act') does not prescribe time limit for re-availment of credit. Hence, Rule 20 of the Rules insofar as it prescribes time limit is ultra vires the Act.

Held, limitation of 90 days is given to ease the process of identification of goods by the Government. In other words, 90 days is considered as a reasonable time period for the Government to identify if the goods received (after processing) from the job worker are similar to the ones that were sent. However, if assessee can prove with proper documentation that the goods so received (after processing) can be correlated to those that were sent earlier, limitation period of 90 days can be foregone. Hence, it can be concluded that the period of 90 days prescribed in Rule 20 of the Rules is only directory and not mandatory. Further, in the facts of this case, the assessee cannot be denied benefit of ITC in dispute. However, penalty under appropriate statutory provisions may be levied on the assessee for violation of the Rules.

**M/s Reliance Retail Ltd. Versus State of Punjab and another**

### Case Law 4

**Demand cannot be raised beyond taxable period if there is no malafide intention to evade tax**

Assessee was engaged in providing computer training services, manpower recruitment service and intellectual property services. SCN issued for period 1<sup>st</sup> November 2004 to 30<sup>th</sup> September 2007 on services provided by assessee on grounds of suppression of facts and intention to evade the tax. Demand for approximately 5 crores raised subsequently. Assessee contended that period for which demand was raised also included such period during which the services were not taxable. Due to exemption notification issued, computer training services were exempt from service tax from 10.09.2004 to 15.06.2005, manpower recruitment services were exempt from 10.09.2004 to 15.06.2005, and intellectual property services became taxable from 10<sup>th</sup> September 2004. Tribunal, on basis of facts available, held that demand within the taxable period deserves to be confirmed and demand beyond such period was quashed. Further, Tribunal did not agree with the contention of the revenue that in this case the suppression of facts were intended to evade payment of duty.

**The Commissioner of Service Tax Versus M/s. Seed Infotech Ltd [TMI 861 BOMBAY HIGH COURT 2017 (4)].**

## Notifications

Central government has amended the point of taxation rule by inclusion of Rule 8B which determines the point of taxation in case of services provided by a person located in non-taxable territory to a person in non-taxable territory by way of transportation of goods by a vessel from a place outside India up to the customs station of clearance in India. The point of taxation in such a case shall be the date of bill of lading of such goods in the vessel at the port of export.

**Notification No. 14/2017-Service Tax [F. No. 354/42/2016-TRU] dated 13 April 2017**

# Legal & Regulatory NOTIFICATION

## MINISTRY OF CORPORATE AFFAIRS

### **Notification of the Companies (Removal of Names of Companies from the Register of Companies) Amendment Rules, 2017**

(MCA Notification dated April 12, 2017)

Pursuant to the provisions under section 248 (1) of the Companies Act, 2013 read with the Companies (Removal of Names of Companies from the Register of Companies) Rules, 2016, wherein the Registrar of Companies is empowered to issue notice to the Companies of his intention to remove the name of the Companies, the Ministry of Corporate Affairs have made amendment in the said rules and has specifically provided the format of the notice (Form STK-5A) by Registrar of Companies.

[http://www.mca.gov.in/Ministry/pdf/CompRemovalofNamesRules\\_13042017.pdf](http://www.mca.gov.in/Ministry/pdf/CompRemovalofNamesRules_13042017.pdf)

### **Commencement of section 234 (Merger or amalgamation of Company with foreign Company) of Companies Act 2013**

(MCA Notification dated April 13, 2017)

The Ministry of Corporate vide its notification dated April 13, 2017 notified 13<sup>th</sup> day of April, 2017 from which the provisions of section 234 (Merger or amalgamation of Company with foreign Company) of the Companies Act, 2013 have come into force.

As per the provisions under section 234 of the Companies Act, 2013, a foreign company (incorporated in the jurisdictions of such countries as may be notified) may merge into a company registered under the Companies Act, 2013 or vice-versa after obtaining prior approval of the Reserve Bank of India (RBI).

