VERITAS FINANCE

Veritas Finance Private Limited

REGULATORY UPDATE

November 2018

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INTRODUCTION

Objective:

Keeping up to date with Legislations, Rules and Practices applicable to our NBFC sector to stay compliant and be aware of repercussions, to plan consequential actions, to add value to business and to achieve a competitive edge.

Period: November 2018

Coverage:

The Newsletter would broadly cover the following applicable areas;

Particulars	Page No.
Reserve Bank of India	3
Securities and Exchange Board of India	5
Insolvency and Bankruptcy code, 2016 (IBC)	8
Ministry of Corporate Affairs	9
GST updates	13
How Long To Keep The Income Tax Documents	15

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RESERVE BANK OF INDIA

The Reserve Bank of India (RBI) has allowed high-street lenders to part-support bonds sold by non-banking finance/housing companies, an approval that should ease fund-raising concerns at the shadow banks currently struggling to garner money in the debt market.

It has now been decided to allow banks to provide partial credit enhancement (PCE) to bonds issued by the systemically important non-deposit taking non-banking financial companies (NBFC-ND-SIs) registered with the Reserve Bank of India and Housing Finance Companies (HFCs) registered with National Housing Bank

The exposure of banks shall be within the aggregate PCE exposure limit of 20 percent.

A credit enhancement is a kind of support behind any bond sale, which helps improve investor sentiment.

NBFCs have been facing a liquidity squeeze of late. More than a month ago, infrastructure financier and operator IL&FS defaulted on repayments, triggering a crisis of confidence among investors who have shied away from investing in securities sold by NBFCs.

With support from banks, it would be easier for relatively smaller companies to raise money from investors. This could well help increase credit ratings.
"The RBI move should be good for affordable housing finance and lower rated retail NBFCs," said Shameek Ray, head of debt capital markets at ICICI Securities Primary Dealers. It suits those with granular retail portfolios and not those with lumpy corporate finance portfolios. The move should help generate corporate investor confidence on such companies, which could sell bonds offering reasonable rates.

However, the liquidity easing measure has been accompanied with riders. The facility can only be availed when NBFCs sell bonds with maturities not less than three years. Proceeds from the bonds backed by bank credit enhancements should only be utilized for refinancing the existing debt of NBFCs or HFCs. Commercial paper worth Rs 1 lakh crore will mature in November, shows an estimate by a mutual fund house.

This should encourage such companies to tap the debt market. Banks would introduce appropriate mechanisms to monitor and ensure that the end-use condition is met, said RBI. It added that the exposure of a bank should be restricted to one percent of its capital funds or net worth for a single borrower.

NOTIFICATIONS FROM RBI

Relaxation on the guidelines to NBFCs on securitisation transactions

RBI/2018-19/82
DNBR (PD) CC.No.95/03.10.001/2018-19 November 29, 2018

All NBFCs

Madam/Sir,

Relaxation on the guidelines to NBFCs on securitisation transactions

Please refer to the Guidelines on Securitisation Transactions vide paragraph 102 of Master Directions on Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions dated September 01, 2016 and paragraph 89 of Non-Banking Financial Company –Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions dated September 01, 2016.

2. In order to encourage NBFCs to securitise/assign their eligible assets, it has been decided to relax the Minimum Holding Period (MHP) requirement for originating NBFCs, in respect of loans of original maturity above 5 years, to receipt of repayment of six monthly instalments or two quarterly instalments (as applicable), subject to the following prudential requirement:

> Minimum Retention Requirement (MRR) for such securitisation/assignment transactions shall be 20% of the book value of the loans being securitised/20% of the cash flows from the assets assigned.

3. The above dispensation shall be applicable to securitisation/assignment transactions carried out during a period of six months from the date of issuance of this circular. Other terms and conditions of the above referred Directions remain the same.

Yours faithfully

(Manoranjan Mishra)
Chief General Manager

SECURITIES AND EXCHANGE BOARD OF INDIA

SEBI TAPS RATINGS FIRMS FOR NBFC HEALTH REPORT

The capital markets regulator Sebi met the top four credit ratings agencies to discuss their assessment of liquidity of NBFCs that have borrowed fiercely in the past few years, the possible repercussions if these companies are unable to roll over borrowings and backup available under such circumstances.

