

“Power is gained by sharing knowledge and not hoarding it”



# EMERGING THOUGHTS

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## Foreword

We are happy to release the third publication series “EMERGING THOUGHTS”. As the name suggests, these updates are the emerging and constructive thoughts of article assistants (Interns undergoing Chartered Accountancy course). We, at SURESH & CO., have attempted to imbibe the habit of reading and updating one’s knowledge library every single morning. The organisation has successfully implemented the concept of daily updates. This has been a beautiful journey of knowledge without any breaks. Many a times we ourselves have been surprised by the new learning opportunities that we got from these daily updates

The main objective of this publication is to enable the article assistants of SURESH & CO., to think beyond their capabilities. It also helps the articles to improve their knowledge and climb the professional ladder and reach greater achievements.

Every day is a learning day at SURESH & CO., As an organisation, we encourage all the budding professionals to share their views and opinions on various technical and non-technical aspects.

The article assistants have various practical insights which help them understand the theoretical aspects in a more efficient way, and they are able to share the same with all of us in these series of updates.

The intent behind these updates is imparting the skill of technical analysis and professional decision making of any case study/situation.

We at SURESH & CO., wanted to share these gems of infant thoughts as conceived by these young minds. It is to be noted that these updates may or may not have been reviewed by any senior or a technical expert and thus these should be used only to kindle thoughts in certain positive direction. Readers are advised to do further research and analysis on the topics which they find interesting. Professional advice should be sought before acting on any of the information contained in it.

*A candle loses nothing by lighting another candle.*

## Update – 151

### 'Operational Risk Management'

#### What is operational Risk?

- Operational risk is the risk of loss resulting from inadequate operation processes, inadequate activities by officers and employees and inadequate systems or from external events.
- Each and every industry whether manufacturing, trading or in service sector is subject to a degree of operational risk though the level of risks may differ between industry sectors, companies, the nature of products and services offered and the actual management control over these risks

#### Why does operational risk originate?

- a. Inadequate technology functionality
- b. Internal or external crime that takes advantage of gaps in processes for unlawful gain i.e. fraud
- c. Inadequately defined policies and processes which would impact quality of controls like checks and balances, segregation of duties as may be required.
- d. External factors like terrorist attacks or natural disasters that disrupt business or cause financial losses.

#### Relevance of Operational Risk:

##### Why is operational risk relevant for Accountants, Auditors & Management professionals?

- a) Enterprise risk management was not mandatory according to the Companies Act, 1956. However, as per the new law, there are specific requirements that a company needs to comply with. In addition, the board and audit committee have been vested with specific responsibilities in assessing the robustness of risk management policy, process and systems.

##### Key Compliance Requirements:

**Section 134 of Companies Act, 2013:** The board of directors must include a statement indicating development and implementation of a risk management policy for the company including identification of elements of risk, which in the opinion of the board may threaten the existence of the company.

**Section 177 of companies act, 2013:** The audit committee shall act in accordance with the terms of reference specified in writing by the board, which shall, inter alia, include evaluation of risk management systems.

- b) Clause 49 of the Listing agreement indicates that disclosure are to be made to the Board of Directors on risk management on whether the company has laid down any procedure to inform board members about the risk assessment and mitigation procedures.

- c) Operational risk forms a significant part of Enterprise Resource Management framework. Several organisations that are complying to the companies act, 2013 stipulation on implementing a risk management framework.

- d) Banks are also required to provide capital under regulatory norms, for which specific calculation methods are also prescribed.

e) The internal audit processes also establish a direct connection between risk management and audit methodology, currently most internal audit firms practice a risk based audit approach, which necessitates an understanding of operational risks since it overarches on several other areas of risk.

### **Operational Risk Management Policy:**

The following areas are advised to be addressed in the policy for effective management of operational risk arising in an organisation:

- Setting up of an Operational Risk Management Committee comprising of senior management with an outline of the membership, quorum and frequency of meetings.
- Review of Cyber risk (Information Security).
- Risk assessment of existing and new technology framework.
- Management functions may highlight identified process gaps and potential issues discovered by way of routine business or reviews.
- Risk assessment of new products and services.
- Review of any regulatory development or external events that may impact the operational risk profile of the organisation.

**Note:** The above list is indicative and not comprehensive, the organisation depending on the priorities and readiness level can evolve new area to be covered.

### **Auditor's Responsibility:**

1. Assessing risks across the organisation that could lead to a material misstatement in the financial statement.
2. Addressing compliance requirements, fraud risk mitigation and implementation of meaningful control strategies.
3. Assessment of control environment, including the use of technology to automate control activities, to ensure timeliness, accurate and reliability of the information used.
4. Testing of Information provided by the entity.
5. The auditor should test the design effectiveness of controls by determining whether the company's controls, if operated as prescribed by those authorised to perform the controls, satisfy the company's control objectives and can effectively prevent or detect frauds that could result in material misstatement of the financial statement.



- Suresh Poudel

**Update - 152****Online Information and Database Access or Retrieval(OIDAR) Services****Introduction:**

As the nation is moving towards digitization, the mode of conducting business has changed. These businesses have deeper penetration in B2C segments with increasing speed of Internet. The transactions in these emerging industries are highly complex. Cross border transactions make it more complicated. Keeping in view these complexities, a separate set of provisions has been enacted in GST law for overseas transactions, thereby reducing the complications faced by the foreign suppliers.

**What is OIDAR?**

“Online information and database access or retrieval services” mean services whose:

- delivery is mediated by information technology over the internet or an electronic network
- nature of which renders their supply essentially automated
- involving minimal human intervention
- impossible to ensure in the absence of information technology
- includes electronic services

**Examples of OIDAR Services:**

- Advertising on the internet
- Providing cloud services (Google Drive)
- Provision of e-books, movie, music, software and other intangibles through telecommunication networks or internet (Hotstar, Amazon ,Prime Video)
- Providing data or information, to any person in electronic form through a computer network
- Online supplies of digital content (movies, television shows, music and the like)
- Digital data storage
- Online gaming

**Taxability of supply of OIDAR Services:**

Sl. No.	Location of Supplier	Location of Recipient	Taxability	Forward Charge/ Reverse Charge
1	India	India	Yes	Forward Charge
2	India	Outside India	No (Export)	Not Taxable
3	Outside India	India (Registered)	Yes	Reverse Charge
4	Outside India	India (Unregistered)	Yes	Forward Charge
5	Outside India	Outside India	No (Outside the purview of GST)	Not Taxable

Forward Charge: The tax is collected and deposited to the Government by the supplier.

Reverse Charge: The tax is deposited to the Government by the recipient.

**Place of Supply for OIDAR:**

Place of supply is required for determining the right tax to be charged on the invoice, whether IGST or CGST/SGST will apply.

The place of supply for OIDAR services shall be the **location of recipient of such services**.

The recipient shall be deemed to be located in the taxable territory if **any two** of the following conditions are satisfied:

1. Location of address presented by the recipient through internet is in India
2. Credit card or debit card which the recipient uses to pay is issued in India
3. Billing address of the recipient of services is in India
4. IP address of the device used by the recipient is in India
5. Bank of the recipient's account used for payment is maintained in India
6. Country code of the subscriber identity module card used by the recipient of services is of India
7. Location of the fixed land line through which the service is received by the recipient is in India.

**OIDAR Service provider supplying services through an intermediary:**

If an intermediary located outside India, arranges or facilitates the supply of OIDAR services, from the service provider to the non-taxable online recipient, then the intermediary will be deemed to be the recipient of such services.

But if the intermediary satisfies the following conditions then it will **not** be considered as a recipient—

- (a) The invoice issued by the intermediary clearly identifies the service and its supplier in non-taxable territory
- (b) The intermediary neither collects or processes payment in any manner nor is responsible for the payment between the non-taxable online recipient and the supplier of such services
- (c) The intermediary does not authorise delivery
- (d) The general terms and conditions of the supply are set by the service provider and not by the intermediary

**Registration of OIDAR Service Providers:**

The supplier of online information and database access or retrieval services shall take a single registration under the Simplified Registration Scheme. **(FORM GST REG-10)**



- Raghuram S Mallya

## Update - 153

### Deepavali - The Festival of Lights

Shubham Karothi Kalyanam,

Arogyam Dhana Sampadha,

Shatru Budhhi Vinaashayaha,

Deepahajyothe Namosthutte ||

### Happy Deepavali to everyone.

On the auspicious occasion of Deepavali Festival, let us all understand the **significance of Deepavali Festival**.

Deepavali begins at the end of the cropping season and is often associated with wealth and happiness. Deepavali is also referred to as Dipamalika in the famous Sanskrit poet Rajasekhara's ninth century work Kavyamimamsa, where traditions of homes being cleaned and decorated with lights are mentioned. Hence, during this time, it is a ritual to clean rooms and offices and adorn houses with lights.

### Dhana Thrayodashi:

According to a popular legend, when the devas and asuras performed the Samudra manthan (churning of the ocean) for Amrita (the divine nectar of immortality), Dhanvantari (the physician of the Gods and an incarnation of Vishnu) emerged carrying a jar of the elixir on the day of Dhanteras.

On the day of Dhantrayodashi, Goddess Lakshmi came out from the ocean of milk during the churning of the Sea. Hence, Goddess Lakshmi is worshiped on the day of Trayodashi.

In Karnataka it is also known as Jalapoorna Trayodashi. It is a festival where we prepare water for bathing by considering it as Goddess Ganga. A pot is filled with water and kept ready for the next day by tying a thread fixed with turmeric root around it. It is decorated with limestone and Kumkum dots.

### Naraka Chaturdashi:

The festival is also called as "Kali Chaudas", where Kali means dark (eternal) and Chaudas means fourteenth, this is celebrated on the 14th day of the dark half of Ashwayuja. In some regions of India, Naraka Chaturdashi is the day allotted to the worship of Mahakali or Shakti and is believed that on this day Kali killed the asura (demon) Narakasura. Kali Chaudas is a day to abolish laziness and evil which create hell in our life and shine light on life. Naraka Chaturdashi, celebrated just one day before Deepavali, is also known as small Deepavali.

### Amavasya Lakshmi Pooja:

This is the day King Rama returned to Ayodhya after 14 years of exile and defeating the demon king Ravana who kidnapped Sita, the wife of Rama. People of Ayodhya were happy and ecstatic about the homecoming of King Rama. They welcomed King Rama by lighting a cluster of diyas (Lamps) on his way and celebrated his comeback by distributing sweets.

The third day of Deepavali is believed to be the most auspicious day; this is when Lakshmi Puja, or the worship of the goddess of wealth is performed. With pomp and ceremony, Lakshmi is invited into the homes of devotees to partake of the gifts that are part of the puja.

Lakshmi is the goddess of wealth and prosperity. Wealth is a vital ingredient bestowed upon us for maintenance and progress in our life. It is much more than just having money. It means abundance in knowledge, skills, and talents. Lakshmi is the energy that manifests as the complete spiritual and material well-being of a person.

### **Bali Padyami:**

Bali Padyami is the fourth day of Deepavali. Balipadyami commemorates the victory of God Vishnu in his dwarf incarnation “Vamana”, defeating Bali and pushing him to the nether world. But Bali was bestowed a boon to return to earth for one day on this day to be honoured and celebrated for his devotion to the lord and his noble deeds to his people.

**Deepavali doesn't end here!!**

### **Bhai Dooj / Bhava Bidhige:**

Bhai Dooj is celebrated on the second lunar day of Shukla Paksha. On this day, sisters invite their brothers for a meal, often including their favourite dishes. The ceremony signifies the duty of a brother to protect his sister, as well as sister's blessings for her brother.

### **Sodhari Thrithiya / Akkana Thadhige:**

Sodhari Thrithiya is celebrated on the third day of Karthik. On this day, a brother invites his sister to honour her sister. He offers gifts to his sister.

### **Govardhan Pooja:**

The fourth day is celebrated as Govardhan Pooja, a spiritual harvest festival. Thousands of years ago, Lord Krishna made the people of Brindvan to do Govardhan Pooja. Hence the tradition spread across the country and still continues.

### **Pandava Panchami:**

It marks the end of Deepavali Festival. Pandava Panchami is believed as the day when Pandavas completed the 13 years exile (Vanavaasa). Hence, as mark of victory of good over the evil this day is celebrated as Pandava Panchami.

**Once again, may the festival of lights eliminate darkness, ignorance and evil from your life. Wishing you all a very happy and prosperous Deepavali.**



- Rashmi Thite

## Update – 154

### Molekule - A modern invention

Here's a quick tech-update!!

Along with knowledgeable updates, it is also important for us to know about the technologies that might become essential part of our lives in near future. Technology has been a great impact in our lives. It has quickly developed and continues to expand in our lives!!

We have been facing major issue of air pollution. Studies have shown that poor air quality can cause a wide variety of health issues. These include symptoms like fatigue, headaches, congestion, nausea, dizziness, and sneezing. Here's a solution – AIR POLLUTANTS DESTROYER!!

There are technologies that destroy air pollutants like HEPA(High efficiency particulate air) & PECO(Photo Electrochemical Oxidation). HEPA air filters are type of air filters that meets a standard dictated by the U.S. Department of Energy i.e., removes 99.97% of particles that are 300 nanometers or larger. However, the PECO technology destroys pollutants 1000 times smaller than traditional HEPA filters. The byproducts of the PECO technology are classified as completely harmless elements that normally exist in the clean air such as small amounts of water, CO2 and other trace elements like nitrogen.

The company that uses PECO technology is **Molekule**. Air-purifier Molekule, invented by **Indian American Yogi Goswami** gets into Time's top 25 invention list. It is one of its kind of inventions and is aimed at making air quality the best available in homes.

MOLEKULE, an air purification company seeks to solve this issue by using their technology to destroy impurities, which is a new approach. They chose this approach to aid individuals whose asthma, allergies and breathing issues would trigger even with small amount of pollutants in the air. Most air filters improve air quality by trapping harmful pollutants in a filter. But Molekule takes that idea one step further – by destroying them altogether. The key is its specially quoted nano filter, which is designed to react with light in a way that prevents toxins, including mold and bacteria particles, from growing back. It's similar to “the way light shines on a solar cell and generates electricity”.

#### How does molekule work?

Molekule takes in the surrounding air from every angle. Molekule is a patented photo-electrochemical air disinfection technology that completely destroys pollutants in the air. Molekule uses PECO (photo electrochemical oxidation) technology for air purification. PECO works when light shines on a specially designed nanoparticle coated filter. This action of light on the surface of the filter creates a reaction that is able to completely oxidize pollutants in the air, converting them into harmless elements like trace amounts of water and carbon dioxide. Unlike conventional filter technologies which merely trap some subset of pollutants, Molekule's technology is able to destroy the full spectrum of indoor air pollution including airborne bacteria, viruses, mold, allergens, and volatile organic compounds (VOCs).

Other features of this product are –

1. Molekule can completely replace the air in a 600 square feet room (large living room) once an hour.
2. Clean Design – made from machined aluminium, it is beautifully designed to fit seamlessly into home.
3. Portable – With its natural leather handle, it can be easily carried and placed anywhere in the home.

4. Smart & Connected – It is easy to control using its touch screen display, but for added convenience it can be connected your wifi and controlled remotely using the iphone or android app.



-Sidhi Chopra

## Update – 155

### Quickride contributing in making traffic-free Bengaluru & its business model

Rapid increase in vehicles in Bengaluru has caused an enormous parking crunch. Multi-level car parking construction in major IT parks, malls and other places haven't addressed the parking issues of the city. Haphazardly-parked vehicles protruding onto the roads are a common sight that in turn leads to traffic issues. The situation in residential areas isn't any better either. A recent study stated that 90 per cent of Bengaluru households do not have parking space and are forced to park their vehicles on the road or on footpaths. Everyone in today's time is in a state of rush, this chaos is only being worsened by the difficulty that one faces in the process of commuting. Quick Ride understood this basic problem quite well and thus an innovative start-up was born.

Quick Ride provides a platform to make commuting easy and affordable. It aims to disrupt the transport industry by leveraging latest technology, trends and innovative solutions. Considering the population, vehicle explosion combined with space crunch and natural resources depletion, the future is heading towards 'sharing'. QuickRide is built to make the sharing these precious resources easy.

This innovative start-up was formed by Mr KNM Rao. All he wanted is to develop an app for real-time ride sharing with end to end automation that completes the cycle starting from registration, finding a ride partner, their co-ordination, transaction and last but not the least rating the ride partner, which would help other ride seeker, find the right ride partner. That's how QUICKRIDE happened. Looking at the initiative that this start-up has taken and is being promoted by Bangalore Traffic Police, ELCIA, Embassy Manyata, Wipro, Tech-Mahindra and other organizations.

The purpose that drive this initiative are providing the comfort of a car at the cost of a bus-ride, provisions for expense reduction of up to 80% via sharing of empty seats with fellow passengers, and last but not the least, it is an initiative towards a greener planet with reduced vehicles on roads.