[http://www.mca.gov.in/Ministry/pdf/section234Notification\\_14042017.pdf](http://www.mca.gov.in/Ministry/pdf/section234Notification_14042017.pdf)

### **Notification of the Companies (Compromises, Arrangements and Amalgamations) Amendment Rules, 2017**

(MCA Notification dated April 13, 2017)

The Ministry of Corporate Affairs, vide its notification dated April 13, 2017, in consultation with the Reserve Bank of India, hereby amends the Companies (Compromises, Arrangements and Amalgamations) Rules, 2016 and the rule 25A on merger and amalgamation of a foreign company with a Company and vice versa, is inserted so as to give effect to the provisions for merger with foreign companies.

#### **Key highlights of the provisions under the rule inserted are as follows:**

- Requirement of prior approval of RBI and compliance with other sections of the Companies Act 2013;
- Specified jurisdictions of a foreign company - A company can merge with a foreign company having the jurisdictions prescribed in this regard;
- Valuation to be conducted by valuers as per international standards;
- Requirement of NCLT approval

[http://www.mca.gov.in/Ministry/pdf/CompaniesCompromises\\_14042017.pdf](http://www.mca.gov.in/Ministry/pdf/CompaniesCompromises_14042017.pdf)

# Legal & Regulatory NOTIFICATION

## **Clarification regarding filing of Form IEPF-1 (Transfer of funds to Investors Education and Protection Fund)**

(MCA General Circular no. 02/2017 dated April 20, 2017)

The Ministry of Corporate Affairs, vide its circular dated April 20, 2017 has clarified and provided a process to facilitate the filing of e-form IEPF-1 for the Companies which have transferred the amount to IEPF prior to 15.12.2016 through challans not generated on MCA portal and which were unable to file form IEPF 1.

[http://www.mca.gov.in/Ministry/pdf/Notification\\_20042017\\_1.pdf](http://www.mca.gov.in/Ministry/pdf/Notification_20042017_1.pdf)

## **Online Transfer of shares to IEPF Authority**

(MCA General Circular no. 03/2017 dated April 27, 2017)

The Ministry of Corporate Affairs vide its circular dated April 27, 2017 has clarified that where the period of seven years provided under sub-section (5) of section 124 is completed during September 7, 2016 to May 31, 2017, the due date for transfer of such shares is May 31, 2017.

Also, the IEPF authority has decided to open a special demat account with National Securities Depository Limited (NSDL) through a Depository Participant of NSDL which would support IEPF operations and facilitate record keeping of shares transferred to the IEPF Authority.

[http://www.mca.gov.in/Ministry/pdf/Circular\\_27042017.pdf](http://www.mca.gov.in/Ministry/pdf/Circular_27042017.pdf)

## **The Insolvency Board invites public comments on draft regulations for Fast Track Resolution process for Eligible Corporate Persons**

The concerned working group set up by the Ministry of Corporate Affairs has submitted the draft regulations for Fast Track Insolvency Resolution of Corporate Persons and the Insolvency Board has invited public comments on the same to be submitted by May 08, 2017.

The link for draft regulations for Fast Track Insolvency Resolution of Corporate Persons is as follows:

<http://www.ibbi.gov.in/RegulationsonFastTrackCorporateResolutionProcess.pdf>

# Thought LEADERSHIP

"Wow, that was easy" is what we are aiming for, with every interaction. We, at Kayako, are committed to help growing businesses understand their customers better than anyone else. That's a competitive advantage!

- Varun Shoor



Kayako has close to 80 employees across three different locations. The company's main entity is in Singapore, and we have offices in India and in London, which is our operational entity. And we also have people working with us remotely in locations like Ukraine, Belgium and Canada. Our revenue is in the multi-million dollars and as a bootstrapped company you don't have any choice but to be profitable. Otherwise, if you are not profitable, you can not survive.