"Sebi officials also asked whether borrowing NBFCs are cooperating in sharing information. The regulator asked how agencies were evaluating the liquidity condition," . Sebi held a similar meeting with mutual funds (MFs), which have been bankrolling NBFCs till the IL&FS fiasco sparked panic in the money markets.

The regulator is trying to get a sense of the problem, the liquidity situation and the weak links, More than 80,000 crore of commercial paper was rolled over this month and this has brought some respite. But a lot of it is short-term money, which would come up for redemption some months down the line. The stress could resurface in February or March, if the situation does not improve. Neither the government nor the regulator wants defaults and chaos, particularly in the run up to elections .

There are about 11,000 NBFCs in India, of which close to 215 are 'systemically important,' while the number of housing finance companies is more than 80.

Sebi's meetings with MFs and ratings agencies follow some of India's top corporates — large investors in MFs — telling fund houses that they would not put money in liquid schemes that hold 'risky' NBFC papers.

Significantly, the concern over NBFCs is not uniform across regulatory circles. "There are sections within regulators and even the government who believe the NBFC problem is overblown and concentrated in a few pockets.

Large NBFCs have funded real estate companies and promoters who pledged shares to raise money. With the Reserve Bank of India board not exploring the possibility of a special liquidity arrangement for NBFCs at the November 19 meeting, it was perceived that RBI wants NBFCs to slow down, even shrink.

Total outstanding bank loans to NBFCs grew 43 per cent between September 2017 and September 2018, as against 5 per cent between September 2016 and September 2017.It was an unsustainable growth. Some banks lent to NBFCs which, in turn, lent to real estate companies. Post the IL&FS collapse, RBI has allowed banks more headroom for lending to NBFCs. However, most banks, particularly private and foreign lenders, prefer buying loan portfolios by cherry-picking NBFC assets, rather than directly lending to finance companies .

SEBI CIRCULAR

(DATED 26.11.2018)

All Listed Entities (whose specified securities or debt securities or NCRPS are listed on SEBI recognized Stock Exchanges)

Sub: Fund raising by issuance of Debt Securities by Large Entities

1.With a view to operationalising the Union Budget announcement for 2018-19, which, inter-alia, stated "SEBI will also consider mandating, beginning with large entities, to meet about one-fourth of their financing needs from the debt market", SEBI came out with a discussion paper on July 20, 2018. Based on feedback received on the discussion paper and wider consultation with market participants including entities, the detailed guidelines for operationalising the above budget announcement are given below.

2. Applicability of Framework

2.1. For the entities following April-March as their financial year, the framework shall come into effect from April 01, 2019 and for the entities which follow calendar year as their financial year, the framework shall become applicable from January 01, 2020.

Explanation: The term 'Financial Year' (FY) here would imply April- March or January-December, as may be followed by an entity. Thus, FY 2020 shall mean April 01, 2019 - March 31, 2020 or January 01, 2020 - December 31, 2020, as the case may be.

2.2. The framework shall be applicable for all listed entities (except for Scheduled Commercial Banks), which as on last day of the FY (i.e. March 31 or December 31):

i. have their specified securities or debt securities or non-convertible redeemable preference share, listed on a recognised stock exchange(s) in terms of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015; and

ii. have an outstanding long term borrowing of Rs 100 crores or above, where outstanding long-term borrowings shall mean any outstanding borrowing with original maturity of more than 1 year and shall exclude external commercial borrowings and inter-corporate borrowings between a parent and subsidiary(ies); and

iii. have a credit rating of "AA and above", where credit rating shall be of the unsupported bank borrowing or plain vanilla bonds of an entity, which have no structuring/ support built in; and in case, where an issuer has multiple ratings from multiple rating agencies, highest of such rating shall be considered for the purpose of applicability of this framework.

3. Framework

3.1. A listed entity, fulfilling the criteria as specified at para 2.2 above, shall be considered as a "Large Corporate" (LC) and such a LC shall raise not less than 25% of its incremental borrowings, during the financial year subsequent to the financial year in which it is identified as a LC, by way of issuance of debt securities, as defined under SEBI (Issue and Listing of Debt Securities) Regulations, 2008 (hereinafter "ILDS Regulations").

Explanation: For the purposes of this circular, the expression "incremental borrowings" shall mean any borrowing done during a particular financial year, of original maturity of more than 1 year, irrespective of whether such borrowing is for refinancing/repayment of existing debt or otherwise and shall exclude external commercial borrowings and inter-corporate borrowings between a parent and subsidiary(ies).