### Revenue model and growth

The platform enables riders to choose their cost sharing with default recommended fare of Rs 3 per km (customisable in the range of Rs 0 to 8 per km). It collects five per cent of every transaction as a service fee to cover technology development, cloud infrastructure and payment gateway charges. Transactions are cashless, through the app. If a rider offers a free ride as a green initiative or purely for sharing purpose, Quick Ride gets zero from the transaction.

### Market and competition

There are nearly 70 million vehicles in India. According to a Price Water House Coopers report, the global carpooling market is estimated at \$15 billion today, a figure that is projected to hit \$335 billion by 2025. BlaBlaCar, Tripda, MeBuddie, PoolCircle, Orahi and CarPoolAdda are some of the players in the carpooling business.

Quick Ride's initiative is commensurate with the current condition of traffic and deteriorating environment. From the business viewpoint, the market is still in infancy to fully adopt the idea of not owning a personal car. However, if car service providers, including taxi aggregators, carpooling platforms and self-drive car companies, can create a robust market offering a complete alternative, it would be a big win-win situation for all – environment, traffic and business.

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**Practical approach**

It will be very pocket friendly if we the articles at Suresh & Co., offer a ride through quickride and earn few points and can use it for filling petrol. Those who commute in cabs can also avail a ride through quickride and can reduce daily transportation cost as it is way cheaper than OLA, UBER etc.

Please visit the following youtube link for better understanding-

<https://www.youtube.com/watch?v=vqYw1MRuHR0>



-Nandan M N

## Update –156 Trademark Infringement

Let's start with a guessing game this time!!

Can you guess one of the most famous product of GlaxoSmithKline Pharmaceuticals Limited,

Or how about the product of Beiersdorf A.G.

Okay an easier one this time. What are the products being manufactured by Kaira District Co-Operative Milk Producers Union Ltd.

Well the above companies sell nutritional drink mix under the name Horlicks, cosmetic products under the name Nivea and dairy products under the name Amul respectively. For those of you wondering who Kaira Union is, it held the brand Amul with it since 1955, and later transferred it to Gujarat Co-operative Milk Marketing Federation Ltd.

It is very often that we are unaware of the names of the company to which a particular product or service or a brand is actually owned by. Such is the significance of **Trademarks**.

**Trademark** is a recognizable sign, design or expression which is capable of distinguishing products or services of particular source or company from those of the others. In other words, a trademark can be a name, word, phrase, logo, symbol, design, image or a combination of the above. Trademarks can be owned by individuals, business organisations or any legal entity. A registered trademark is designated with a circled R.

Trademark identifies a brand owner of a particular product or service. It is only when the owner of a trademark gives any other person the license to use such trademarks, he can utilise trademark.

### **Exclusive Rights:**

Only the true owner of trademark shall have the exclusive right of its usage, which are as follows:

- a. right to exclusive use of the mark in relation to the products or services for which it is registered
- b. prevent unauthorized use of the mark in relation to products or services which are identical or "colourfully" similar to the "registered" products or services
- c. prevent use in relation to both entirely similar and dissimilar products or services.

### **Infringement:**

When the true owner of the registered trademark is deprived of such exclusive rights it is termed as Trademark infringement. Infringement may occur when one party, the "infringer", uses a trademark which is identical or confusingly similar to a trademark owned by another party, in relation to products or services which are identical or similar to the products or services. This concept is important to marketers because consumer confusion may result in reduced sales, reduced satisfaction with products and difficulty communicating effectively with the consumer. The consequences of Infringement to trademark owner can be huge if the same is to affect their brand value and thus effecting the market share of the owner's business.

The success of an infringement accusation shall gain attention only if such use causes a likelihood of confusion in the minds of the customer and so weakens the value of the plaintiff's mark. A mark need not be identical to one already in use to infringe upon the owner's rights. If the proposed mark is similar enough to the earlier mark to risk confusing the average consumer, its use may constitute infringement if the services or goods on which the two marks are used are related to each other—that is, they share the same market.

### **A Recent Example:**

One such famous Trademark Infringement that is being discussed in India is the accusation raised by PayPal on PayTM of copying its logo to grow its base. PayPal is of the two-fold accusation against PayTM which are as follows:

- a. Both the brands start with word 'pay' and both are related to online payments and transactions.
- b. the logo of both the companies is made of same colour combination.

Hence PayPal has filed case against PayTM for copying their first word. As it is only in the last year that PayTM gained popularity due to demonetisation and that earlier anyone could have been deceived between the two names.

#### **Basis for Determination of Infringement:**

Hence as observed above most common Trademark Infringements include using closely or deceptively similar brand names or logos for associated goods and services; and using a mark that creates false impression or confusion with the registered trademark.

The main ground that the court would apply to test if an infringement has taken place or not is by establishing the below facts:

- a. Whether the complainant has a valid trademark and whether he uses the same.
- b. Whether the defendant is using the trademark for commercial purposes or not
- c. The most important of all whether the usage of the trademark creates confusion in the minds of the consumer or not.

#### **A court will apply the “likelihood of confusion” test in a trademark infringement suit:**

- **Strength of the plaintiff's trademark** – If a trademark turns out to be more generic then the chances of winning a law suit is minimal.
- **Degree of similarity** between the two marks at issue;
- **Similarity of the goods and services at issue**- If the products compete in the same market, confusions are likely if the trademarks are very similar.
- Evidence of actual confusion;
- **Purchaser sophistication** – This is the degree of caution exercised by the customer while buying i.e., when a mark is used to attract a consumer, but upon inspection the customer has no confusion.
- Quality of the defendant's goods or services;
- **Defendant's intent** in adopting the mark - If a party chooses a mark with the intent of causing confusion, that fact alone may be sufficient to justify infringement

The defendant can **defeat infringement proceedings** if he can establish a valid exception or defence to infringement, or attack and cancel the underlying registration for non-use, or prove that the trademark is more generic than being confined to any one party, and many more.

#### **Penalties for Infringement:**

The penalties for Trademark Infringement include:

- a. **Injunction:** The true owner of the trademark may send a notification regarding the ceasing of unauthorized use of the trademark being intentional or unintentional.
- b. **Monetary Damages:** The owner can recover the damages including the profit of the violator while using the trademark or service mark through which the owner had incurred losses.

#### **Another Case to look:**

On television, homegrown cartoon character Chota Bheem single-handedly bashes bands of dacoits or fights beasts in jungles, but the cartoon star can do little when his fake merchandise is sold on e-commerce sites such as Flipkart, Amazon, Snapdeal, among others.

Green Gold Animation, the company behind Chota Bheem, is now trying to address the problem and has filed a case in the Delhi High Court alleging two sellers on e-commerce sites — Tech Connect Retail and Acme Housewares — of trademark infringement and selling Chota Bheem counterfeit products including bed sheets, pillow covers, stationery items, water bottles among a host of other fake products with the characters of the show emblazoned on them.



- Aishwarya R Bhat

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## Update – 157 Debit Card EMI

### DEBIT CARD EMI

Recently, I watched an advertisement from Flipkart about Debit Card EMI. This sounded a bit strange to me. Typically, you would associate EMI with a credit card or a loan. Getting a credit card is not always easy. Your credit card application can get rejected for various reasons. A bad credit score is a common reason for rejection. Don't get disappointed. If you don't own a credit card and would still prefer paying in installments, you can use your Debit card to make select purchases on EMI.

While you don't need to have any minimum balance in your account while placing the order, you need to ensure that your account has sufficient funds to pay the EMI as they become due every month.

You need NOT pay any down payment amount to avail this offer.

You will get a complete refund to the extent of the EMIs paid by you (if any) for the item in case it is cancelled\* or returned\* subject to seller's cancellations & returns policy.

However, banks may charge some cancellation/refund or pre-closure charges depending on bank.

### **Who Is Eligible for Debit Card EMI Offer?**

It is not available to everyone. Only selected customers are eligible for EMI on debit cards. Eligibility is decided by the respective bank and not by any e-commerce websites. As I understand, Flipkart/Amazon form the initial shortlist of customers. Subsequently, your bank decides if you are eligible for the debit card EMI. By the way, even for the eligible customers, the scheme is available on select products. Flipkart provides the scheme to select customers with bank accounts with SBI, ICICI, HDFC and Axis. Amazon provides to account holders with ICICI, HDFC Bank and Axis Bank.

### **Points to Note**

- There is no processing fee for availing Debit Card EMI scheme on Flipkart and Amazon websites.
- You can foreclose such a loan if you want. However, do look at the prepayment charges before deciding to square off the loan.
- The Debit Card EMI scheme is for select customers and select products.
- There is minimum purchase amounts for different banks.

### **How Debit card EMI works?**

- Select EMI (Easy monthly Installments)
- Bank will convert the payment into EMI within 4-7 business days
- Your monthly debit card statement will reflect the EMI amount with the interest

### Repayment Options

- If order is placed between 1st and 19th (both the dates inclusive) of a month, then the first installment will be due on 5th of the following month.
- If order is placed between 21st and 31st (both the dates inclusive) of a month, then the first installment will be due on 5th of the subsequent following month.

### Should You Opt for Such Schemes?

The answer is not too difficult. If you are getting the debit card EMI benefit at 0% percent interest rate (and no other cost), such schemes are quite good. Well, I assume you won't live beyond your means. If there is cost involved, then you have to see if the extra interest paid is worth it or you can afford to delay the purchase.



-Ghanashyam.M

**Update – 158****TDS In Indirect Tax (V/s) TDS In Direct Tax**

‘Ideas shape the course of History’!

When ideas take the form of reality, they lead to creation of processes or systems. Once those systems are implemented efficiently, the result that follows will never be unsuccessful.

Today’s update will be about a topic which will improve our knowledge on certain matters relating to the most important introduction in the history of Indirect Taxes (i.e Goods and Service Tax ).

The idea of **“One Nation One Tax”** led to the introduction of Goods and Service Tax (GST) in India

This introduction, as we all know, had a very drastic impact on the entire Indirect Taxes regime of our country. What we have also noticed is that, there have been many important amendments in the GST either clarificatory or making changes in law from time to time.

Here is an update on certain matters which were introduced recently in the GST Law!

**TDS IN INDIRECT TAX (GST)**

The main aim of introduction of Tax Deducted at Source (i.e. TDS) in Indirect tax is to track whether the GST is being paid accurately and on the entire taxable value of goods or services and to ensure if the same is being remitted to the government on a timely basis.

**The significance of the same could be understood with the following example:**

L&T Ltd. (Hyderabad) entered into a construction contract with the National Highway Authority of India (Bengaluru) (herein after called as “NHAI”) for an amount of Rs. 10 Cr., (exclusive of Taxes) to construct a highway from Hyderabad to Bengaluru and the contract agreement between NHAI & L&T Ltd. says that the consideration would be paid on a percentage of completion basis. According to this method and civil engineering certificate on percentage of completion, L&T will raise invoices to NHAI including GST. Further, NHAI will pay post withholding of taxes to L&T Ltd. and the TDS so deposited by NHAI to Govt. shall be reflected in the E-Cash ledger of the supplier (L & T Ltd).. Assume GST rate on Contract is 18%.

**As per the above example:**

**Supplier is L&T Ltd.:** L&T will collect CGST & SGST/ IGST on the value of Rs. 10Cr., from NHAI and the same would be paid by L&T to the govt.

**Recipient is NHAI:** NHAI will deduct **TDS @2%** of IGST (if it is an Inter-state supply) or **1% of SGST & 1% of CGST** (if it is Intra-state supply) and pays the balance amount including GST to L&T.

**L & T Ltd****Entered into Construction contract of Rs. 10 Cr.****NHAI**

**Step 1:** L&T Ltd. will raise Invoice (10Cr+ GST) of Rs. 11.8 Cr to NHAI

**Step 2:** L&T Ltd. will pay GST of Rs. 1.8Cr to the Govt.

**Persons liable to deduct TDS under GST Law:**

**Step 1:** NHAI will Deduct TDS @2% on 10Cr of Rs. 20Lacs.

**Step 1:** NHAI will pay balance amount of Rs. 11.6Cr (i.e.10Cr+1.8Cr - 20Lacs) to L&T Ltd.

According to Section 51 of the CGST Act, the following persons are liable to deduct tax:

- A department or an establishment of the Central Government or State Government; or
- Local authority; or
- Governmental agencies; or
- Such persons or category of persons as may be notified by the Government (the following persons are notified by the Govt on 13<sup>th</sup> September, 2018)
  - An authority or a board or any other body which has been set up by Parliament or a State Legislature or by a government, with 51% equity (control) owned by the government.
  - A society established by the Central or any State Government or a Local Authority and the society is registered under the Societies Registration Act, 1860.
  - Public sector undertakings.

**Note:** The definition of Establishment of Central/State Government, Local Authority, Government agencies and other definitions can be referred in the notification attached to this **E-Mail**.

**Effective date:**

The Effective date of TDS is from 1<sup>st</sup> October, 2018, and the due date to file such return is 10<sup>th</sup> of the following Month. Further, it is to be noted that the first return on TDS in Indirect Taxes was filed just two days ago i.e. on 10<sup>th</sup> November, 2018.

**Rate & Monetary Limit:**

The total value of such taxable supply should be more than Rs. 2,50,000 (Exclusive of GST) under a contract and the TDS rate is 2% (if it is and Inter-state supply) or 1% of SGST & 1% of CGST (if it is Intra-state supply)

**The Above limit could be understood with the following example**

Mr A. a Contractor received the 4 contracts from Bangalore Municipality.

- i. Contract 1 for Rs. 2 lakhs + GST 18% = 2,36,000/-
- ii. Contract 2 for Rs. 3 lakhs – Exempted Goods
- iii. Contract 3 for Rs. 2.4 lakhs + GST 5% = 2,52,000/-
- iv. Contract 4 for Rs. 2.5 lakhs + GST 12% = 2,80,000/-

**Ans:** TDS will be applicable only on Contract 4, as the taxable value for Contract 4 exceeds the limit mentioned above (i.e. 2.5Lacs).

**Compulsory Registration:**

Any person liable to deduct tax U/s 51 of CGST has to **register** U/s 24 of CGST ACT, 2017 and file TDS Return (GSTR 7) on a monthly basis by 10<sup>th</sup> of the following month irrespective of turnover mentioned U/s 22 of the Act (i.e. 20 Lacs). Delay in payment of TDS will attract Interest @ 18%. p.a

- Application for Registration to be filed in Reg – 07
- Registration certificate to be issued in REG-06.

**Credited in E-Cash Ledger:**

The tax amount deducted/collected will reflect in the E-cash ledger of the Supplier (i.e. L&T as per the first example mentioned above) and the same would be **utilised for payment of GST in the same month or subsequent month or can be claimed as a Refund.**

**Rate of TDS to be deducted in different Situations:**

Sl. No	Location of Supplier	Place of Supply	Location of Recipient	Type of Tax
1.	Karnataka	Mumbai	Mumbai	IGST
2.	Karnataka	Karnataka	Karnataka	CGST & SGST
3.	Karnataka	Karnataka	Mumbai	<b>TDS is not applicable</b>

**In the 3<sup>rd</sup> Situation:** Location of Supplier and place of supply is in the same state and hence CGST & SGST of Karnataka has to be deducted. The Location of Recipient is Mumbai and since it is not ideal for the registered person in Mumbai to deduct TDS of CGST & SGST of Karnataka, the **government has provided an exemption for the same.** Therefore, TDS is not liable to be deducted.

**Certificate of Deduction:**

The deductor has to issue a Certificate of Deduction (i.e. GSTR -7A) to the deductee within 5 days from the amount so deposited. Otherwise, a sum of Rs. 100 per day from the date of expiry to such 5 day period until the failure is rectified, subject to a maximum of Rs. 5000, will be applicable as late fee.

**TDS In Direct Tax (Income Tax)**

As we all know, the concept of TDS was introduced with an aim to collect tax from the very source of income. As per this concept, a person (deductor) who is liable to make payment of specified nature (as mentioned in the provisions of Income Tax Act, 1961 U/s 192A, 194C, 194H, 194J, 194I Etc.) to any other person (deductee) shall deduct tax at source and remit the same into the account of the Central Government.

The concept of Tax Deducted at Source is one of the mechanisms of government to minimise the tax evasion by collecting taxes at source.