There was a time when this product was treated as an IT help desk. So you generally had IT teams in big companies using it to solve tickets. But now anyone with customers internal or external needs a product like this. Automotive companies are tying this up with their ERP systems. Online startups are integrating the product with invoicing systems. And we have traditional companies who use a CRM product using us to integrate with that. So it totally depends on the context, but the product integrates with close to 600 platforms.

Shoor saw a pain point and spent over a decade building a product to solve it. He found customers where he could and adapted to a market that moved online. By being flexible, he opened opportunities for himself and his company. There is no clear path to success and stories like his show that the strength of your idea and how you go about growing it are also key to a building a company that lasts.

Kayako isn't a new company — the bootstrapped business has been around for 16 years — but it does have an interesting story. [Kayako](#) is a unified customer service platform, meaning that companies use their software to manage customer feedback and support across multiple platforms, including phone, email, Twitter and Facebook. With fewer than 100 employees (barely), Kayako has never taken outside funding. It has offices in three countries, is profitable and continues to grow.

Treating it as a transactional experience is the biggest mistake companies make, says Varun Shoor. So companies are still in a situation where they use tickets, as a means of just solving that problem, rather than going beyond tickets and thinking about the entire customer experience. And thinking about what is next after that problem to make sure not only customers are satisfied but that you turn them into advocates and promoters.

Kayako has never raised any external venture capital. So as a company this has been bootstrapped for the last 16 years. I've never been to college. "I've started this and dropped out of high school with no money. The name Kayako was something that I got when I was literally begging for domain names. I didn't choose the domain name. The name chose me", says Varun Shoor.

# Column

## IMPACT OF GST ON IT SYSTEMS

By  
Vipul Dhall



As India gets ready for transition to GST, the key question is whether Indian companies are prepared for this transition. GST transition is not only about a tax change but a complete business, finance, accounting and reporting overhaul. As management teams have started assessing financial impact of GST on their business segments, they should also consider the impact that GST will have on IT systems currently installed in an organisation.

### Importance of IT system in business

One of the key driving forces behind growth of a business is the effective management of its internal divisions (ranging from procurement to distribution & customer management). It is imperative to set up streamlined business processes to effectively manage business divisions. Setting up of such processes is a task possible only with the help of Information Technology (IT) software. Due to this, IT softwares are often accredited as the 'backbone of business'.

IT Softwares like Enterprise Resource Planning ('ERP') are fully integrated business management tools covering functional areas of an enterprise like Logistics, Production, Finance, Accounting and Human Resources etc. ERPs have various other functions, some of which, inter-alia, have been mentioned hereunder:

- Developing standard operating procedures (SOPs)
- Business enablers - providing solutions to business problems
- Bridging of information gap with vendors and distributors
- Better control over procedural tasks such as invoicing, payroll, standardized formats, cost control, reduced response time, faster monitoring, quicker resolution of queries, improved business processes etc.

### Types of IT systems

Suited to business needs, IT companies launch ERP systems into various modules. The modules so developed can be implemented in business divisions after going through alterations suited to business needs. Examples of business modules common in most ERP softwares:

- **Material Management Module**  
Successor of the Manufacturing Requirement Planning (MRP II) model, this module covers aspects including inventory records, order placement and enlisting, inventory cost analysis etc. It seeks to reduce working capital requirements by optimising maintenance of stock at appropriate levels. It also helps in reducing operating cycle by reducing work-in-progress.
- **Production Planning Module**  
This module includes processes like analysing production requirements, product quality management, make vs buy decisions, what-if analysis, minimizing wastages etc.
- **Finance & Control Module**  
Helps in operations like recording of transactions, updation of records, payroll management, budgetary analysis, cash flow analysis, fund management, debtors/ creditors management etc.