3.2. For an entity identified as a LC, the following shall be applicable:

i. For FY 2020 and 2021, the requirement of meeting the incremental borrowing norms shall be applicable on an

annual basis. Accordingly, a listed entity identified as a LC on last day of FY 2019 and FY 2020, shall comply with the requirement as laid down under para 3.1, by last day of FY 2020 and FY 2021, respectively.

Provided that in case where a LC is unable to comply with the above requirement, it shall provide an explanation for such shortfall to the Stock Exchanges, in the manner as prescribed at para 4.

ii. From FY 2022, the requirement of mandatory incremental borrowing by a LC in a FY will need to be met over a contiguous block of two years. Accordingly, a listed entity identified as a LC, as on last day of FY "T-1", shall have to fulfil the requirement of incremental borrowing for FY "T", over FY "T" and "T+1".

However, if at the end of two years i.e. last day of FY "T+1", there is a shortfall in the requisite borrowing (i.e. the actual borrowing through debt securities is less than 25% of the incremental borrowings for FY "T"), a monetary penalty/fine of 0.2% of the shortfall in the borrowed amount shall be levied and the same shall be paid to the Stock Exchange(s).

4. Disclosure requirements for large entities

4.1. A listed entity, identified as a LC under the instant framework, shall make the following disclosures to the stock exchanges, where its security(ies) are listed:

i. Within 30 days from the beginning of the FY, disclose the fact that they are identified as a LC, in the format as provided at Annexure A.

ii. Within 45 days of the end of the FY, the details of the incremental borrowings done during the FY, in the formats as provided at Annexure B1 and B2.

4.2. The disclosures made in terms of para 4.1 shall be certified both by the Company Secretary and the Chief Financial Officer, of the LC.

4.3. Further, the disclosures made in terms of para 4.1 shall also form part of audited annual financial results of the entity.

4.4. The details of the framework as mentioned under para 3 and disclosure requirements as mentioned under para 4.1, are illustrated in Annexure C.

5. Responsibilities of Stock Exchanges

5.1. The Stock Exchange(s) shall collate the information about the LC, disclosed on their platform, and shall submit the same to the Board within 14 days of the last date of submission of annual financial results.

5.2. In the event of a short fall in the requisite borrowing, the Stock Exchanges shall collect the fine as mentioned at para 3.2(ii). The fine so collected shall be remitted by the stock exchanges to SEBI IPEF fund within 10 days from the end of the month in which the fine was collected.

6. This Circular is issued in exercise of powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992 read with regulation 101(2) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

7. This Circular is available on SEBI website at www.sebi.gov.in under the categories “Legal Framework” and under the drop down “Corp Debt Market”.

INSOLVENCY AND BANKRUPTCY CODE, 2016(IBC)

The IBBI (Insolvency Resolution Process For Corporate Persons) (Fourth Amendment) Regulations, 2018

The Insolvency and Bankruptcy Board of India, vide its notification amended the Insolvency and Bankruptcy Board of India (Insolvency Resolution Process for Corporate Persons) Regulations, 2016 by notifying the Insolvency and Bankruptcy Board of India (Insolvency Resolution Process for Corporate Persons) (Fourth Amendment) Regulations, 2018.

The key changes brought through this amendment are as follows:

- Omitted the meaning of dissenting financial creditors as given in Regulation 2 (1) (f) of the Insolvency and Bankruptcy Board of India (Insolvency Resolution Process for Corporate Persons) Regulations, 2016.

- Removal of the requirement under Regulation 21(3) (b), for the notice of the meeting of committee of creditors to state that the vote of the members of committee should not be taken unless all the members are present at such meeting.

Amendments in the voting process of the committee of creditors

1. Amendment of Regulation 25 (5) has been brought to provide for the detailed voting procedure by electronic means in case a member is not present for a meeting. The amended regulations now also provide for the circulation of minutes to the authorized representatives in addition to the creditors. The authorized representative is obligated to circulate the minutes of meetings received by it, to the creditors in a class and announce the voting window at least twenty-four hours before the window opens for voting instructions and keep the voting window open for at least twelve hours.

2. Addition of sub-regulation 1A to Regulation 26 which provides that the authorized representative shall exercise the votes either by electronic means or through electronic voting systems as per voting instructions received by him from the creditors in the class.