**This process of TDS could be understood by the following diagram:**

**Mr.A**

**Mr. B**

Provided Professional Services  
for Rs. 2 Lacs

Mr. B will deduct TDS of Rs. 20K and the same would be paid to Govt @10% (20,000)

Balance amount post deduction of TDS would be paid to Mr. B = Rs. 1,80,000 (i.e. Rs. 2,00,000-20,000)

**TDS in Direct Tax (Income tax) V/s TDS in Indirect Tax (GST):**

Particulars	TDS in Indirect Tax	TDS in Direct Tax
Persons liable to Deduct	The recipient of Supply (i.e. The person who is liable to pay to the Supplier).	The person who is liable to make payment of specified nature.
Type of Tax to be deducted	CGST & SGST (if it is an Intra-state Supply) & IGST (if it is an Inter-state Supply).	Income Tax – Corporate or non-corporate
Rate of Tax	CGST @1% & SGST @1% or IGST @2%	As specified in the TDS sections (i.e. 192, 192A, 193, 194, 194A, 194B, 194BB, 194C, etc.)
Due date for payment	10 <sup>th</sup> of the following month	7 <sup>th</sup> of the following month
Type of return	GSTR – 7 (Due date: 10 <sup>th</sup> of the following month)	24Q, 26Q, 26EQ etc., (Due date: end of the following month of Each quarter)
Authority	CBIC (Central Board of Indirect & Customs)	CBDT (Central board of Direct taxes)
Registration	Separate Registration is required irrespective of turnover (i.e. 20 Lacs)	Registration of TAN is Mandatory

**Note:** Further, it is to be noted that we are researching on certain matters of TDS in Indirect Tax, we will update the same at the earliest.



-Madhu Sudhan Reddy.B

## Update – 159 GI Act,1999

### Happy World Kindness Day!!!

'A single act of kindness throws out roots in all directions, and the roots spring up and make new trees'.

Have you ever thought, why the names or signs like Tirupati Laddu or Darjeeling tea or Kanchipuram Silks or Dharwad Pedha are not used by everyone everywhere for selling or marketing purposes? The reason behind that is *GI ACT*.

### What is the GI Act?

The **Geographical Indications of Goods (Registration and Protection) Act, 1999 (GI Act)** is a sui generis Act of the Parliament of India for the protection of geographical indications in India.

### What is the Geographical indication?

According to **section 2(1)(e)** of the said Act, Geographical indication has been defined as "an indication which identifies such goods as agricultural goods, natural goods or manufactured goods as originating, or manufactured in the territory of a country, or a region or locality in that territory, where a given quality, reputation or other characteristics of such goods is essentially attributable to its geographical origin and in case where such goods are manufactured goods one of the activities of either the production or of processing or preparation of the goods concerned takes place in such territory, region or locality, as the case may be.

-In short, GI is a name or sign used to protect certain products which are located in geographical specific or origin within the framework of Intellectual property. The aim of this study is to provide an overview and importance of geographical Indication on the traditional products under the Indian GI

-The GI tag ensures that none other than those registered as authorized users (or at least those residing inside the geographic territory) are allowed to use the popular product name. **Darjeeling tea** became the **first GI tagged product in India**, in 2004-05, since then 323 goods had been added to the list as of August 2018. Some of the registered geographical indications are Darjeeling tea, Tirupati Laddu, Malabar Pepper, Bangalore Blue Grapes, Pochampalli Ikat, Kancheepuram Silk, Madhubani paintings etc.,

### Who can apply for GI?

The application for GI can be any person, producer, organization or association of persons established under the Indian law can apply for GI registration in format prescribe (Form GI-1A) and submit to the address of the Registrar, Geographical Indications along with prescribed fee. The applicant should indicate the interest of the producers of the concern goods to be registered.

### How to register for GI?

1. An application for registration must be made before the Registrar of Geographical Indications by any association of persons or producers or any organization or authority established by or under any law for the time being in force representing the interest of the producers of the concerned goods.
2. The application must be made in an appropriate form (**Form GI-1A**) containing the nature, quality, reputation or other characteristics of which are due exclusively or essentially to the geographical

environment, manufacturing process, natural and human factors, map of territory of production, appearance of geographical indication (figurative or words), list of producers, along with prescribed fees.

3. The examiner will make a preliminary scrutiny for deficiencies, in case of deficiencies, the applicant has to remedy it within a period of one month from the date of communication.

4. The Registrar may accept, partially accept or refuse the application.

a) In case of refusal, the Registrar will give written grounds for non-acceptance. The applicant must within two months file reply. In the case of re-refusal, the applicant can make an appeal within one month of such a decision. The registrar shall, within three months of acceptance may advertise the application in the GI Journal.

b) If there is no opposition, the Registrar will grant a certificate of registration to the applicant and authorized users.

### **How long the registration is valid?**

A GI is registered for an initial period of **ten years**, which may be renewed from time to time.

### **How are geographical indications relevant to my business?**

Consumers are paying more and more attention to the geographical origin of products and many care about specific characteristics present in the products they buy. In some cases, the “place of origin” suggests to consumers that the product will have a particular quality or characteristic that they may value. Geographical indications (GI) therefore function as product differentiators on the market, by enabling consumers to distinguish between products with geographical origin-based characteristics and others without those characteristics. Geographical indications can thus be a key element in developing collective brands for quality bound to origin products.

### **What are the exclusions for GI Tag?**

Under **Section 9** of the Act, the following indications cannot be registered:

1. which would likely to deceive or cause confusion
  2. which would be contrary to any law for the time being in force; or
  3. which comprises or contains scandalous or obscene matter; or
  4. which comprise or contains any matter likely to hurt the religious susceptibilities of any class or section of the citizens of India; or
  5. which would otherwise be disentitled to protection in a court; or
- locality, as the case may be.

### **What are the effects of registration and infringement?**

Registration of a GI gives its owner and the authorized users the exclusive right to use the indications on the good in which it is registered. Further, registration gives the right to the institution of a suit against infringement and recovery of damages for such infringement. Infringement can be caused by the use of the GI on such goods which indicates that such goods originate in such place other than its true place of origin or due to unfair competition. Registration acts like a prima facie evidence of the validity of the indication and ownership. The registration cannot be transferred, mortgaged, assigned or licensed, except in case of inheritance of the mark upon the death of an authorized user.

Any person who falsely applies or falsifies any geographical indication, tampers the origin of a good, make or have in possession of dye, blocks, machines to use in falsification of GI may be punished shall not be less than **six months** but which may extend to three years and with fine which shall not be less than **fifty thousand rupees** but which may extend to **two lakh** rupees.

In case of second and for every subsequent offense, a person can be punished with imprisonment for a term which shall not be less than **one year** but which may extend to **three years** and with fine which shall not be less than **one lakh rupees** but which may extend to **two lakh rupees**. However, the judge may under certain condition reduce the sentence, and reasons for the reduction of punishment must be written in the judgment.

### Conclusion:

In the present global era where the developed countries are infringing on other nation products by filling patent right for the product which does not belong to them, the problem of biopiracy can be prevented by registering the products under the GI. This will not only prevent the traditional goods from misused but also gain financial profit by exporting the products to other countries. Comparing with other states of India, the GI protection of Northeast India is quite low which means that the region does not get all the potential benefits from the GI protection. A number of studies conducted around the world concluded that GI help in increase of prices, marketing strategy, employment, and income. The different governments in the region should adopt a strategy to familiarize the people on GI and its benefit on the rural people for employment and income generation. This will help in the improvement the living standard of rural communities which are lacking behind in developmental activities as compared to mainstream India due to poor socio-economic condition and geographical location.



-Venkat Narayana Reddy K

## Update – 160 Deadlock Case

**"We cannot accomplish all that we need to do without working together."**

**We all know about provisions of the Companies Act, 2013 related to Board Meetings.**

**But.. what happens when there is a cat fight between the directors?**

For instance, if a company has two directors and the directors are not on speaking terms with one another, what would happen to the affairs of the company? Wait. In order to decide upon the affairs who would conduct the board meeting??

Let us understand a case law which happened on 13 March 1914, between the two directors of British Seagumite Co Ltd., a UK Company law case.

### **Barron vs. Potter:**

#### **Facts of the case:**

Mr Canon Barron was not on speaking terms with Mr William James Potter, the other director of the British Seagumite Co Ltd. Their office was 28 Fleet Street. The constitution said that the quorum for a meeting was two (art 26). Mr Potter was the chairman, with a casting vote. But Mr Barron was refusing to come to meetings. So on 23 February 1914, Mr Potter came to meet Mr Barron, as he got off the train on a Paddington Station platform, from his country home (Woodham Ferris, Essex). He told Mr Barron they were now holding a board meeting. He proposed appointing more directors. Mr Barron objected. Mr Potter said he was using his casting vote and declared the motion effective.

The report recorded Mr Potter's version of the exchange as follows:

Accordingly, on February 23 he met the train at Paddington by which he expected Canon Barron to arrive, and seeing him alight from it walked by his side along the platform and the conversation is as follows:

**Williams James Potter:** I want to see you, please.

**Canon Barron:** I have nothing to say to you

**Potter:** I formally propose that we add the Reverend Charles Herbert, Mr. William George Walter Barnard, and Mr. John Tolehurst Musgrave as additional directors to the board of the British Seagumite Company Limited. Do you agree or object?

**Barron:** I object, and I object to say anything to you at all

**Potter:** In my capacity as chairman I give my casting vote in their favour and declare them duly elected.

He continued to walk with Canon Barron a few steps and then said, "That is all I want to say; thank you. Good day."

There followed a general meeting at which new directors were again said to be appointed, again with Mr Barron's objection. Mr Barron sought a declaration that the appointment of the directors was ineffective, arguing that the meeting on the train station was no meeting, and that the general meeting's resolution was invalid, since the board was the only organ that could appoint more directors.

#### **Judgement:**

The directors in the present case being unwilling to appoint additional directors under the power conferred on them by the articles, in my opinion, the company in general meeting has power to make the appointment. The company has passed a resolution for that purpose, and though a poll has been demanded no date or

place has yet been fixed for taking it. The result therefore is that I must grant an injunction on the motion in Canon Barron's action and refuse the motion in Mr. Potter's action.

**There must be an intention to meet and accidental meeting against the will of the directors is not a valid meeting.**

### **Effect in the Companies Act:**

The case law is on the grounds that there must be an intention to conduct the meeting. Mere conversation cannot constitute board meeting. We all know that provisions of any law are based on the practical cases that are come across. Hence, in the instant case, 'intention' is the combination of priorly decided matters which are to be discussed in the meeting and information with regard to the venue of the meeting. In the Companies Act, 2013 there are certain provisions with regard to the convening of a Board meeting.

As per Section 173 of the Companies Act, 2013, there has to be notice served and as per Section 174 of the Act, the quorum for a Board Meeting is one-third of the total number of the directors of the company or two directors, whichever is higher.

In case of where the quorum is not present at the Board Meetings, the Companies Act, 2013 provides a similar provision, that is unless the Articles provides otherwise,

- the Board meeting shall automatically stand adjourned in the next week to the same day, at the same time, and at the same place
- in case that day in the next week is a national holiday, the meeting will stand adjourned till the next succeeding day, which is not a national holiday, at the same time and place.

### **What shall be the situation if at the adjourned meeting also the quorum is not present?**

Nothing has been provided clearly in the Companies Act, 2013 and there is ambiguity regarding the same if only the Companies Act, 2013 is taken into consideration leaving the Secretarial Standards and judicial pronouncements.

However, there is ample clarity regarding the same in the Secretarial Standard 1 issued by ICSI.

### **SS-1 provides:**

**If there is no quorum at the adjourned Meeting also, the meeting shall stand cancelled and the item may be considered in the General Meeting of the members.**

Please follow the link below for referring the caselaw:

<https://www.revolvy.com/page/Barron-v-Potter>



-Naveen .J V

## Update – 161

### Instruments of Trade policy – Tariffs

Trade policy encompasses all instruments that governments may use to promote or restrict imports and exports. Trade policy also includes the approach taken by countries in trade negotiations. While participating in the multilateral trading system and/or while negotiating bilateral trade agreements, countries assume obligations that shape their national trade policies. The instruments of trade policy that countries typically use to restrict imports and/ or to encourage exports can be broadly classified into price- related measures such as tariffs.

Tariffs, also known as customs duties, are basically taxes or duties imposed on goods and services which are imported or exported. It is defined as a financial charge in the form of a tax, imposed at the border on goods going from one customs territory to another. They are the most visible and universally used trade measures that determine market access for goods.

#### Forms of Import Tariffs

1. **Specific Tariff**: A specific tariff is an import duty that assigns a fixed monetary tax per physical unit of the good imported. It is calculated on the basis of a unit of measure, such as weight, volume, etc., of the imported good. **Example**: If the price of the imported cycle is INR 5,000/-, thus, a specific tariff of INR 1000/- may be charged on each imported bicycle.
2. **Ad valorem Tariff**: An *ad valorem* tariff is levied as a constant percentage of the monetary value of one unit of the imported good. **Example**: A 20% ad valorem tariff on any bicycle generates a INR 1000/- payment on each imported bicycle priced at INR 5,000/- in the world market;
3. **Mixed Tariff**: Mixed tariffs are expressed either on the basis of the value of the imported goods (an ad valorem rate) or on the basis of a unit of measure of the imported goods (a specific duty) depending on which generates the most income for the nation.. **Example**: Duty on cotton: 5 per cent *ad valorem* Or INR 3000/-per tonne, whichever is higher.
4. **Prohibitive Tariff**: A tariff so high that it makes an import **prohibitively** expensive. A **prohibitive tariff** discourages importers from bringing goods into the country in the first place because they will be difficult to sell. **Example**: A Country may levy a 900% tariff on a good that it wishes to keep out.
5. **Tariffs as Response to Trade Distortions**: Sometimes countries engage in 'unfair' foreign-trade practices which are trade distorting in nature and adverse to the interests of the domestic firms. The following sections relate to such tariff responses to distortions related to foreign dumping and export subsidies.
  - **Anti-dumping Duties**: Dumping occurs when manufacturers sell goods in a foreign country below the sales prices in their domestic market or below their full average cost of the product. This is unfair and constitutes a threat to domestic producers and therefore when dumping is found, anti-dumping measures which are tariffs to offset the effects of dumping may be initiated as a safeguard instrument by imposition of additional import duties so as to offset the foreign firm's unfair price advantage. This is justified only if the domestic industry is seriously injured by import competition, and protection is in the national interest.. **Example**: In January 2017, India imposed anti-dumping duties on colour coated or pre-painted flat steel products imported into the country from China

- **Countervailing Duties**: Countervailing duties are tariffs that aim to offset the artificially low prices charged by exporters who enjoy export subsidies and tax concessions offered by the governments in their home country. **Example**: In 2016, in order to protect its domestic industry, India imposed 12.5% countervailing duty on Gold jewellery imports from ASEAN.



-Yash M Chhajed

## Update – 162

### Li-Fi Technology

Picture this-you wake up and tap your smartphone to switch on your coffee machine. As you make breakfast, your refrigerator sends you a text that you're out of orange juice. And also, your car's GPS routes you to the grocery shop on your way back from work, as you use your phone to switch on your home heating system, so things are toasty warm when you get back. At the forefront of this connectivity phenomenon popularly known as the 'Internet of Things', is an optical communication technology that's taking the world by storm. Internet of things can be enabled by Light Fidelity or Li-Fi, which is an exciting breakthrough in 5G visual light communication systems and the future of wireless Internet access.

### History of li-fi

Professor Harald Haas who is also known as the father of LiFi coined the term "Li-Fi" at his 2011 TED Global Talk where he introduced the idea of "wireless data from every light". PureLiFi (startup by Professor Harald Haas) is among the first few companies that started working on the field of VLC (visual light communication)

### What is Li-Fi Technology ?

Similar to Wi-Fi, Li-Fi technology transmits data electromagnetically, but one small distinction makes a world of difference between the two. Though the two technologies are similar in name, Wi-Fi relies on radio waves to transmit its data, as opposed to Li-Fi which uses visible light. Li-Fi is a Visible Light Communication (VLC) system which means it receives light signals and a signal processing element to attune and then convert the data into streamable content.

That's right, **data at the speed of light.**

### So, Why the Change? It All Comes Down to Speed

Li-Fi underwent initial testing back in 2015 in Tallinn, Estonia where scientists were able to test the connection and found the technology was capable of speeds of 224 gigabits per second. When they took their experiment out into the field and tested the connection in office and industrial environments, scientists were able to replicate data transmission at one gigabit per second. For comparison, that's nearly 20 full-length movies every second. Because of its capability and containment of light signals rather than radio signals, Li-Fi can achieve data density 1,00 times greater than Wi-Fi.

Speed isn't the only factor, however, as Li-Fi is also more secure than Wi-Fi.

### Secure Li-Fi Technology

As you may know, anytime you go to view the list of available Wi-Fi connections nearby, you can also see all of your neighbors' networks and vice versa. Thanks to Li-Fi, and the fact that light cannot pass through walls, you will be able to avoid potential intrusion by simply drawing your curtains, making your network a whole lot more secure and can also help you avoid interference between devices on the network.

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**Other Advantages:**

- Li-Fi provides 10,000 times wider bandwidth than the Wi-Fi and the light sources of Li-Fi are already installed. So, it doesn't need any well-equipped equipment and provides good capacity.
- The transmission of information through it is very cheap and affordable due to the low energy consumption and efficiency of LED bulbs.
- Li-Fi doesn't provide an issue of availability because in the world there is no scarcity of bulbs and the only thing is that they need to be replaced by LED's for the sending of information or data.
- A high rate of transmission of information up to 10Gbps can be succeeded.
- It has less maintaining cost and low implementing cost.
- Li-Fi provides high security because the light cannot travel or enter the walls and due to this the factor of misuse cannot occur.
- The issue of insufficiency can be eradicated because Li-Fi uses light which is still not used in abundance.