# Column

- **Sales & Marketing Module**  
Procedures like product pricing, cost sheet analysis, margin fixation, advertising models, market changes response models, market study etc. are undertaken by this module.
- **Customer Management Module**  
Includes processes like after-sales services, maintaining customer database etc.
- **Human Resource Management Module**  
Standardizing procedures related to selection criterion, segregation of work, employee turnover analysis, etc.

## How IT influences business operations

ERPs are business enabler programs. In other words, they are used to set up business processes and provide solutions to business concerns such as material shortages, productivity enhancements, customer service, cash management, inventory problems, quality problems, prompt delivery etc. Besides this, ERP system are also integrated with ERPs of major customers and vendors of organization using networks such as LAN, WAN etc. to analyse data on real-time basis.

## GST and IT systems

The impending GST is predicted to have a major impact on IT systems of businesses. This is due to introduction of certain legislative provisions relating to input tax credit, statutory returns etc. A glimpse of how these provisions will have a potential impact on ERPs of companies is shared hereunder:

### ✓ *Input tax credit ('ITC')*

ITC can be availed by a business only when its vendors have paid respective tax. This creates a need to link business's ERP to that of its vendors so that such information can flow on real time basis. Further, ITC availment will have to be bifurcated into State, Central and integrated GST along with proper codes as required. This information would then be uploaded on the GSTN portal in prescribed formats. Formats of documents in ERPs will have to be updated to align the system with GST.

### ✓ *Statutory Returns*

GST being a compliance-centric tax will usher the need for proper documentation of invoices. Moreover, returns will be auto-populated. In other words, inward return of a person will be matched with outward returns of his vendors. Due to this, ERP systems may need to be updated accordingly.

## Changes/ updates required in IT infrastructure of businesses to accommodate GST

Since the implementation of GST is imminent, IT Systems of businesses need to be re-engineered in accordance with requirements of GST. Some impact areas pertinent for ERP re-structuring have been discussed hereunder:

### ✓ *Transaction recording*

GST being a replacement to existent Indirect Taxes, all tax related business processes would need to be reviewed and aligned to GST requirements. This includes manipulating tax forms, tax codes, tax rates, triggers for identifying input/ output tax etc.

# Column

## ✓ *Master Data changes*

Numerous aspects of master data including material master, vendor master, sale price master, customer master etc. will need to be updated as per the new requirements. Businesses must integrate state-of-the-art logics into their software solutions.

## ✓ *Changes in documentation procedures*

Sale/ purchase invoices, statutory registers, MIS reporting etc. would need to be re-configured as per requirements of GST. A unique sequence number for outward GST invoices is likely to be prescribed by tax authorities.

## ✓ *Finance and Control Module*

Internal logics defining checks and control systems will need to be revisited and aligned in accordance with GST requirements.

## ✓ *Sales and Distribution Module*

GST introduces tax on inter-state stock transfers. This stirs up the need to transform current supply chain into a robust structure in order to trace each aspect of movement of goods.

## **Any software for managing GST?**

The Government has tied up with Infosys as a Managed Service Provider (MSP) for development and deployment of GST system. This includes relevant application software, tools and infrastructure.

The proposed GST envisages all compliances through electronic modes. This means that businesses will need tools for uploading invoice information, matching of input tax credit (ITC) claims, creation of party-wise ledgers, uploading of returns, payment of taxes, digital verification of such documents etc.

The taxpayer can interact with the GST systems by two methods:

### ➤ *GST portal*

A Government-2-business (G2B) interface launched by the GSTN.

### ➤ *Third-Party Applications (TPA)*

A taxpayer will also have the option to interact with the GST system through third party applications, which will provide all user interfaces and convenience via desktop, mobile etc. The TPAs will connect with GST system via secure GST system (Application Programming Interfaces (APIs). Such application providers have been given a generic name, GST Suvidha Providers (GSP).

## **Conclusion**

As seen above, IT Software is an integral part of a business. Hence, it is imperative that businesses act proactively and be well prepared before GST comes into effect.