Resolution Plan

1. Substitution of sub-regulation (1) of Regulation 38 which now provides that the mandatory content of the resolution plan shall provide that the amount due to operational creditors under a resolution plan must be given priority in payment over financial creditors. Earlier the provision provided for specifying the insolvency resolution process costs providing that the insolvency resolution process costs will be paid in priority to any other creditors;

2. Omission of Regulation 39 (1) (b), the requirement of providing an undertaking by the prospective resolution applicant that he shall provide additional funds to the extent required is no longer required.

3. Omission of sub-regulation (3A) of Regulation 39, the committee is no longer required to specify the amounts payable from resources in the contents of the resolution plan, while approving the same.

4. Addition of regulation 39A, which provides for preservation of records. It states that the Interim Resolution Professional or the Resolution Professional shall preserve physical and electronic copy of the records relating to corporate insolvency process of the corporate debtor as per the record retention schedule that the Insolvency and Bankruptcy Board may communicate in consultation with the Insolvency Professional Agencies.

MINISTRY OF CORPORATE AFFAIRS

Recently, based on the recommendations of the Committee to Review Offences under the Companies Act, 2013 (Committee), the Companies (Amendment) Ordinance, 2018 (Ordinance) was passed on November 2, 2018, to effect certain changes in the Companies Act, 2018 (CA 2013). Around the same time the Ministry of Corporate Affairs (MCA) also issued a notice, seeking comments/suggestions from stakeholders on additional amendments of an "urgent nature" that are required to strengthen the corporate governance and enforcement framework (Notice). This article discusses some of the key amendments proposed in the Notice, which would have far reaching impact if approved in their current form.

Significant Beneficial Ownership

In the last round of amendments pursuant to the Companies (Amendment) Act, 2017 (Amendment Act), the concept of significant beneficial owners and their disclosure obligations was introduced in section 90 of CA 2013. Further, section 90 (as amended by the Amendment Act) provided that if an individual either fails to provide or provides unsatisfactory information pertaining to his beneficial ownership, an application can be filed by the company before the National Company Law Tribunal (NCLT) to subject the underlying shares to certain restrictions.

Now the Ordinance further provides that if the NCLT imposes restrictions on the shares pursuant to such application, and no subsequent application is filed before the NCLT for lifting of such restrictions within a period of one year, such shares would mandatorily be transferred to the Investor Education and Protection Fund. It is also relevant to note that in addition to a monetary fine, the Ordinance has introduced imprisonment of up to one year as a penalty in cases where an individual who is considered to be a significant beneficial owner under the CA 2013 fails to make the necessary declarations.

Earlier this year, the MCA notified the Companies (Significant Beneficial Owners) Rules, 2018 (Rules), which placed stringent disclosure obligations on individuals holding a certain percentage of beneficial interest in Indian companies. On account of several representations having been made to the MCA regarding the disclosures prescribed in the Rules, the declarations to be filed by significant beneficial owners and companies pursuant to the Amendment Act read with the Rules have been put on hold.

While the MCA mulls over the declarations to be made with respect to significant beneficial ownership, and addresses the concerns raised by stakeholders, the Notice now proposes another significant amendment to section 90 of CA 2013. The proposed amendment places an obligation on companies to take steps to identify if there is any significant beneficial owner and require such individual to comply with the provisions under CA 2013 in this regard. This kind of obligation will be quite onerous for companies, who will now presumably have to undertake the unusual task of investigating into the ownership of its shares in order to discharge its obligations under CA 2013. Further, the level of investigation required to be undertaken by companies to ascertain the beneficial ownership of shares is not clear.

Corporate Social Responsibility

The Notice also proposes a noteworthy change to the extant provisions governing corporate social responsibility (CSR), which is mandatory for prescribed classes of companies. CA 2013 requires prescribed classes of companies to spend at least 2% of their three-year annual average net profit on social welfare activities. Presently, in case the entities concerned fail to spend the requisite amount, the reasons for not spending the amount is required to be specified in the Board's report. Thus, a "comply or explain" principle was adopted.

Now, pursuant to the amendments proposed in the Notice, amounts which are to be allocated towards CSR activities, but which remain unutilised in a given financial year are required be transferred to a special account to be opened by the company in this regard with any scheduled bank. This account is to be called the 'Unspent CSR Account', and the amounts therein will have to be spent by the company in pursuance of its CSR policies within a period of three financial years from the date of such transfer.