**Applications of Li Fi:**

This applied science has the wide range of applications ranging from internet access from street lights to the auto-piloted cars which transfer data through the headlights. Few future applications of Li-Fi are as follows:

- In many educational institutions and companies, Li-Fi can be used with an equal speed in a confined area.
- In the operation theaters, Wi-Fi is not used because the radiations are hazardous to the patient's health and the replacement of Wi-Fi with Li-Fi makes the operation theaters developed and will be very helpful in performing the robotic operations.
- The radiations of radio waves are genuinely harmful to the people's health and the reduction of its usage might give good health and live longer.
- In air crafts, passengers get retrieve to the low-speed internet with high charges but the use of Li-Fi provides the high-speed internet with affordable charges.
- Li-Fi can be used in underwater remotely operated vehicles, as a means of communication during disasters, in power plants, in traffic management where it could communicate with the lights of vehicles.

**What's the drawback?**

Since Li-Fi signals cannot pass through walls, in order to enjoy full Li-Fi connectivity, LED-capable bulbs will need to be placed throughout the home or office. LED lighting is leading the industry right now, and we are seeing it everywhere. Li-Fi also requires the light bulb to be on at all times in order to provide connectivity and although the light can be dimmed to very low levels without impacting the connection, lights will need to be on during the day, as well.

While Li-Fi may not entirely replace Wi-Fi in the near future, the two technologies provide an interesting look at how the two of them could potentially work together to achieve more efficient and more secure networks. One thing is certain, however, and that is that Li-Fi is set to make a huge impact on the internet and with even more devices being able to connect to one another, that impact will only continue to grow.

P.S

Check out this link for an amazing Ted talk on Li-Fi

Attachments area

Preview YouTube video Forget Wi-Fi. Meet the new Li-Fi Internet | Harald Haas



-Sumedha G N

**Update – 163****Taxation of Association of Persons****Calculation of Income and Taxability in the case of Association of Persons**

Let us understand, the provisions under The Income Tax Act, 1961

As per Section 2(31)(v) of Income Tax Act 1961 a person includes Association of Persons, whether incorporated or not and whether or not it is formed or established or incorporated with the object of deriving income, profits or gains.

**What is an Association of Persons?**

An association of persons means an association in which two or more persons join in a common purpose or common action. The term person includes any company or association or body of individuals, whether incorporated or not. An association of persons may have companies, firms, joint families as its members.

Now lets us understand how income of Association of Persons is computed.

**Computation of Income of AoP**

The total income under the different heads i.e. Income from house property, Profits or gains of business or profession, Capital gains, and income from other sources shall be worked out, ignoring incomes exempt under Sections 10 to 13A.

Further, following adjustment shall be made

- i. If salary, commission, bonus or remuneration is paid by AoP to members, it shall be added back. It may be noted that remuneration paid for actual services is also disallowed. This is due to the express provision in Section 40(ba).
- ii. If interest is paid by AoP to members, it will be added back.

Additional points to be kept in mind while disallowing interest:

Where interest is paid by an AoP to any member, who has also paid interest on loan to the AoP, the amount of interest to be disallowed shall be limited to the amount by which the payment of interest by the AoP to the member exceeds the payment of interest by the member to AoP.

Also, deductions under Sections 80G, 80GGA, 80GGC, 80-IA, 80-IAB, 80-IB, 80-IC, 80-ID, 80-IE and 80JJA, if any, are to be adjusted.

The total income thus obtained is taxed either at rates applicable to individual or at the maximum marginal rate defined under section 2(29C), or a rate higher than maximum marginal rate.

**Calculation of Tax of AoP**

The applicable rate of tax of AoP's income depends upon the ability to determine profit sharing ratio of the members of the AoP.

**Charge of tax where shares of members in association of persons or body of individuals unknown, etc.**

**Under sec 167B of Income Tax Act 1961.** (1) Where the individual shares of the members of an association of persons or body of individuals (other than a company or a co-operative society or a society registered

under the Societies Registration Act, 1860 (21 of 1860) or under any law corresponding to that Act in force in any part of India) in the whole or any part of the income of such association or body are indeterminate or unknown, tax shall be charged on the total income of the association or body at the maximum marginal rate :

**Provided** that, where the total income of any member of such association or body is chargeable to tax at a rate which is higher than the maximum marginal rate, tax shall be charged on the total income of the association or body at such higher rate.

(2) Where, in the case of an association of persons or body of individuals as aforesaid [not being a case falling under sub-section (1)] means shares of members in association of persons or body of individuals known

(i) the total income of any member thereof for the previous year (excluding his share from such association or body) exceeds the maximum amount which is not chargeable to tax in the case of that member under the Finance Act of the relevant year, tax shall be charged on the total income of the association or body at the maximum marginal rate;

(ii) any member or members thereof is or are chargeable to tax at a rate or rates which is or are higher than the maximum marginal rate, tax shall be charged on that portion or portions of the total income of the association or body which is or are relatable to the share or shares of such member or members at such higher rate or rates, as the case may be, and the balance of the total income of the association or body shall be taxed at the maximum marginal rate.

*Explanation.*—For the purposes of this section, the individual shares of the members of an association of persons or body of individuals in the whole or any part of the income of such association or body shall be deemed to be indeterminate or unknown if such shares (in relation to the whole or any part of such income) are indeterminate or unknown on the date of formation of such association or body or at any time thereafter.

Let me illustrate with an example:

RAY Ltd (a foreign Company taxed at 40% + cess), Mr. Mark and Ms. Vidya are members of an AoP sharing profits in 9:5:6. Personal incomes of the members are as follows:

RAY Ltd- Nil Mr.

Mark – Rs. 30,000

Ms. Vidya – Rs. 13,000.

Taxable income of AoP is Rs. Rs. 2,30,000 (including Rs. 70,000 long term capital gains) Here, tax of AoP is determined as under:

Particulars	Amount	Share of members		
		Ray LTD	Mr.Mark	Ms.vidya
Long term capital gains	70000	31500	17500	21000
Other income	160000	72000	40000	48000
Total	230000	103500	57500	69000

Here, Rs. 72,000 being share in 'other income' of RAY Ltd is taxed at maximum marginal rate.

Tax liability of AoP:

On Rs. 72,000 at 40% + cess (RAY Ltd being a foreign company)      Rs. 29,664

On balance Rs. 1,58,000 (Rs.2,30,000- Rs.72,000)

· At 20% + cess on LTCG, Rs.70000	Rs.14,420
· At max marginal rate on balance Rs. 88,000	Rs.29,911
Total tax	Rs. 73,995

MMR currently is 30% + 15% Surcharge + 4% Education cess = 35.88%

### Calculation of Tax of members:

The assessment of the members of AOP or BOI depends on whether the AOP or BOI is chargeable to tax at the maximum marginal rate or rates applicable to individual or is not chargeable to tax at all.

Let's discuss it here below:

- (i) Where AOP or BOI is chargeable to tax at a maximum marginal rate or any higher rate, the share of profit of a member is not included in his total income.
- (ii) Where AOP or BOI is taxed at rates applicable to the individual, the share of profit of a member from AOP or BOI is to be included in the total income of the member. But the member is entitled to a rebate of tax on the entire share of profit at the average rate of tax applicable to total income.
- (iii) Where AOP or BOI is not chargeable to tax at all, the share of profit of a member from AOP or BOI is included in his total income and he will pay tax on it. He is not entitled to any rebate of tax on such profits.

Note: PSR = Profit Sharing ratio  
NTI = Net Total Income



- Saketh P

## Update – 164

### National Financial Reporting Authority

Every organization or body requires another body to regulate its working or the processes that it follows. Much similar to this is the **National Financial Reporting Authority (NFRA)** set up by the Union Cabinet which is intended to serve as an Independent Regulator for auditing profession.

Today's update is about the **National Financial Reporting Authority!**

NFRA is a body proposed in the Companies Act, 2013 for the establishment and enforcement of accounting and auditing standards and oversight of the work of auditors.

#### **About NFRA –**

##### **1. Applicability:**

NFRA will monitor the following companies –

- (a) Companies whose securities are listed on any stock exchange in India or outside India.
- (b) Unlisted public companies having paid-up capital of not less than rupees five hundred crores or having annual turnover of not less than rupees one thousand crores or having, in aggregate, outstanding loans, debentures and deposits of not less than rupees five hundred crores as on the 31st March of immediately preceding financial year.
- (c) Insurance companies, banking companies, companies engaged in the generation or supply of electricity, companies governed by any special Act for the time being in force.
- (d) Any body corporate or company or person, or any class of bodies corporate or companies or persons, on a reference made to the Authority by the Central Government in public interest.
- (e) A body corporate incorporated or registered outside India, which is a subsidiary or associate company of any company or body corporate incorporated or registered in India as referred to in clauses (a) to (d), if the income or net-worth of such subsidiary or associate company exceeds twenty percent of the consolidated income or consolidated net-worth of such company or the body corporate, as the case may be, referred to in clauses (a) to (d).

##### **2. Duties and Responsibilities of NFRA:**

- 1) The Authority shall protect the public interest and the interests of investors, creditors and others associated with the companies or bodies corporate governed under NFRA by establishing high quality standards of accounting and auditing and exercising effective oversight of accounting functions performed by the companies and bodies corporate and auditing functions performed by auditors
- 2) In particular, the Authority shall –
  - (a) Maintain details of particulars of auditors appointed in the companies and bodies corporate governed under NFRA.
  - (b) Recommend accounting standards and auditing standards for approval by the Central Government.
  - (c) Monitor and enforce compliance with accounting standards and auditing standards.
  - (d) 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.
  - (e) Promote awareness in relation to the compliance of accounting standards and auditing standards
  - (f) Co-operate with national and international organizations of independent audit regulators in establishing and overseeing adherence to accounting standards and auditing standards.
  - (g) Perform such other functions and duties as may be necessary or incidental to the aforesaid functions and duties.

### 3. Filings with NFRA:

Every auditor of companies who are governed under NFRA 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.

### 4. Powers under Section 132 of the Companies Act, 2013:

(a) **Monitoring and enforcing compliance with accounting standards:** For the purpose of monitoring and enforcing compliance with accounting standards under the Act by a company or a body corporate governed under rule 3, the Authority may review the financial statements of such company or body corporate, as the case may be, and if so required, direct such company or body corporate or its auditor by a written notice, to provide further information or explanation or any relevant documents relating to such company or body corporate, within such reasonable time as may be specified in the notice.

Where the Authority finds or has reason to believe that any accounting standard has or may have been violated, it may decide on the further course of investigation or enforcement action through its concerned Division.

(b) **Monitoring and enforcing compliance with auditing standards:** For the purpose of monitoring and enforcing compliance with auditing standards under the Act by a company or a body corporate governed under rule 3, the Authority may –

- i. Review working papers (including audit plan and other audit documents) and communications related to the audit.
- ii. Evaluate the sufficiency of the quality control system of the auditor and the manner of documentation of the system by the auditor.
- iii. Perform such other testing of the audit, supervisory, and quality control procedures of the auditor as may be considered necessary or appropriate.

Where the Authority finds or has reason to believe that any law or professional or other standard has or may have been violated by an auditor, it may decide on the further course of investigation or enforcement action through its concerned Division.

(c) **Overseeing the quality of service and suggesting measures for improvement:**

- i. On the basis of its review, the Authority may direct an auditor to take measures for improvement of audit quality including changes in their audit processes, quality control, and audit reports and specify a detailed plan with time-limits.
- ii. It shall be the duty of the auditor to make the required improvements and send a report to the Authority explaining how it has complied with the directions made by the Authority.

(d) **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 Companies Act, 2013.

(e) **Other Powers and Functions of NFRA under Section 132 of the Companies Act, 2013:**

- i. **Power to investigate** - Where the Authority has received any reference from the Central Government for investigation into any matter of professional or other misconduct, it shall forward the matter to its Division dealing with enforcement for carrying out investigation and other action.
- ii. **Confidentiality and security of information** - The Authority and all persons and organizations associated with it shall maintain complete confidentiality and security of the information provided to them for the purpose of the work of the Authority.
- iii. **Role of chairperson and full-time members** - All matters related to, investigation, monitoring, enforcement and disciplinary proceedings shall be examined and decided by the chairperson or any one or more of the full-time members, acting through one of the Divisions.
- iv. **Avoidance of conflict of interest** - The Authority shall not enter into any contract, arrangement or relationship or participate in any event that may, or is likely to be perceived to, interfere with its ability to perform its functions and duties in an effective, fair and reasonable manner.
- v. **International associations and international assistance** - The Authority may become a member of regional or international associations of independent audit regulators and standard-setters on such terms as it deems fit.

(f) **Officeholders:** NFRA consists of one chairman, three full-time members and one secretary. **Rangachari Sridharan** was appointed as the first chairman of the body in October 2018. Other posts however, still remain vacant.

#### **Post NFRA, ICAI's roles as a regulating body –**

Similar to NFRA now, as we all know, ICAI is also an independent regulating body governing the regulation of companies and to oversee the compliance of Accounting and Auditing standards.

As per my opinion, when ICAI had recommended Accounting standards initially and Indian Accounting Standards eventually, the Companies Act had encapsulated the same. Over a period of time the ICAI has achieved recognition as a premier accounting body not only in the country but also globally.

So, to say that NFRA is going to completely rule out the roles of ICAI would be incorrect. ICAI would still be a highly recognised statutory body which might also help assist NFRA in the long run.



- Afza Lazeeb

## Update – 165

### Interesting facts about 29 Indian states and 7 Union Territories with their capital

India a union of states, is a sovereign, secular, democratic, republic with a parliamentary system of government. The **diversity in India** is unique. Being a large country with large population. **India** presents endless varieties of physical features and cultural patterns. It is the land of many languages it is only in **India** people professes all the major religions of the world. In short, **India** is “the epitome of the world”.

Today's update is on brief about the interesting facts and capitals of our 29 States and 7 Union territories.

#### 1. Andhra Pradesh – Amravati

##### *Amravati city plan*

- Hyderabad was the former capital of Andhra Pradesh but it got replaced by Amravati, people's capital. The foundation stone was laid on October 22, 2015.
- The Buddhist Stupa at Amravati is the biggest stupa in the country with a diameter of 50 meters and a height of 27 meters
- Recognising Amravati's ancient Buddhist roots, the developers also plan to a design the High Court in a way that it resembles the Buddhist Stupa
- According to the timeline of this mega project, Andhra's capital will be populated and functional only by 2024, i.e after the end of its second phase, when most of the buildings, commercial establishments, universities, and the central business district will become operational. The third and final phase is expected to be completed by 2029.

#### 2. Arunachal Pradesh – Itanagar

##### *Gompa at Itanagar, Arunachal Pradesh, India*

- Itanagar has been the capital of Arunachal Pradesh since April 20, 1974
- Arunachal Pradesh is India's largest state in the Northeast.

#### 3. Assam – Dispur

##### *Distant view of Brahmaputra river at Assam, India*

- Initially, Shillong was the capital of Assam but got replaced by Dispur in 1972
- Dispur is a locality or suburb (an outlying district of a city, especially a residential one) in Guwahati city that is why Guwahati is often referred to as the capital city of Assam.

#### 4. Bihar - Patna

##### *Patna Museum in Bihar, India*

- Patna is the largest city of the state of Bihar, 19th most populous city and the fifth fastest growing city in the country
- Being a place of several strip rivers, including Sone, Gandak, and Punpun, Patna is known as the largest riverine city in the world
- In 1912, Patna became the capital of the British province of Orissa and Bihar till 1935 when Orissa became a separate state
- Most notable Satyagraha movements of Mahatma Gandhi namely the Champaran movement against the Indigo plantation and the 1942 Quit India Movement were started from this city.

### 5. Chhattisgarh - Atal Nagar (Naya Raipur)

*Swagat Vatika at the Naya Raipur entrance.*

- Chhattisgarh's new capital Naya Raipur will be renamed as Atal Nagar in memory of former Prime Minister Atal Bihari Vajpayee
- The announcement was made by Chhattisgarh's chief minister, Raman Singh, on August 21, 2018
- Raipur was the former capital of Chhattisgarh. The town of Raipur has been in existence since the 9th century.