## THOUGHTS WHICH INSPIRE US



- ❖ "The darkest nights produce the highest stars."
- ❖ "To be the best, you must be able to handle the worst."
- ❖ "Difficult roads often lead to beautiful destinations."
- ❖ "Wake up with determination, go to bed with satisfaction."

## JOKES



- ❖ Santa: My wife died yesterday.. I'm trying to cry but tears are not coming out, what to do?  
Banta: No problem. Just imagine she came back.
- ❖ I've always thought my neighbors were quite nice people. But then they put a password on their Wi-Fi.
- ❖ Boy: Where are you going now?  
Girl: For suicide..  
Boy: Then why so much makeup ?  
Girl: You idiot.. Tomorrow my photo will come in newspaper..!
- ❖ When I was a kid, my English teacher looked my way and said, "Name two pronouns."  
I said, "Who, me?"

## INTERESTING FACTS



- ❖ Studies show that children who are better liars tend to become more successful as adults.
- ❖ There are 60,000 miles of blood vessels in the human body.
- ❖ The number of animals killed for meat every hour in the U.S. is 5,00,000.
- ❖ The tongue of a blue whale weighs more than most elephants.



## *Birthdays of the Month*

Himanshu Tewari 4-May

Chandni 6-May

Supriya Sadashiva Shetty 14-May

Amit Mittal 31-May

Shibbo Arora 31-May

*IBA wishes You a Happy Birthday and a great year ahead!!*

# May 2017

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
	1	2	3	4	5 Excise Duty/Service Tax	6 Online Excise Duty/Service Tax
7 TDS/TCS for the month of April, 2017	8	9	10 Excise Return (except SSIs)	11	12	13
14	15 Quarterly statement of TCS for Q4	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31 Quarterly statement of TCS for Q4, Revised ER-1 / ER-2			

# About Us

IBA constitute a young team of path breaking professionals, who believe in creating value through innovation and creativity so as to provide ultimate client satisfaction. Clients benefit from our fresh thinking, constructive challenge and practical understanding of the issues they face. We aim to alloy a perfect blend of professionalism with high standards of service, in our pursuit of excellence.

Ten years into conception, IBA continues to offer wholesome service experience to boost highly valued client relationships by combining the technical and industry expertise at par with well-placed firms together with a personal commitment to optimise client service.

Our service lines are headed by experts from the varied fields of Financial Outsourcing, Assurance, Risk, Taxation, Regulatory, Mergers and Acquisition who ensure timely delivery of value added services to our clients.

# Stay Connected

- New Delhi  
S-217,Panchsheel Park  
New Delhi 110017
- Mumbai  
Suite 1108, Level 11 - 1102 Peninsula Business Park Tower B, S B Road  
Lower Parel  
Mumbai 400013
- Bangalore  
Golden Square Serviced Office  
#No 1101, 24<sup>th</sup> Main, JP Nagar  
1<sup>st</sup> Phase (above ICICI Bank)  
Bangalore-560078

# Editorial Team



Somya Sharma



Vipul Dhall



Sarthak Juneja



Sonal Sapra

**Queries/Feedback/Suggestions on this newsletter may be addressed to:**

A joint initiative of International Business Advisors Private Limited (IBA) and Nayyar Maniar & Associates LLP (NMA LLP). IBA is a Company registered under the Companies Act, 1956 having its registered office at S-217, Ground Floor, Panchsheel Park, New Delhi – 110017, India. NMA LLP is a registered partnership firm.

**For more information and past issues of ConneKt, kindly visit our website  
[www.ibadvisors.co](http://www.ibadvisors.co)**

**Disclaimer:** The materials contained in this newsletter have been compiled from various sources. This information is for guidance only and should not be regarded as a substitute for appropriate professional advice. IBA accepts no liability with regard to the information herein or any action that may be taken by readers of this newsletter without any professional advice.