This effectively makes CSR spend mandatory. Further, wide powers have been given to central government to issue directions to companies to comply with the CSR provisions under CA 2013. It is interesting to note that while the amendments proposed in the Notice are stated to have emanated from the recommendations of the Committee, the Committee has not dealt with such CSR-related matters in its report.

Remuneration of Independent Directors

CA 2013 initially barred a person from acting as an independent director of a company if such person had a 'pecuniary relationship' with that company. Subsequently, this provision was revised pursuant to the Amendment Act and it was clarified that an independent director cannot have any pecuniary relationship with the company other than (i) remuneration payable to such person, and (ii) transactions with the company, which do not exceed 10% of his total income. Under CA 2013, an independent director is entitled to receive remuneration in the form of sitting fees for attending board meetings and a profit-based commission. The Committee considered compensation received by an independent director from the company to rank as one of the most important factors that is likely to influence an individual's ability to exercise unbiased and independent judgement. Therefore, while the Amendment Act stopped at clarifying that receipt of remuneration was a permissible pecuniary relationship between the independent director and the company, the Notice now proposes a cap on the maximum remuneration payable.

Accordingly, to ensure that there is no material pecuniary relationship between an independent director and the promoter group that can impair his independence, the maximum remuneration of an independent director payable by a company (including its holding, subsidiary or associate company) or its

promoters or directors is proposed to be capped at 25% of such independent director's total income. For computation of this cap on the maximum remuneration, the sitting fees payable to the independent directors would not be counted. Further, within the total cap on the maximum remuneration payable (i.e., 25% of the total income), fees payable for any professional or other services rendered by the independent director (except those prescribed) cannot amount to more than 10% of his total income. It remains to be seen what kind of professional or other services will be excluded from this cap of 10%.

MCA vide its notification dated 13th November 2018 notified National Financial Reporting Authority (NFRA) Rules 2018.

As per the **Companies Act, 2013** the NFRA is tasked with the job of recommending accounting and auditing standards, ensuring compliance with them and overseeing the quality of service of the accounting and audit professions.

It has also been given the power to investigate matters of professional misconduct by chartered accountants or CA firms, impose penalty and debar the CA or firm for up to 10 years.

The ICAI will continue to exercise these powers over small companies. The NFRA will have jurisdiction over listed companies and large unlisted companies.

NFRA is not meant to replace the disciplinary Jurisdiction of the ICAI. Therefore in all the routine cases, Which will be the bulk of cases, the ICAI will perform its function.

A. Applicability:

As per Rule 3 the Authority shall have power to, monitor and enforce;

> Compliance with accounting standards and
> Auditing Standards,
> Oversee the Quality of Service

Under sub-section (2) of section 132 or undertake investigation under sub-section (4) of such section of the auditors of the following class of companies and bodies corporate, name:

a) All Listed Companies/ Listed Body Corporate;
b) Unlisted Companies with

– Paid up Capital or Loans > = INR 500 crores OR
– Turnover > = INR 1000 crores OR
– Outstanding Loan, Debentures and Deposit >= INR 500 crores
**Above Limits shall be check on as on the 31st March of immediately preceding financial year;
c) All Banks/ Insurance/ Electricity Companies.
Companies Governed by any special Act for the time being in force OR bodies corporate incorporated by an Act in accordance with clauses (b), (c), (d), (e) and (f) of sub-section (4) of section 1 of the Act;
d) Certain specific foreign Subsidiaries/Associates of Indian Companies
**NOTE: Once a Company falls under the above limits under NFRA, will be covered by NFRA for 3 More years.

EVEN IF LIMITS ARE REDUCED/ LISTED STATUS CHANGES.

NOTE: Every Body Corporate other then Company as defined u/s 2(20) formed in India and governed under this rule shall, within fifteen days of appointment of an auditor under sub-section (1) of section 139, inform the Authority in Form NFRA-1, the particulars of the auditor appointed by such body corporate:

B. Functions and duties of the Authority:

> maintain details of particulars of auditors appointed in the companies and bodies corporate specified in rule 3;

> recommend accounting standards and auditing standards for approval by the Central Government;

> monitor and enforce compliance with accounting standards and auditing standards;

> oversee the quality of service of the professions associated with ensuring compliance with such standards and suggest measures for improvement in the quality of service;

> promote awareness in relation to the compliance of accounting standards and auditing standards;

> co-operate with national and international organisations of independent audit regulators in establishing and overseeing adherence to accounting standards and auditing standards; and

> perform such other functions and duties as may be necessary or incidental to the aforesaid functions and duties.