### 6. Goa - Panaji

*Fontainhas is the old Portuguese quarter of Panaji*

- Panaji is also known as Panjim in English, Ponnji in Konkani, and Pongim in Portuguese
- After Independence, Indian Army attacked Goa including Panaji and uprooted the Portuguese controls in 1961. Thereafter, Goa was merged with India as a Union Territory
- It was declared as a state of India in 1987 along with Panaji as the capital of Goa

### 7. Gujarat - Gandhinagar

*Aerial view of Maha aarti being held in Gandhinagar, Gujarat, India*

- In 1960, the Indian state of Bombay was split into two states, Maharashtra and Gujarat. The city of Mumbai was given to Maharashtra, leaving Gujarat without a capital city
- At that time, Ahmedabad was selected to be the first capital of the newly created state
- It was later proposed that a new capital city should be constructed for the state along the lines of the other two planned cities of India, Chandigarh, and Bhubaneswar
- Gandhinagar got its name from the Father of the Nation.

### 8. Haryana - Chandigarh

*Chandi Mata temple in Chandigarh, India.*

- Chandigarh derives its name from the temple of 'Chandi Mandir' located in the vicinity of the site selected for the city. The deity 'Chandi', the goddess of power and a fort of 'garh' lying beyond the temple gave the city its name 'stronghold of the goddess Chandi
- With the partition of India in 1947, the old British province of Punjab was divided into two parts. The larger western part, including the Punjabi capital of Lahore, became a part of Pakistan
- The eastern part was granted to India, but it was without an administrative, commercial, or cultural centre
- Plans to find a suitable site for the capital of the new Indian Punjab were undertaken soon after the partition
- The Indian government after considering several options selected Chandigarh as the capital in 1948.

### 9. Himachal Pradesh - Shimla/Dharamshala

*An overview of the stadium during the 2010 DLF Indian Premier League T20 match at Himachal Pradesh Cricket Association Stadium, Dharamsala, India.*

- Jammu and Kashmir is not the only state with two capitals anymore. In 2017, Dharamsala was declared as HP's winter capital, which means it'll have two capital cities i.e. Shimla and Dharamsala
- Dharamsala is also the hometown of Tibetan spiritual leader Dalai Lama.

#### 10. **Jammu and Kashmir - Srinagar/Jammu**

*Tourists enjoy shikara ride on the waters of Dal Lake in Srinagar, India.*

- Jammu and Kashmir was the only state having two capital cities until 2017. In Jammu and Kashmir, every year there is a shift of the secretariat and all other government offices from Srinagar to Jammu and vice versa
- This bi-annual shift is known as Darbar move. From May to October, all the government offices are housed in Srinagar which is the summer capital of the state and from November to April, the offices are housed in Jammu which is the winter capital of the state
- The Jammu and Kashmir High Court also move from Srinagar to Jammu in winters and from Jammu to Srinagar in summers.

#### 11. **Jharkhand - Ranchi**

*People enjoying at the Rock Garden, Ranchi, where there is a replica of the pyramid of Giza.*

- Jharkhand is one of the richest mineral zones in the world and boasts of 40 per cent and 29 per cent of India's mineral and coal reserves respectively
- Jharkhand is the only state in India to produce coking coal, uranium and pyrite.

#### 12. **Karnataka - Bengaluru**

*Infosys Campus, Bangalore, India.*

- Bangalore, officially known as Bengaluru, is the capital of south Indian state, Karnataka. After India's independence in 1947, Bengaluru became the capital of Mysore State and remained its capital till the new Indian state of Karnataka was formed in 1956
- Bengaluru is also known as the 'Silicon Valley of India' because of its role as the nation's leading information technology (IT) exporter
- Indian technological organizations, such as ISRO, Infosys and Wipro are headquartered in the city.

#### 13. **Kerala - Thiruvananthapuram**

*Napier Museum, Art and natural history museum, at Thiruvananthapuram, Kerala. India.*

- Thiruvananthapuram, formerly known as Trivandrum, is the capital of Kerala state
- This clean city is built on seven hills, called as Thiru-Anantha-Puram, meaning 'the town of Lord Anantha'

#### 14. **Madhya Pradesh - Bhopal**

*Chhath festival at Upper Lake, Bhopal, India.*

- Bhopal was founded by King Bhoja in the 11th century. The city was thus named 'Bhoj-pal' and later came to be known as Bhopal
- Bhopal is also known as the 'city of lakes' for its various natural as well as artificial lakes. Bhopal lake, known as the upper lake is the oldest man-made lake in India.

#### 15. Maharashtra - Mumbai

*Marine Drive aka the Queen's Necklace, in Mumbai, India.*

- Mumbai was formerly known as Bombay till 1995. Mumbai is the financial, commercial and entertainment capital of India
- It is also one of the world's top ten centres of commerce in terms of global financial flow, generating 6.16 per cent of India's GDP.

#### 16. Manipur - Imphal

*Mothers Market, Imphal, India*

- Ima Keithal market in Imphal is probably the world's only all-women run marketplace. In Manipuri, Ima means mother and Keithal means market, so it is known as 'Mothers market'
- Only married women are allowed to trade and run the stalls in this multi-ethnic 500-year-old marketplace, a privilege that is passed on from one generation of Manipuri women to the another.

#### 17. Meghalaya - Shillong

*General view of the hills, the caves, the waterfalls, the streams of Shillong, India.*

- Shillong, the capital of Meghalaya, is the only hill station that is accessible from all sides. In 1874, it became the capital of composite Assam under British rule
- In 1972, after the formation of Meghalaya as an independent state, Shillong became its capital.

#### 18. Mizoram - Aizawl

*Artist from Mizoram state performs a bamboo dance on the second day of the state annual Hornbill Festival in Kohima*

- Aizawl is the political and cultural centre of Mizoram. It is here that the State Legislature is situated
- It is also the commercial hub of the state and all commercial and economic activities are centered around the city.

#### 19. Nagaland - Kohima

*A Jhum cultivation field is seen amidst green forest at Tseminyu, India northeastern state of Nagaland*

- Kohima is the land of the Angami Naga tribe
- The name, Kohima, was officially given by the British as they could not pronounce the Angami name Kewhima or Kewhira, which comes from the Kewhi flowers, which are found all around in the mountains
- Earlier, Kohima was also known as Thigoma.

#### 20. Odisha (Orissa) - Bhubaneswar

*Pinnacles decorating Rajarani Temple, Bhubaneswar, Indi*

- In 1948, Bhubaneswar replaced Cuttack as the capital of Odisha

- It is also popularly known as the 'temple city of India'.

## 21. Punjab - Chandigarh

*An aerial view of Zakir Hussain Rose Garden during the Rose Festival in Chandigarh, India.*

- Chandigarh as a Union Territory was constituted on November 1, 1966, when the Indian Punjab was reorganised along linguistic lines into two new states- Haryana and Punjab
- Straddled between Haryana and Punjab, the city of Chandigarh was made the shared capital of the two states and of the Union Territory itself.

## 22. Rajasthan - Jaipur

*Amer Fort, Jaipur, Rajasthan*

- Jaipur is popularly known as the 'Pink city of Rajasthan,' because of its pink coloured buildings
- It was built in the 18th century by Raja Sawai Jai Singh II and was the first planned city of India.

## 23. Sikkim - Gangtok

*Tsomgo Lake, Gangtok, Sikkim, India*

- The name Gangtok is derived from a Tibetan word, which means 'hilltop' or 'top of the hill'
- With the presence of several monasteries, centres for tibetology and religious educational institutions, Gangtok is a famous centre of Tibetan Buddhist culture.

## 24. Tamil Nadu - Chennai

*Kapaleshwarar Temple, Chennai, Tamil Nadu, India.*

- Chennai, formerly known as Madras Patnam, is 380 years old. From a stretch of no man's land in 1639, it has grown to become a major industrial, business and cultural centre
- Chennai Corporation initially called as Madras municipal corporation is the oldest Municipal Corporation in India established in 1688.

## 25. Telangana - Hyderabad

*Hyderabad's most popular monument, Charminar, was built in 1591 AD.*

- Telangana was constituted as the 29th state of India on June 2, 2014
- Hyderabad was the joint capital of Telangana and Andhra Pradesh until 2015
- Now, Hyderabad is only the capital of Telangana.

## 26. Tripura – Agartala

*The Goddess in the hills of Unokoti seen carved in the rock hosts an ancient Shaivite place of worship with huge rock reliefs celebrating Shiva.*

- Agartala is a component of two words -- namely Agar, a kind of oily valuable perfume tree and tala, a storehouse

- The percentage of literacy in Agartala, according to 2011 census, was 93.88, higher than the national literacy rate.

### 27. Uttar Pradesh - Lucknow

*Bara Imambara, Lucknow, India.*

- Lucknow is popularly known as 'The City of Nawabs'. It is also known as the Golden City of the East, Shiraz-i-Hind and the Constantinople of India
- Lucknow was the epicenter of the 1857 War of Independence.

### 28. Uttarakhand - Dehradun

*Prince Charles, Prince of Wales and Camilla, Duchess of Cornwall visit the Indian Military Academy in Dehradun, India.*

- Dehradun is mentioned in the Ramayana and Mahabharata in the ancient puranic stories making it one of the oldest cities of India
- Dehradun is also called as the Abode of Guru Drona
- The Central Braille Press in Dehradun is the largest producer of Braille textbooks in India.

### 29. West Bengal - Kolkata

*A tram, decorated with pictures of the legendary singer and actor Kishore Kumar moving through various parts of the city in Kolkata, India.*

- Until 1911, Kolkata was the capital of India due to its trade importance during the British Rule in India. Later, Delhi was made the capital of India
- In 2001 the city's name was officially changed from Calcutta to Kolkata. A legacy of the Raj, Kolkata is one of the fewest cities in the world to have retained the tradition of Tram
- Though these are slowly rumbling into history, but Trams continue to fascinate many, including travelers from other cities
- Birla Planetarium in Kolkata is the largest planetarium in Asia and second largest in the world. Kolkata is the only city to have hand-pulled rickshaws in India

## UNION TERRITORIES

### 1. Andaman and Nicobar Islands - Port Blair

*The scenery of Andaman and Nicobar islands on the note.*

- The largest sea turtles in the world, Dermochelys Coriacea, nest in the Andaman and Nicobar Islands
- The scenery on our red coloured 20 rupee note depicts a natural scene on the Andaman and Nicobar islands
- The only active volcano in India is present in Andaman.

### 2. Chandigarh – Chandigarh(Covered in the states of Haryana and Punjab)

### 3. Dadra and Nagar Haveli - Silvassa

- Dadra and Nagar Haveli lies near the west coast and consists of two separate parts. Dadra is surrounded by the state of Gujarat, and Nagar Haveli lies on the borders of Maharashtra and Gujarat
- It was a Portuguese colony till 1779 and became a part of Independent India in 1954
- Till 1961, it was self-governing and operated independently. then, in the same year i.e. 1961, it became a union territory of India

- Currently, Dadra and Nagar Haveli has representation in both houses of the Indian parliament
- Dudhni lake in Silvassa is famously referred to as 'Kashmir of the West'

#### 4. Daman and Diu - Daman

- Goa, Daman, and Diu were incorporated into the Republic of India on December 19, 1961, by military conquest
- The territory of Goa, 'Daman, and Diu' was administered as a single union territory until 1987, when Goa was granted statehood, leaving Daman and Diu as a separate union territory.

#### 5. Lakshadweep - Kavaratti

- Kavaratti Island is the base for INS Deeprakashak, a crucial Indian Navy Base
- Kavaratti has been an important Indian Navy Base since the 1980's. However, INS Deeprakashak was commissioned in the year 2012.

#### 6. Delhi (National Capital Territory) - Delhi

- New Delhi is both the capital and center of the government of India as well as the center of the National Capital Territory of Delhi
- In 1991 the Constitution Act changed the Union Territory of Delhi to the National Capital Territory of Delhi.

#### 7. Puducherry (Pondicherry) - Pondicherry

- Earlier the name of this territory was Pondicherry. It was changed to Puducherry on September 20, 2006
- Puducherry is better known as the 'White town'
- Puducherry celebrates Independence Day on August 16, while the rest of the nation celebrates it on August 15
- The former capital to Puducherry was Madras.

Can also refer Update # 159 about Geographical Indication Act to know about the name and sign used to protect certain products famous in the particular states which are located in geographical specific or origin within the framework of Intellectual property.



- Neha Sanklecha

## Update – 166

### Patanjali :Pride of India

It is a miracle in the making. A consumer goods company that started in 1997, was coasting along for almost ten years, till 2007, has suddenly emerged as the hottest thing to hit the Indian FMCG space. In the press conference held in Delhi on 26 April [*Patanjali aims to beat Nestle, P&G, Colgate : Business Standard, 27 April*] Baba Ramdev and co-founder of Patanjali, Bal Krishna declared that the company clocked a sales turnover of Rs 10,000 crore for the year ended April 2017.

Sales has climbed up from a humble Rs 453 crores [2011-12] to Rs 849 crores [2012-13], to Rs 1191 crores [2013-14] to Rs 2006 crores [2014-15] to the magical Rs 10,000 crore. No other FMCG company has been able to achieve such an organic growth miracle in recent times.

What is the secret behind this grand success and achievement ?

There are several ingredients that go to create the Patanjali magic, Let us have a look on some of these :-

1. The cost Economics - A large MNC operating in this space looks at a gross margin [PBT] in the region of 20%, after corporate overheads of 10% and marketing / advertising expenditure of 13%. A total of almost 43%. As against this Patanjali is reported to be operating at less than 10% margin, with virtually no overheads [Baba Ramdev takes no salary], and less than 5% marketing spends. Net savings, 25%. No wonder the brand is able to offer products like honey, shampoos and toothpastes at a 25% reduced market price when compared to other players.
2. The Magic of Baba – More than being the brand Patanjali, it is brand Baba Ramdev. He is the driving force for this success. People across India easily connect to him and word of mouth publicity brings too much of sales for Patanjali. He is a recognized face all over the India as Yoga Guru. He is seen as a sadhu, who is not in it for the profit motive and as an embodiment of good health [who else can perform such contortions with his body]. He signifies trust and quality and good Indian values.
3. Numerous categories of product - Patanjali brand offers numerous categories and has therefore created a larger than life image for the brand. And it is possible that these multiple offerings help each other. It is again evident that most of the Rs 10,000 crore sales comes from just three products ghee, tooth paste and hair oil / shampoo. But still offering a huge range of products ends up building a strong brand image.
4. Patanjali Paridhan - Patanjali brand has tried it's luck in readymade garments. Baba Ramdev launched it in Delhi on the occasion of Dhanteras(a day before Diwali).Clothes are offered in 3 different categories as Astha for women wear , sanskar for men wear and Live Fit for sports wear.

Because of Baba Ramdev's magnetic personality that cuts through the socio cultural, economic lines of our complex country, we are probably seeing diverse classes of consumers adopting a brand for the first time in their life. The immense popularity of Patanjali products points to the fact that Baba Ramdev has managed to convert millions of consumers from unorganized, unbranded, loose [sold in loose form] product purchase to a branded packaged purchase. This is a tremendous achievement.

The Brandification has helped in rise and rise of Patanjali and is surely a wake up call for other FMCG companies. more importantly FMCG players need to see how they can innovate and experiment with the market to create new opportunities for growth. The market is really huge and is eagerly waiting for new offerings.

With the help of quality, price, distribution and above all the 'Trust' value ! Baba Ramdev has shown the way to go, from virtually nothing to Rs 10000 crores in just eight years.



-Kunal Kashyap

**Update – 167****Liability to pay GST in case of transfer of Business****GST - ONE NATION ONE TAX**

We all know that many business activities attract GST in India. There are so many activities which may constitute to be a 'business activity'. So, let us today understand how 'business' is defined under GST and liability to pay GST in case of transfer of such business along with some illustrations and case laws.

**Definition of Business under section 17 of CGST Act is:**

Business includes– (a) any trade, commerce, manufacture, profession, vocation, adventure, wager or any other similar activity, whether or not it is for a pecuniary benefit;

(b) any activity or transaction in connection with or incidental or ancillary to sub-clause (a);

(c) any activity or transaction in the nature of sub-clause (a), whether or not there is volume, frequency, continuity or regularity of such transaction;

(d) supply or acquisition of goods including capital goods and services in connection with commencement or closure of business;

(e) provision by a club, association, society, or any such body (for a subscription or any other consideration) of the facilities or benefits to its members;

(f) admission, for a consideration, of persons to any premises;

(g) services supplied by a person as the holder of an office which has been accepted by him in the course or furtherance of his trade, profession or vocation;

(h) services provided by a race club by way of totalisator or a licence to book maker in such club; and

(i) any activity or transaction undertaken by the Central Government, a State Government or any local authority in which they are engaged as public authorities;

**Liability to pay GST in case of Transfer of Business**

Chapter XVI of CGST Act Section 85(1) states that Where a taxable person, liable to pay tax under this Act, transfers his business in whole or in part, by sale, gift, lease, leave and license, hire or in any other manner whatsoever, the taxable person and the person to whom the business is so transferred shall, jointly and severally, be liable wholly or to the extent of such transfer, to pay the tax, interest or any penalty due from the taxable person up to the time of such transfer, whether such tax, interest or penalty has been determined before such transfer, but has remained unpaid or is determined thereafter.

(2) Where the transferee of a business referred to in sub-section (1) carries on such business either in his own name or in some other name, he shall be liable to pay tax on the supply of goods or services or both effected by him with effect from the date of such transfer.

**Exceptions to charge GST on transfer of Business:*****Schedule-II – Activities to be treated as supply of goods or supply of services states that -***

Where any person ceases to be a taxable person, any goods forming part of the assets of any business carried on by him shall be deemed to be supplied by him in the course or furtherance of his business immediately before he ceases to be a taxable person, unless-

(i) the business is transferred as a going concern to another person; or

(ii) the business is carried on by a personal representative who is deemed to be a taxable person.

### Now the question arises what is sale of business as a going concern??

As per AS – 1, ‘Disclosure of Accounting Policies’, the enterprise is normally viewed as a going concern, that is, as continuing in operation for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.

As per Para 25 and 26 Ind-AS 1, ‘Presentation of Financial Statements’, When preparing financial statements, management shall make an assessment of an entity’s ability to continue as a going concern. The entity is said to be a going concern unless management either intends to liquidate the entity or to cease trading or has no realistic alternative but to do so.

Transfer of a going concern means transfer of a running business which is capable of being carried on by the purchaser as an independent business.

Essentials for a sale of Business to be considered as sale as a going concern

1. Both the buyer and seller of the Business are registered under GST.
2. The sale contract should expressly record that the sale is a going concern.
3. The seller must sell everything that is necessary for the continued operation of the business. (Rights and liabilities must be transferred)
4. The business must trade up until the settlement date. Any business closure in the lead up to the sale will nullify going concern – so beware if you plan to close to paint or renovate on handover.
5. The seller should not takeover any asset or hold any interest in any asset even after transfer of Business. However, he can settle the liabilities and transfer net assets to the buyer.
6. The Assets must be intended by the purchaser to be used in carrying on the same or similar kind of Business as the seller.

A few situations which are examples for transfer as a going concern

- 1) The existing owner dies or retires and the business assets are taken over by another person
- 2) Part of an existing business is sold to another person
- 3) The assets of a business are transferred to a new legal entity (e.g when a sole proprietor takes on a partner or forms a limited company)

### Whether transfer of the following be considered as a crucial determinant in sale as a going concern entity:

- 1) **Goodwill:** Goodwill need not be an essential determinant of sale as a going concern.

(For example: Once a bigger industrial unit sells a small unit, the question of goodwill will not arise. Another example can be a buying a loss-making company.

- 2) **Employees:** Always necessarily employees may not be transferred if the assets are sufficient for the furtherance of Business.

The act of taking over of employees from old entity to the new entity is not of vital importance, if the transferee entity is in the similar line of business and / or there is no requirement of specialised or skilled labours in order to continue the business.

### 3) **Assets:**

- When a particular entity owns an asset for many Businesses then it might not sell the same along with other Assets and liabilities but still it would be considered as sale as a going concern.
- (For example, X ltd has a Plant and machinery which is used by two separate lines of Businesses carried on by X Ltd. If X ltd sells one line of Business entirely to Y Ltd without the Plant and Machinery still it would qualify as a sale of going concern)
- Mere transfer of few individual assets does not constitute sale of Business.

(For example, if the proprietor has sold the stock of goods which was pending with him to another person who carries on similar Business before closing down his business is not transfer of Business as only a part of his Business asset is sold)

### **Some handy rules to remember:**

- 1) Always negotiate the price as GST EXCLUSIVE so that both parties know where they stand. Then if GST is payable, the seller still gets the agreed price. A contract that is silent will be GST inclusive, which will always be bad for a seller if there has been no consideration of GST.
- 2) It is always better to have a single agreement for the transfer of Movable and Immovable Asset for a lump sum consideration
- 3) And for a seller, there should always be a clause in your contract stating that if the tax office deems your sale NOT to be a going concern, then you can call on the buyer at any time to pay the GST.

### **A few case laws for reference and better understanding**

1) **Coromandal Fertilizers Limited v/s State of AP [1999] 112 STC 0001 (Andhra Pradesh High Court):** In this case, it was concluded that the sale was in course of winding up and not in furtherance of business and it was considered as transfer of an undertaking as a going concern viz. on an 'as is where is' basis for a lumpsum consideration.

Refer link - <https://indiankanoon.org/doc/1819119/>

2) **Lohia Machines Limited v/s Commissioner of Sales Tax, UP, Lucknow [1998] 110 STC 0305 (Allahabad High Court)** – It was held that a particular entity may own a particular asset for majority of the business activities. Not transferring such assets in the course of sale of one of its units as a going concern, might not affect its status as going concern

Refer link - <https://www.casemine.com/judgement/in/56ea9a08607dba38d0b08112>

3) **Shreyas Paper Pvt Ltd v/s State of Karnataka and Others [2001] 121 STC 0094 (Karnataka High Court)** – It was held that, mere transfer of few assets shall not constitute transfer of entire business.

Refer link - <https://indiankanoon.org/doc/1838659/>

4) **Kandula Prabhakar Rao v/s State of Orissa [1993] 088 STC 0322 (Orissa High Court):** It was held that if similar business was commenced by the transferee by acquiring the stock previously held by the transferor, it doesn't constitute sale of entire business.  
Refer link - <https://www.casemine.com/judgement/in/5609889de4b014971137e61a>

Please note that I shall come up with some more interesting cases and explanations in the due course.



-Akshatha M.N

## Update – 168

### Transportation of tomorrow

#### Hyperloop

It is a high-speed transport system in which passengers sit in a pressurized cabin that rides in a cushion of air. It is a sealed tube or system of tubes through which a pod may travel free of air resistance or friction conveying people or objects at high speed while being very efficient. The capsule operates in a near vacuum environment. It has air bearings on the front that takes air pressure on the nose. The system is proposed to travel at a speed of 900km/hr and a top speed of 1,220km/hr. It is a proposed mode of transport, a vacuum tube train (or vactrain) design, developed by a joint team comprising of Tesla and SpaceX.

This idea originated from Elon Musk, has given away the idea in the form of a competition. Some companies and a few colleges led by students and professors have been formed to capitalize on this idea. The Hyperloop Alpha concept was first published in August 2013. The paper conceived of a hyperloop system that would propel passengers along the 560 km route at a speed of 1,200 km/hr, allowing for a travel time of 35 minutes.

The main reason behind the development of this concept by Elon Musk is to spur interest in other forms of transport. One more reason for this idea to emerge from Musk was when he was stuck in traffic and was late by an hour for a meeting. The Hyperloop concept has been explicitly "open-sourced" by Musk and SpaceX, and others have been encouraged to take the ideas and further develop them.

#### How did it start?

Musk first mentioned that he was thinking about a concept for a "fifth mode of transport", calling it the Hyperloop, in July 2012 at an event in Santa Monica, California.

#### Advantages

- Theoretically, the pods can't crash and are cheaper to build.
- Very fast mode of transport. 620km in less than 30 minutes.
- It is extremely efficient as it is solar powered
- Twice the speed of a plane, it is proposed to travel a distance 620km in less than 30 minutes.
- Energy storage for 24-hour operations.

In June 2015, SpaceX announced that it would build a 1.6km long test track to be located next to SpaceX's Hawthorne facility. The track would be used to test pod designs supplied by third parties in the competition.

#### How does it work?

The Hyperloop concept operates by sending specially designed "capsules" or "pods" through a steel tube maintained at a partial vacuum. In Musk's original concept, each capsule float on a 0.02–0.05 in (0.5–1.3 mm) layer of air provided under pressure to air-caster "skis", similar to how pucks are levitated above an air-hockey table, while still allowing faster speeds than wheels can sustain.

Linear induction motors located along the tube would accelerate and decelerate the capsule to the appropriate speed for each section of the tube route. With rolling resistance eliminated and air resistance greatly reduced, the capsules can glide for the bulk of the journey. In Musk's original Hyperloop concept, an electrically driven inlet fan and axial compressor would be placed at the nose of the capsule to "actively

transfer high-pressure air from the front to the rear of the vessel", resolving the problem of air pressure building in front of the vehicle, slowing it down.

In the alpha-level concept, passenger-only pods are to be 7 ft 4 in (2.23 m) in diameter and projected to reach a top speed of 1,220 km/h to maintain aerodynamic efficiency.

### **Proposed routes**

#### **United States**

The route suggested in the 2013 alpha-level design document was from the Greater Los Angeles Area to the San Francisco Bay Area.

#### **India**

Hyperloop Transportation Technologies(HTT) are in process to sign a Letter of Intent with the Indian Government for a proposed route between Chennai and Bengaluru. If things go as planned, the distance of 345 km could be covered in 30 minutes. HTT also signed an agreement with Andhra Pradesh government to build India's first Hyperloop project connecting Amaravathi to Vijayawada in a 6-minute ride. On February 22, 2018, Hyperloop One has entered into an MOU (Memorandum of Understanding) with the Government of Maharashtra to build a hyperloop transportation system between Mumbai and Pune that would cut the travel time from the current 180 minutes to just 20 minutes.

#### **Others**

Many of the active Hyperloop routes being planned currently are outside of the U.S, namely

- 500km route between Helsinki (Finland) and Stockholm (Sweden)
- Hunchun in north-eastern China to the Port of Zarubino near Vladivostok and North Korea
- Other major areas:
  - Toronto - Montreal
  - Chicago – Columbus
  - Edinburgh – London
  - Glasgow – Liverpool
  - Bengaluru – Chennai
  - Mumbai – Chennai



-Srinidhi.P.Kumar

## Update – 169

### The Tweet that costed billion \$ of market cap and the Chairman's position in TESLA

#### What was the Tweet that costed billion \$ of market cap and the Chairman's position in TESLA?

The US SEC (Securities Exchange Commission) filed a complaint in federal district court during September stating that Elon Musk lied when he tweeted on August 7 that he had “funding secured” for a private takeover of the company at \$420 per share. Federal securities regulators reportedly served Tesla with a subpoena just a week after the tweet.

Explaining the tweet, Elon Musk stated that he understood Saudi Arabia's sovereign wealth fund was prepared to provide funding to take the company private at a proposed price of \$420 per share.

#### Who is Elon Musk?

Elon Reeve Musk is a technology entrepreneur and investor. He holds South African, Canadian, and U.S. citizenship

- He is the founder, CEO, and lead designer of SpaceX.
- Co-founder, CEO, and product architect of Tesla, Inc.
- Co-founder and CEO of Neuralink; and co-founder of PayPal.

In December 2016, he was ranked 21st on the Forbes list of The World's Most Powerful People.

As of October 2018, he has a net worth of \$22.3 billion and is listed by Forbes as the 54th-richest person in the world.

In the late September The SEC (Securities and Exchange Commission) sued Musk for alleged securities fraud.

#### Consequences of the tweet

The infamous "taking Tesla private" tweet on August 7 shook up investors and caught the attention of regulators. Also, Tesla's stock got a bad hit.

Since that tweet, the market value of Musk's electric-car company has fallen by \$19.6 billion till September, with Tesla shares sliding more than 30 percent.

That descent persisted as a lawsuit filed in September by the U.S. Securities and Exchange Commission.

SEC claimed that Musk violated anti-fraud provisions of the federal securities laws. The commission had asked the court to fine Musk and bar the billionaire entrepreneur from serving as an officer or director of any public company.

In the suit, the SEC said: “Musk's false and misleading public statements and omissions caused significant confusion and disruption in the market for Tesla's stock and resulting harm to investors. By engaging in the conduct alleged in this complaint, Musk violated, and unless restrained and enjoined will violate again, Section 10(b) of the Securities Exchange Act of 1934 (‘Exchange Act’)... and Rule 10b-5 [17 C.F.R. § 240.10b-5] thereunder.”

***Rule 10b-5-1 of the Securities Exchange Act of 1934:***

Trading "on the Basis of" Material Non-public Information in Insider Trading Cases.

The "manipulative and deceptive devices" prohibited by Section 10(b) of the Act and Rule 10b-5 thereunder include, among other things, the purchase or sale of a security of any issuer, on the basis of material non-public information about that security or issuer, in breach of a duty of trust or confidence that is owed directly, indirectly, or derivatively, to the issuer of that security or the shareholders of that issuer, or to any other person who is the source of the material non-public information.

Tesla and the board later issued a joint statement supporting Musk stating that Musk had talked to the board about an offer to take Tesla private as early as August 2 and he sent an email with the subject "Offer to Take Tesla Private at \$420." to Tesla's board of directors, CFO and general counsel.

On considering the above statement, SEC decided that Elon Musk will step down as chairman of the electric automaker and pay a \$20 million fine under a settlement reached with the U.S Securities and Exchange commission. Musk will remain CEO and he will still keep a seat on the board, just not as chairman.

Tesla will also pay a separate \$20 million penalty, according to the SEC. The SEC said the charge and fine against Tesla for failing to require disclosure controls and procedures relating to Musk's tweets.

Tesla has also agreed to appoint 2 new independent directors to its board and establish a new committee of independent directors and put in place additional controls and procedures to oversee Musk's communications, according to the SEC.

He was given 45 days to leave his role as chairman of Tesla.

The SEC gave Tesla until November 13 to name an independent board chair.

**Who is the new chair ?**

After Musk was forced to resign as chairman of the electric car maker by U.S. regulators. On, November 7 the electric car maker announced that Robyn Denholm, the CFO of Australian telecommunications company Telstra has been appointed to chair Tesla board. Robyn Denholm, an independent director at Tesla since 2014, takes over the role from Elon Musk. The 55-year-old will be leaving Telstra once her six-month notice period is complete.

Tesla confirmed that Denholm's appointment is effective immediately but added that she will need to serve a 6-month notice period at Telstra before taking on the role properly on a full-time basis



-Vishnu .V.N

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## Update – 170

### Angel Investment

"When you invest, you are buying a day that you don't have to work."

-Aya Laraya

Staying in Bengaluru the place which is being stated as Start-up Capital of India, there are around 20 start-ups that get registered everyday.

By now we have known a lot of facts regarding startups, and now we will learn one of the ways of funding start-ups called the Angel Investment.

### Who is an 'Angel Investor'?

Also called informal investors, angel funders, private investors, seed investors or business angels, angel investors invest in startups. Often, angel investors are among an entrepreneur's family and friends. The capital angel investors provide may be a one-time investment to help the business propel or an ongoing injection of money to support and carry the company through its difficult early stages.

### In a deeper sense

Angel investors usually invest in entrepreneur starting the business irrespective of revenue or profitability of the business at the time of investment compared to other lenders. Angel investors are focused on helping startups take their first steps, rather than the possible profit they may get from the business.

These are affluent individuals who inject capital for startups in exchange for ownership equity or convertible debt. Some angel investors invest through crowdfunding platforms online or build angel investor networks to pool in capital.

### Origins of Angel Investors

The term "angel" came from the Broadway theater, when wealthy individuals gave money to propel theatrical productions. The term "angel investor" was first used by the University of New Hampshire's William Wetzel, founder of the Center for Venture Research. Wetzel completed a study on how entrepreneurs gathered capital.

### Limits for Angel Investors?

Angel investors must meet the Securities Exchange Board of India's (SEBI) standards for accredited investors i.e., the maximum investment limit by angel funds is Rs 10 crores. However, the minimum investment by an angel investor will continue to be Rs 25 lakhs.

### Source of Funding

Angel investors typically use their own money, unlike venture capitalists who take care of pooled money from many other investors and place them in a strategically managed fund.

In India angel investors usually invest money in their own personal capacity, and on the other hand there are investors who invest from a network made by such investors by pooling their funds.

## Investment Profile

Angel investors who seed startups that fail during their early stages lose their investments completely. This is why professional angel investors look for opportunities for a defined exit strategy, like acquisitions or takeovers.

Angel investments bear extremely high risks and are usually subject to dilution from future investment rounds. As such, they require a very high return on investment. Because a large percentage of angel investments are lost completely when early stage companies fail, professional angel investors seek investments that have the potential to return at least ten or more times their original investment within 5 years, through a defined exit strategy, such as plans for an initial public offering or an acquisition. Current 'best practices' suggest that angels might do better setting their sights even higher, looking for companies that will have at least the potential to provide a 20x-30x return over a five- to seven-year holding period. The effective internal rate of return for a successful portfolio for angel investors ranges from 20% to 30%. Though this may look good for investors and seem too expensive for entrepreneurs with early-stage businesses, cheaper sources of financing such as banks are not usually available for such business ventures. This makes angel investments perfect for entrepreneurs who are still financially struggling during the startup phase of their business.