C. Filing of Return by Auditor:

Every auditor referred above shall file a return with the Authority on or before 30th April every year in such form as may be specified by the Central Government.

D. Powers and Responsibilities of NFRA

a. Notifying Accounting Standards & Auditing Standards –

"ICAI Recommend —— NFRA will check —— Recommend CG for Notifying it"

b. Monitoring Compliance of AS

For AS compliance, NFRA may review FS of such Companies and ask for further Information, seek additional information, initiate for penal proceeding if any wrongdoing.

c. Monitoring Compliance of SA

For SA Compliance, NFRA may review Auditor Working papers, check Sufficiency of Quality System within the Audit Firm, Supervise or Test the audit.

Note – Means for Big Companies, Peer Reviewing Powers are now with NFRA and not with ICAI.

E. Punishment in case of non-compliance.- If a company or any officer of a company or an auditor or any other person contravenes any of the provisions of these rules, the company and every officer of the company who is in default or the auditor or such other person shall be punishable as per the provisions of section 450 of the Act.

F. Monitoring and Regulating Powers–

Recommend CG w.r.t. AS and SAs and checking proper compliance of the same, oversee quality of audit firms.

G. Investigating and Summoning Powers–

Investigation of audit firms, summoning and enforcing attendance, Inspection of records.

GST UPDATES:

The introduction of GST in India is a substantial shift from the current tax regime. It is expected that service sectors will have a major impact on GST than the manufacturing or trading sector. Among the services provided by Banks and NBFCs, financial services such as fund based, fee-based and insurance services will see major shifts from the current scenario.

Owing to the nature and volume of operations provided by banks and NBFC vis a vis lease transactions, hire purchase, related to actionable claims, fund, and non-fund based services etc., GST compliance will be quite difficult to implement in these sectors.

Under Model GST Law, the framework does not provide much benefits or consideration to banks and NBFCs on an understanding of the type of transactions made by them on a consistent and voluminous basis.

Some of the issues and impacts pertaining to the provision of GST Law have been discussed below.

1. **Widespread number of branches; registration a hassle**

Currently, an NBFC, Banks with pan-India operations can discharge its service tax compliances through a single `centralized' registration. However, under GST, such Banks/ NBFCs would need to obtain a separate registration for each state where they operate.

In addition to registration, compliance burden about filing of returns has also increased substantially -in terms of the periodicity of returns, number of return formats and level of details required in these returns.

2. **Input Tax Credit leveraged and de-leveraged**

Currently, Banks and NBFCs majorly opt for the option of reversal of 50% of the CENVAT credit availed against inputs and input services whereas CENVAT credit on capital goods could be availed with no reversal conditions.

Under GST, 50% of the CENVAT credit availed against inputs, input services, and capital goods is to be reversed which leaves them with a position of reduced credit of 50% on capital goods thereby increasing cost of capital.

3. **Assessment and Adjudication made bothersome**

The assessment would be done by the respective state regulators under which the respective branch is registered. Now, every registered branch of banks and NBFCs must justify its position on chargeability in the respective state and reason for utilizing input tax credit in different states.

As under GST, more than one adjudicating authority will be involved, each authority may hold a different opinion on the same underlying issue. This contradiction in opinion will prolong the adjudication process. Currently, a taxpayer is adjudged by a single adjudicating authority on an issue involved. Under GST different adjudicating authority may take a different view on the same issue. Clearing up and dealing with the difference of opinion provided by the different adjudicating authority would be difficult.

Issues related to revenue recognition under GST

1. **Account Linked Financial Services**
The place of supply will be the location of the recipient of services on the records of the supplier of services. In the digitized and centralized scenario prevailing in India identifying the state of location of service recipient will be quite difficult. In cases where the service recipients like professionals, manufacturers, traders, and other workers often shift from one place to other in search of better opportunities, the service provider may have a different address namely permanent address, current address, the address of communication and KYC address.

2. **Non-Account Linked Financial Services**
The place of supply of service here would be the location of the service provider. This will again hit such companies which are widespread in remote locations to establish their presence but operate and transact from a back office located in some other state.