### Five Most Active Angel Investors in India

Binny Bansal (Flipkart co-founder)

Rajan Anandan (the Google India managing director)

Girish Mathrubootham (founder and CEO of Freshdesk, a cloud-based customer support platform)

Kris Gopalakrishnan (executive vice-chairman of Infosys)

Lakshmi Narayanan (ex-CEO of Cognizant)



-Vijaya Simha

## Update – 171

### Social Credit System

**The world we live in today is a materialistic world where the amount we possess is considered more worthy than the person itself. To contradict this one of the growing economies in the world has come up with an extremely controversial system.**

China is a socialist country based on the pre-dominance of the Government. In the early 2014's the Chinese Government came up with a scheme called "**SOCIAL CREDIT SYSTEM**" which is going to be implemented in 2020. The fast moving world we live in today is immersed with validation and the Government has come up with a way to make use of this. This system ranks the citizens of China based on their social behaviour.

The people are given a certain amount of points and if their ranking falls below the minimum level the people are punished. This aims to reinforce the idea that " Keeping trust is glorious and breaking the trust is disgraceful ". A person's social score can move up and down depending on their behaviour. The exact methodology is a secret- but examples of infractions include bad driving , smoking in non - smoking zones, buying too many video games ( unproductive work which does not lead to any economic growth ), posting fake news online etc.

China has already implemented a majority of this, by punishing around 9 million people ( who have low scores ) who have been blocked from buying tickets for domestic flights. Credit systems monitor whether people pay their financial bills on time and ascribe to a moral dimension. Purchasing frivolous things, paying the bills , posting too much on social media would lead to throttle the internet speeds. Other such punishments include keeping you or your kids from the best schools, best hotels, stopping you from getting good jobs, being publicly humiliated as a bad citizen etc. Personal data is with the government which again leads to an invasion of privacy.

In spite of all the above mentioned disadvantages one must acknowledge the presence of integrity, even though forced among the people. This would redirect the economic growth of the country to an even more higher level due to the presence of moral diligence. The rewards granted by the government to the people who have high ranks can be beneficial and can also serve as an incentive for others to achieve the same. The crime rates would drastically fall down due to the fear towards the government.

This makes one wonder whether efficiency and growth at the stake of one's fundamental right of freedom and expression is worth sacrificing.



-Anand M B

## Update – 172

### Why Nokia didn't go with Android.?

#### Why Nokia didn't go with Android.?

##### From Hero to Zero

It's hard to believe that just a few years ago, Nokia literally **dominated** the phone market. Fast forward and we see that they now currently hold 1 percent of the phone market.

##### What happened?

How could a company that had the **mobile market in their left pocket** and **billions of dollars in revenue in their right pocket**, literally lose **99%** of their market share in just a few short years?

Nokia was struggling to gain leverage in the smartphone market in Europe, learned that carriers in the EU (European Union) were very direct in saying that Nokia simply cannot compete with Android and IOS devices.

**But here's a fun fact for you:** Did you know that Google offered Nokia Android before they chose to partner with Microsoft?

It's true! In fact, they spent a lot of time with Google discussing the option, but in the end decided to go with Microsoft as their operating system of choice.

It's fair to ask 2 questions:

1. Why didn't **Nokia choose Android instead?** and
2. Do they regret their decision?

But now we will find out **WHY** Nokia chose not to use the Android operating system that they admittedly said that they could fit in.

##### Why They Didn't Choose Android

A good place to start is in 2010, the iPhone had been around for three years, and Android for two. Nokia's primary operating system at the time was Symbian, which was still the dominant mobile OS at 37% market share, to keep up with the competition, Nokia had partnered with Intel to create MeeGo.

But in early 2011, Stephen Elop (CEO of Nokia) wrote that Nokia would announce a new strategy "to rebuild our market leadership" on February 11. On that date, Nokia announced a partnership with Microsoft.

Nokia had great things to say about Android, they also mentioned about Windows phone and admitted that Android was ahead of Windows Phone. "Android is growing very nicely; it has significant market share. Windows Phone is in its early formative states in terms of customer attraction and so forth." Stephen Elop didn't sound that convinced of Windows in that statement, does he?

But one thing you should know about **Stephen Elop (CEO of Nokia)** before working for Nokia, he was head of the Business Division for a company called - **Microsoft**.

Hence, the relationship was already there, and Microsoft capitalized on it. His additional reasoning for choosing Microsoft is complex and debatable.

When asked why Windows Phone, he answered at a Nokia press conference in February 2011: "It gives us the opportunity to lead. It gives us a faster path to the United States marketplace."

But what's interesting is that he stated why they were reluctant (unwilling) to use Android, saying that with Android, Nokia handsets would just become "**another Android-running phone.**" He went on to say that "We absolutely spent time with our colleagues at Google. Our fundamental belief is we would have difficulty differentiating."

Nokia had spent billions trying to keep up with other platforms. In 2007, it spent \$8.1 billion to purchase Navteq, a company that competes with Google Maps. It also spent a good deal of time and money into its own app store and set of services called "Ovi," which had been much less support from the app community than Android and iPhone.

### **There're too many pizza places on one street.**

A company won't succeed in business when they do the same thing as everyone else.

Putting Android on a phone doesn't automatically make successful. It would be like opening a pizza place on a street next to 5 other pizza places and one store that sells apples. Sure, pizza is great, and some say it tastes better than fruit, but to stand out in the food business, one must do something new. That's why Nokia had gone all in with Windows Phone.

### **A risky move**

#### **(Differentiate strategy)**

Basically, it seems that their choice had nothing to do with market share or a technical advantage, but more because they were afraid of "**becoming irrelevant**" or "**just another Android phone**". In their view, a third ecosystem to compete with Apple and Android would be incentive enough for carriers to help get Nokia through its problems.

Another interesting point was that if Nokia would have gone with Android, they would effectively give Google and Android way too much of the market share that they already dominate, making the only choices for consumers wanting a smartphone Android or IOS.

But let's be honest, isn't this what ended up happening in the end anyway?

Is it not better to partner with the company that could move and sell devices and integrate well into their framework, rather than take the chance of siding with a mobile market that has never successfully gotten its own struggling mobile division off the ground?

Every company has its character, the company tends to follow its most profitable line of products with a belief that they can make more profits, and same happened with Nokia or even Motorola, Blackberry and Sony Ericsson. Nokia, Motorola, Sony Ericsson and Blackberry were the companies which brought the mobile revolution. They were the pioneers in mobile technology. The mobile phone market was ruled by Symbian and Java for a decade and these three were the torch bearers.

Once upon a time Nokia dominated mobile or phone industry, later iPhone and Android arrived, Nokia lost 99% of their market-share, their CEO publicly admitted that they were being brought to their knees by the iPhone and Android and commented that they would fit into Android's ecosystem



-Adarsh.S

## Update – 173

### Why Blockbuster Failed? A Valuable Lesson From Netflix

#### Why Blockbuster Failed? A Valuable Lesson From Netflix.

I'm not sure if you have heard the news yet, but Blockbuster Video has just closed the last of their lingering video stores nationwide. This is a big deal.

Blockbuster Video, once an icon for the original VHS and DVD rental industry, has effectively been reduced to the least profitable movie distribution company in the United States.

But how did Blockbuster get in this position? Well, I'm sure the Blockbuster board of directors would argue that it was because of outside forces, specifically new companies like Netflix and Redbox. But the real reason is much simpler, and much more in their immediate realm of control.

#### What is Blockbuster?

Blockbuster was a DVD rental store, most popular in the USA in the 1990s. It had stores all over the country. Yes, you had to approach a store and rent DVDs out back in the day if you wanted to watch a movie (before Torrents, Netflix and other OTT platforms came into the foray). Blockbuster was the household name for movies in the USA.

Blockbuster had made huge investments in its inventory for all its stores. But, obviously, it didn't make money from movies sitting on the shelves. It was only when a customer rented a movie that Blockbuster made anything. It therefore needed to get the customer to watch the movie quickly, and then return it quickly, so that the clerk could rent the same DVD to different customers again and again. It wasn't long before Blockbuster realized that people didn't like returning movies quickly, so it increased late fees so much that analysts estimated that 70 percent of Blockbuster's profits were from these fees.

#### Where Blockbuster Went Wrong?

What caused Blockbuster to self-destruct was not something as trivial as \$40 in late fees or long lines to return videos before the deadlines. Those things definitely contributed, but it was not the root cause.

The real reason why Blockbuster lost their HUGE customer base over the years was one thing was pride. When the whirlwinds of change swept through the movie and video industry, **Blockbuster Video stuck to their guns.**

Now let me explain.

In the year 2000, Netflix approached Blockbuster for a buyout deal, priced at \$50 million dollars. Blockbuster refused. They were basically saying, "No thanks. That can't work. Nobody wants a month-to-month subscription to have DVDs delivered to their door."

#### Now I suppose it's understandable why Blockbuster acted this way:

They believed in their business plan that brought them millions of dollars worth of success in the past. They believed in their superior marketing advantage as the largest video rental company in the United States. But that's not the only decision that killed them.

If you are familiar with Netflix, you probably remember that a little upstart called Netflix emerged in the 1990s with a novel idea. Rather than make people go to the video store, why don't we mail DVDs to them? To avoid the hassle of late fees, Netflix introduced a monthly subscription model. They started to

transition from DVD shipments towards online-streaming content around 2007. Their goal was to head off the technology trend at the head, and prepare for a technological revolution in personal computing and internet usage.

Netflix was the first successful, major corporate adopter of the new economy. **Netflix was founded 20 years ago (1997) today because Reed Hastings was late returning a video**

**Now where was Blockbuster in all this?**

With the news of Netflix's new business move, Blockbuster Video balked at the idea of entering what was being heralded as "the online revolution". After all, they were a retail-rental company, not a technology company. And the industries don't mix. They still have their customer base. Why mess up a good thing?

**After all, why fix it if it ain't broke?** But the social proof of Netflix's decision later became very clear. Their subscriber growth since the year 2007 was astronomical, topping 24.4 million people by 2011. Doing some quick math: at a minimum subscriber fee of \$7.99/month, that's almost \$200 million in gross revenue that Netflix was bringing in — every single month.

After seeing Netflix enjoy tremendous success with their new business model transition, Blockbuster made several other moves to copy Netflix, and their model. Only they were too late. Their customer base had already fled from Blockbuster's field (late fees) to Netflix's greener pastures ("No Late Fees" and unlimited online streaming). Netflix already had complete control over the new industry.

**How Blockbuster Could Have Saved Themselves?**

**Blockbuster hated change.**

Don't get me wrong, they loved their business model, but they believed in it so much that they were unable to see opportunities as they arose. They really thought that brick-and-mortar video rental stores were, and ever-would-be the most preferred method of movie and video consumption.

But as you can see, they found out that their customer base not only disliked physically going out and spending more money for each video unit they watched, they also found that they loved being able to stay at home and browse a full collection of high quality movies and videos on their computers, tablets and TVs for a (completely affordable) 8 bucks per month.

Blockbuster lost their customers from the greatest form of executive negligence there is: Fear of change. Their fear of change spilled over into every business decision they made, preventing them from acting early and competently. The solution would have been to focus on consultative or advisory selling, and turn its store associates into de facto recommenders. It could have implemented true social networks to rate and catalog movies, and used its customer data to develop a predictive engine that members could use to locate new titles. Store associates could have been encouraged to establish ongoing customer relationships, and found ways to promote all those library titles (that had already been paid off, so they were pure profit). It could have owned the position of movie experts and migrated that brand to any new distribution platform

**So how can you avoid a "Blockbuster-sized" fail? Embrace change.**

With the advent of the technology age, it's clear that even entire (huge) industries can change in almost an instant. In the current economy, technology is going to transform everything. In the new Tech economy, the only constant that we can really depend on is change.

I'll say that again: **The only constant in this world is change.**

In order to improve our businesses and keep them profitable, it is not enough to merely be "up-to-date". We need to also track trends, try new technologies, and embrace the future before it even comes.

Taking from Netflix's example, we need to be willing to take the risks necessary to build the environments that will support the future of our industries. The media giant, Netflix had a spectacular entry in the media space and ousted Blockbuster from its roots, slowly and effortlessly. The rise of Netflix and simultaneous fall of Blockbuster was particularly interesting for me, to read. What I take away from this is that disruptive forces are not going to flash alarms and red lights when they enter. Blockbuster, not paying heed to Reed Hastings (CEO of Netflix) and his ability to steal Blockbuster's market was enough to see its demise.

Forward thinking, risk-taking, competence in decision-making, and trend-setting. I believe that these are the qualities of the new age entrepreneur.

**Similar cases where innovation is important:**

1. Electric vehicles are changing the world. Tesla is accelerating the world's transition to sustainable energy with electric cars, solar panels and integrated renewable energy solutions for homes. Nissan, Toyota and other automobile industry should expand its electric models.
2. Apple's face detection may be better than fingerprint recognition when it comes to securing your data, but one researcher argues that there's something better than both i.e, Iris Scanning. This makes it unique in the market.



-Shreya R Mahendrakar

**Update – 174****Deduction U/s 80RRB : Royalty for Patents****What is Patent?**

A patent as known is a government license that gives the holder exclusive rights to a process, design or new invention for a designated period. This right is conferred in exchange of details of a particular invention or creation. A patent is an intellectual property and the patent holder can ensure that his/her rights are protected after an idea or product is developed.

e.g, Mr. XYZ, Chartered Accountant by profession. He comes up with an idea and creates a unique application exclusively for writers. An application that makes life easier for all those who passionately love to write. He applies for a patent and receives it, and gets a certain amount as royalty on his product for next 3 years.

**What is Royalty?**

Royalty means the payment made to an owner for the use of property, especially patents, copyrights works, franchise etc. Considering the example of Mr. XYZ, he grants a MNC the right to use his idea, with the company offering him a certain sum as royalty for it.

**Why you should patent an Invention?**

India is a home for some of the greatest minds in this world. Every day it witnesses people with new ideas, new creation and new technologies. In order to protect this creation, the creator has been given a right for a specified period known as Patent. Patent rights are conferred in exchange of details of a particular invention or creation through a process called Patent Registration.

**Note:** *Only those inventions, which are patented, can earn royalty income.*

**Who is Eligible to Claim Deduction under Section 80RRB?**

There is certain eligibility criterion described below in order to claim deduction u/s 80RRB:

- **Indian Resident** -The individual must be an Indian resident.
- **Patent Holder** – Only patentees can claim this tax deduction. Individuals who do not hold the original patent are not eligible for tax benefits.
- **Patent Registration** -The patent must be registered under the Patent Act of 1970, either on or after April 1, 2003.

**Amount of Deduction U/s 80RRB-**

Income received as Royalty on Patent of Rs.3 lakh whichever is less

**Conditions to avail deduction U/s 80RRB-**

- The Individual should be Resident in India
- Taxpayer must be owner of Co-owner of the Patent.
- Individual must file his income return to claim the above deduction

- In order to claim U/s 80RRB, assessee must obtain certificates from the person paying royalty in prescribed Form 10(CCE).
- In case of foreign remittance, the assessee is required to furnish Form 10H from competent authority. The certificate shall be issued by the bank through which the amount has been received in India.

### **Royalty received from abroad-**

In case of receipts from outside India, deduction will be available only on income, which brought into India within 6 months from the end of previous year or within the additional time as provided by Reserve Bank of India. For e.g., FY 2018-19, years end on 31/03/2019, royalty income should be received upto 30/09/2019 i.e., within 6 months.

### **Example:**

Mr. X has received royalty Income for using his patent rights to another person Mr. Y. As per agreement Mr. Y pay Rs.50,000/- p.m. to Mr.X. The agreement is valid for one year. What will be deduction amount U/s 80RRB?

Ans: Mr. X received Rs.50,000/- p.m. i.e. he has received Rs.6 lakh in a year.

Amount received Rs.6 lakh or Rs. Maximum amount of limit of Rs.3 lakh, whichever is lower.

Therefore, Mr. X is eligible for deduction U/s 80RRB of Rs.3 lakh.



-Manoj Kulkarni

## Update – 175

### Tata's Nano, worlds cheapest car has little sales!!!

Buying a car in India is associated with social status and prestige; if a person owns a car, he is assumed to be successful and settled. It differs hugely from the Western market, where cars are more of a necessity rather than luxury.

Tata groups a global enterprise located in India operating in more than 100 Countries, had released the worlds cheapest car by name Nano on 21 January 2007. Subsequently they failed to hold it in the market.

The Nano, positioned as the "people's car" starting at around \$2,500 for a stripped-down model, has struggled to gain traction since its launch in 2009. Sales of the vehicle plunged 74 percent on-year during the April-September period to 10,202 units. At the beginning stage Nano has more sales and drastically reduced other competitor's sales.

### Reasons for Failure

- (i) Although Tata implemented Successful strategy in providing Motor car at economic cost, **successful marketing campaigns have not adopted properly.**
- (ii) It's very common in companies while introducing cars some or other motors may not work as they were desired. Same thing for Nano also happened. Few motor cars did not work properly and which led to significant reduction in sales.
- (iii) As it was not expensive, people were searching to show their prestige by purchasing luxurious cars which is one of the reasons for not enhancing the sales.

### Solutions planned to regain the market:

As of now, he plans to relaunch the car in some other country, and then bring it back to India under some other name or brand.