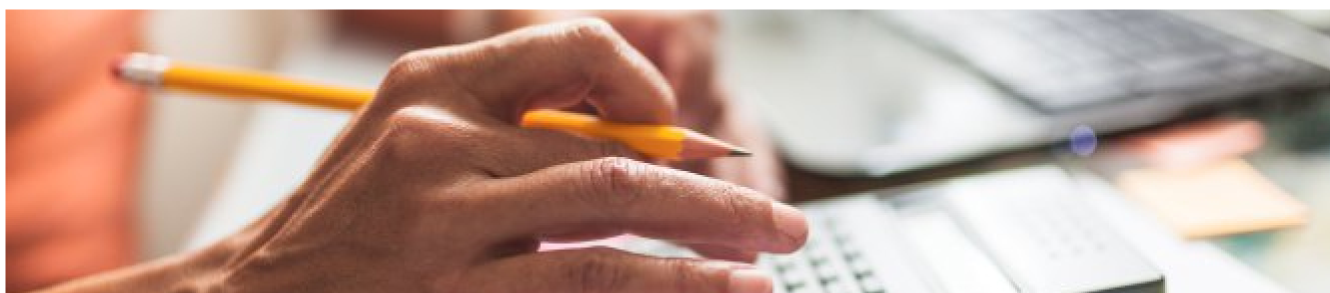
3. **Actionable Claims**
Actionable claims do not constitute as a service under Service Tax, and hence no tax is payable under the current regime. Under GST actionable claims are now included in the definition of supply of goods. Services provided from bills discounted to securitization will now be taxed as an effect B2C and B2B majorly.

Conclusion

With the expectation of further details to emerge, financial sectors face a can of worms in terms of the manner of transacting business, customer profiles, services matrix, IT systems and operation to capture the data at both front and back end. IT systems will need to be more vigilant in terms of serving the purpose of solving the complexity related to GST compliance and procedures at a higher volume.

The impact of GST on Banks and NBFCs will be such that operations, transactions, accounting and compliance will need to be reconsidered in its entirety.

HOW LONG TO KEEP THE INCOME TAX DOCUMENTS



How long do you have to keep your income tax related documents?
If you are a law abiding individual who files income tax returns (ITRs) diligently every year then sooner or later you will end up with a pile of old documents kept as supporting proof for these returns and ask the question: How long does one have to preserve these papers? All documents such as rent receipts or rental agreement, section 80C tax saving documents etc. which prove the claims made by you in your tax-return are advised to be kept safely once you have filed your ITR for a particular financial year.
Here, you should keep in mind that the income tax department does not ask you to submit any documentary evidence to substantiate the claim made at the time of filing ITR. The ITR is filed on the basis of self assessment but the income tax department has the right to ask you to prove the claims in the ITR by sending you a notice.

How long should you keep the documents?
Nowhere does it say for how long you have to keep these documents. "There is no provision in the Income Tax Act which suggests for how long the documents must be kept by the taxpayer." However, he adds, "Section 149 of the Income Tax Act specifies the time limit for issuing an income tax notice to an individual which can be interpreted as the time period for which documents must be kept."

According to section 149, the income tax department has the powers to issue notice to taxpayers for seven years from the end of the financial year. So, this would mean that if you have filed ITR for FY 2017-18, then you must keep the related documents with you till the end of FY 2024-25.
The seven-year time period is applicable for various classes of taxpayers. "The time limit for retaining documents for seven years from the end of relevant financial year is same whether you are a salaried person, self-employed or a professional,"

For those with income from foreign assets: If have any sort of income from foreign assets, then you will have to keep the ITR related documents for longer. For any individual having income relating to a foreign asset or having a financial interest in any foreign entity, then, in that case, such related documents must be kept for 17 years from the end of the relevant financial years."

Should you keep it beyond 7 years?
Yes, it is advisable to keep the documents for seven years, however, this does not mean that once the specified period is over, you can throw away the required documents. Soni says, "According to the amendment made in Budget 2017, applicable with effect from AY 2017-18 (April 1, 2017), income tax officers can now ask details up to 10-year-old cases that involves large amounts of escaped income."
But the income tax department cannot ask tax-related details from just about anyone; it is meant for certain exceptional cases. "Income tax department does have the power to ask details of old cases up to 10 years, however, this comes under exception where the department has proofs against you and this can be done in the search cases only.

If you are filing ITR or have filed ITR for a deceased member of your family, remember in that case, too, you have to keep the documents for either seven or 17 years from the end of the financial year, depending on the type of income the taxpayer had.

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