As he shared in the interview on CNBC's Managing Asia, "Maybe it (Nano) gets launched in another country like Indonesia, where it doesn't have the stigma and the new image comes back to India. Or maybe as a changed product that gets marketed in Europe. There's a lot of interest in Nano outside India."

We hope that this latest branding technique works for Nano, and people actually embrace the idea.

But for time being, it seems that Nano is still way too far from success.



-Rakesh.K

## **Update – 176**

### **Determination of Indexed cost of gifted assets**

Today's update is about **Determination of Indexed cost of gifted assets with reference to previous owner**

#### **What is Indexed Cost of acquisition?**

Under section 48, for computation of long term capital gains, the cost of acquisition will be increased by applying the cost inflation index (CII). Once the cost inflation index is applied to the cost of acquisition, it becomes indexed cost of acquisition.

#### **What is a Cost Inflation Index?**

“Cost Inflation Index” in relation to a previous year means such index as may be notified by the Central Government having regard to average rise in the Consumer Price Index (Urban) for the immediately preceding previous year to such previous year.

Prior to Finance Act 2017 base year for fixing CII was 1981 and Finance Act 2017 shifted base year from 1981 to 2001. Presently, base year is fixed at 2001 and CII for 2001 starts at 100. Cost of acquisition of an asset acquired before 1st April 2001 can be taken as FMV as on 1st April, 2001

#### **What is the holding period in case of transfer of asset by way of gift?**

In case of transfer of a capital asset by way of gift, the holding period of previous owner shall also be included in determining whether the asset is short term asset or long term asset.

#### **The benefit of indexation will not apply to the long-term capital gains**

##### **arising from the transfer of bonds or debentures other than –**

- (1) Capital indexed bonds issued by the Government; or
- (2) Sovereign Gold Bond issued by the RBI under the Sovereign Gold Bond Scheme, 2015.
- (3) In case of depreciable assets (discussed later), there will be no indexation and the capital gains will always be short-term capital gains.
- (4) The capital gains arising from the transfer of a long-term capital asset being an equity share in a company or a unit of an equity oriented fund or a unit of a business trust referred to in section 112A

**Formulae for computing Indexed Cost of Acquisition** = Cost of Acquisition\* CII for the year in which the asset is transferred

which the asset was

CII for the first year in

for the year beginning

held by the assessee or

whichever is later.

on 1st April, 2001,

**A Case law On the above**

**CIT vs. Manjula J. Shah (Bombay High Court)**

Case Name : **The Commissioner of Income Tax Vs. Manjula J. Shah (Bombay High Court)**

**Indexed cost of gifted assets has to be determined with reference to previous owner**

**Facts of the case –**

- In the present case, the capital asset in dispute (Flat No. 1202-A) ,the assessee’s daughter purchased a flat on 29.1.1993 at a cost of Rs.50.48 lakhs.
- She gifted the flat to the assessee on 1.2.2003.
- The assessee sold the flat on 30.6.2003 for Rs. 1.10 crores. In computing LTCG, *the assessee took the indexed cost of acquisition under Explanation (iii) to s. 48 on the basis that she “held” the flat since 29.1.1993.*
- It is not disputed by the revenue that the assessee must be deemed to have held the capital asset from 29/1/1993 (though actually held from 1/2/2003) by applying the Explanation 1(i)(b) to Section 2(42A) of the Act and hence liable for long term capital gains tax. However, the revenue disputes the applicability of the deemed date of holding the asset from 29/1/1993 while determining the indexed cost of acquisition under clause (iii) of the Explanation to Section 48 of the Act.
- Since the assessee in the present case is held liable for long term capital gains tax by treating the period for which the capital asset in question was held by the previous owner as the period for which the said asset was held by the assessee, the indexed cost of acquisition has also to be determined on the very same basis.
- The AO held that as the assessee had “held” the flat from 1.2.2003, the cost inflation index for 2002-03 would be applicable.

**The CIT (A) and the Special Bench of the Tribunal upheld the claim of the assessee.**

Under Explanation 1(i)(b) to s. 2(42A), in determining the period for which any asset is held by an assessee under a gift, the period for which the said asset was held by the previous owner has to be included. Accordingly, **though the assessee acquired the capital asset on 30.6.2003, she was deemed to have “held” the asset from 29.1.1993 onwards.** This fiction will apply to clause (iii) of the Explanation to s. 48 as well for determining the “indexed cost of acquisition”. The object of the legislature is to tax the gains arising on transfer of a capital asset acquired under a gift or will by including the period for which the said asset was held by the previous owner. **This object cannot be defeated by excluding the period for which**

the said asset was held by the previous owner while determining the indexed cost of acquisition of that asset to the assessee.

As per explanation i.(b) to section 2(42A)

(i) In determining the period for which any capital asset is held by the assessee—

(b) in the case of a capital asset which becomes the property of the assessee in the circumstances mentioned in sub-section (1) of section 49, (Where the capital asset became the property of the assessee by way of gift or will) there shall be included the period for which the asset was held by the previous owner referred to in the said section



-Varsha N K

**Update – 177****A Prisoners' Dilemma and Nash Equilibrium****A Prisoners' Dilemma and Nash Equilibrium**

Let us dive straight into the scenario and understand the situation first. Shall we?

Here we go...

There is a police officer who has caught two individuals separately on the same day red-handed, selling drugs. Let's call the drug dealers as Ash and Bush. Now, they take them into the police station separately and tells them individually that, this is an open-and-shut case, meaning they are going to get sentenced to prison as they are caught red-handed selling drugs.

The police officer tells Ash and Bush separately that they're going to be sentenced for 2 years each, for the offence. But while he talks to them, he turns suspicious and he starts to have a feeling that they both would have been involved in a major and serious crimes to which he can't find a hard evidence to back-up. Going by this hunch, he creates an interesting situation out of it to get them to snitch on each other by giving them following options:

1. 2 years sentence for drug dealing to each of them, which is kind of a sure thing to happen.
2. If Ash/Bush confess and the other doesn't, the one who confesses will be sentenced for a year and the other for ten.
3. If both of confess, they're going to be sentenced for 3 years.

Now, let us analyse the situation by drawing a graph to clearly understand what options these two have and what could be their likely choices.

This is called a Pay-off matrix. Depicting the choices of both Ash and Bush.

By looking at the matrix, the globally optimal solution for the dilemma is both Ash and Bush to deny and get 2 years of sentence each, right? But hey, they are criminals they don't think of loyalty when they are going to be prisoned. Prison is a harsh place to live in. Who would not think of spending less time in it when given a choice? Won't you?

So, both Ash and Bush will obviously think of reducing their sentences. The real question is to how much.

In Ash's point of view, he thinks, I don't know whether Bush will confess or deny.

- If Bush deny and I confess, then I might as well gain by reducing my sentence to a year.
- If I deny and Bush confesses, I will be jailed for 10 years.
- If Bush confesses, the better option for him is to confess, which will be 3 years for both.

Similarly, it is symmetrical if we look at Bush's point of view as well.

Now that we have analysed both point of views, would you still think that denying is the better option? I don't think so.

By exploring the options Ash has, it is better for him to confess regardless of Bush denying or confessing.

That means Bush on the other hand is also better-off by confessing regardless of Ash's choice of denial or confession.

Well, the better choice is for both to confess and settle their sentences to 3 years each, than for both to deny and spend 2 years by picking the globally optimal state (even though it looks attractive). This is called a Nash Equilibrium.

**A Nash Equilibrium is where each party has picked the optimal choice given the choices of the other party.**

Isn't it interesting how one would choose to be in Nash Equilibrium as opposed to globally optimal state when knowing the choices that the other has?

**The principles can be applied during:**

- Internal audits while analysing the compliance and misstatement risks in the internal controls.
- Fraud and risk analyses in due diligence.
- Tax representations in the court of law.



-Sri Ganesh N R

**Update – 178****FBAR -Reporting on Foreign Bank and Financial Accounts**

What is FBAR?

FBAR is a reporting requirement in the United States of America. If you have a financial interest in or signature authority over a foreign financial account, including a bank account, brokerage account, mutual fund, trust, or other type of foreign financial account, exceeding certain thresholds, the Bank Secrecy Act may require you to report the account yearly to the Department of Treasury by electronically filing a Financial Crimes Enforcement Network (FinCEN) 114

Who must file FBAR?

Let us take an example for the same :

Calendar year : 2017

Assessee : Mr. X

Residential Status(India) : Resident

Residential Status ( US ) : Resident

No. of bank accounts held outside US : 3 – HDFC Bank , Axis Bank and a POA account in HDFC with IIFL for investment activities in India.

Aggregate value of all financials accounts held outside US as on 31/12/2016 : \$1,25,125

Aggregate value of all financials accounts held outside US as on 05/06/2017 : \$ 52,000

Aggregate value of all financials accounts held outside US as on 31/12/2017 : \$ 2,500

Should Mr. X file FBAR in US?

Yes , he should. As the aggregate value of all his foreign financial accounts exceeded \$10,000 ( here: \$52,000) at any point( here : on 05/06/2017 ) in the calendar year 2017 and also he is a United States Person ( here : US resident ) having financial interest in or signature authority over a foreign financial account ( here : HDFC Bank , Axis Bank and the POA account in HDFC ).

United States persons are required to file an FBAR if:

The United States person had a financial interest in or signature authority over **at least one financial account** located **outside** of the **United States**; and the aggregate value of all foreign financial accounts **exceeded \$10,000** at any time during the calendar year reported.

United States person includes **U.S. citizens; U.S. residents**; entities, including but not limited to, corporations, partnerships, or limited liability companies, created or organized in the United States or under the laws of the United States; and trusts or estates formed under the laws of the United States.

Where should they report ?

Form 1040 – Schedule B

When should they report ?

On or before April 15 of the year following the calendar year being reported.

Do they give extensions for filing the same?

FinCEN will grant filers failing to meet the FBAR annual due date of April 15 an automatic extension to October 15 each year.

What happens if you don't file the same ?

Those required to file an FBAR who fail to properly file a complete and correct FBAR may be subject to civil monetary penalties. not to exceed \$12,459 per violation for non-willful violations that are not due to reasonable cause. For willful violations, the inflation-adjusted penalty may be the greater of \$124,588 or 50 percent of the balance in the account at the time of the violation, for each violation.

What else should they file ?

Taxpayers with specified foreign financial assets that exceed certain thresholds must report those assets to the IRS on Form 8938, *Statement of Specified Foreign Financial Assets*, which is filed with an income tax return. Those foreign financial assets could include foreign accounts reported on an FBAR. The Form 8938 filing requirement is in addition to the FBAR filing requirement.

Any impact on Indian taxes ?

None

How does this update help us ?

If we qualify the above stated criteria for who must file an FBAR, we should report/assist the client in reporting as we have many clients who are either US citizens or US residents and who are also Indian residents. It is a value addition for the clients.

As in US there is a reporting requirement , there are similar requirements in many countries like Japan's " Asset and liabilities reporting form " , Germany's " Foreign Asset reporting " , etc. Hence, we should be very careful while filing/ advising the clients as reporting is a must and it helps save the client from penalties.



-B S Rahul Murthy

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## **Update – 179**

### **LIBOR Rates**

Greetings for the day!!

Have you ever wondered on what basis banks decide upon the rate at which different type of loans are rendered to the public. Well here is something which will shed light on the above topic.

### **LIBOR RATES**

The acronym LIBOR stands for London InterBank Offered Rate. This is the average interest rate that banks charge when they make short-term unsecured loans to other banks.

LIBOR serves as a globally accepted key benchmark interest rate that indicates how much does it costs to the banks to borrow from each other. It is used as the necessary reference rate for transacting in the global markets .

### **Evolution of LIBOR**

2014 - Owing to its British origin and administration by the BBA, it was previously known as BBA LIBOR. Later that year, the Intercontinental Exchange (ICE) took over the administration of the LIBOR, changing its name to ICE LIBOR. 1984 - The British Bankers' Association (BBA), which is the leading trade association that represents the views of those involved in the banking and financial services industry, decided to set the necessary standards and set up the BBA interest-settlement rates which were the predecessor to LIBOR.

1986 – Further streamlining lead to evolution of BBA LIBOR . Essentially, the LIBOR became the default standard interest rate for transacting in the interest rate- and currency-based financial dealings between various financial institutes at local and international level.

### **Breaking Down LIBOR**

LIBOR is now administered by the ICE Benchmark Administration (IBA) and is based on five currencies: the US dollar (USD), euro (EUR), British pound (GBP), Japanese yen (JPY), and Swiss franc (CHF). The LIBOR serves seven different maturities: overnight, one week, and 1, 2, 3, 6 and 12 months. The combination of five currencies and seven maturities leads to a total of 35 different LIBOR rates being calculated and reported each business day. The most commonly quoted rate is the three-month U.S. dollar rate, usually referred to as the “current LIBOR rate.”

### **How LIBOR is Calculated?**

Data regarding the rate at which banks are willing to lend short term loans to each other is collected from 16 major banks . Out of 16 rates collected, 4 high scores and 4 low scores are eliminated, and the remaining 12 are averaged to arrive at the LIBOR rate which is announced at 11 AM every day.

### **Significance of LIBOR**

Many banks worldwide use LIBOR as a base rate for setting interest rates on consumer and corporate loans. Indeed, hundreds of trillions of dollars in securities and loans are linked to , including government and corporate debt, as well as auto, student, and home loans, including over half of the United States' flexible-rate mortgages.

When LIBOR is rising, it tells us one of two things: 1) it tells us that interest rates in general are rising and thus LIBOR is also rising, and /or 2) it tells us that lending banks believe the banks they are lending to have a higher risk of defaulting on the loan so the lending bank has to charge a higher interest rate to offset this risk.

When LIBOR is falling, it tells us one of two things: 1) it tells us that interest rates in general are falling and thus LIBOR is also falling, and/or 2) it tells us that lending banks believe the banks they are lending to have a lower risk of defaulting on the loan so the lending bank does not have to charge a higher interest rate to offset this risk.

Many banks worldwide use Libor as a base rate for setting interest rates on consumer and corporate loans. Indeed, hundreds of trillions of dollars in securities and loans are linked to LIBOR, including government and corporate debt, as well as auto, student, and home loans, including over half of the United States' flexible-rate mortgages.

**Where do we see LIBOR during our day to day accounting work:**

We generally get a chance to look at LIBOR when there are inter corporate international loans. For the same LIBOR is used as a bench mark with a +1%, +2%.. That could be either under the automatic route or the permission route from RBI.

Source: <https://www.investopedia.com/terms/l/libor.asp>



-Ashweeja A Bhat

## Update – 180

### Tax analysis on Walmart Inc acquiring Flipkart

Today's update is on "Tax analysis on Walmart Inc acquiring Flipkart"

Walmart Incorporation is an American multinational retail entity and Flipkart Pvt.Ltd. is an Indian electronic commerce company.

Walmart has wrapped up Flipkart acquisition for \$16 billion for 77% of total number of shares of Indian Company.

There are two prospects where Income tax act plays a role:

- I. Withholding of tax of capital gains earned by the sellers (Flipkart Investors).
- II. Whether Flipkart India is allowed to carry forward the losses for the adjustment against income tax payable by the company.

#### **Looking towards to the First Aspect:**

Withholding tax, or retention tax, is an income tax to be paid to the government by the payer of the income rather than the recipient of the income. The tax is withheld or deducted from the income due to the recipient. In present case the withholding tax pertains to the capital gains made by the shareholders of Flipkart.

As per the provisions of the I-T law, Walmart had to deduct withholding tax on payments made to sellers and deposit it with the Indian authorities on the seventh day of the subsequent month.

Singapore Flipkart holds majority stake in Flipkart Pvt Ltd ( Flipkart India). As per the proposed deal, Walmart is expected to acquire shares of the Singapore Entity. This will effectively result in transfer of ultimate ownership in Flipkart India and the same has been considered as indirect transfer of shares.

#### **Flipkart shareholders can broadly be divided into three categories and the treatment of the same for withholding:**

1. Foreign investors whose holding is more than 5%,
  - In this case Withholding of the tax is required,
2. Foreign investors with holding less than 5%,
  - In this case Walmart is legally not required to withhold tax on payments made to foreign shareholders, (As per Section 9 (1)(i) read with Explanation 5 and 6, that is the Indirect Transfer Provisions, impose capital gain tax liability on the foreign shareholder holding shares in Flipkart Singapore. However, Explanation 7 to Section 9 (1)(i) carves out the

applicability of Explanation 5 to small investors holding no right of management or control of such company and holding less than 5% of the voting power/ share capital/ interest of the company that directly or indirectly owns the assets situated in India.

3. Indian residents.

- In this case share purchase agreement, capital gain would be charged in their hands and they have to pay 20 per cent income tax, No withholding is required as they will be required to file return. (Shareholder like: Sachin Bansal and Binny Bansal)

**Rates and lower deduction:**

According to the provisions of the income tax law, Walmart had to deduct withholding tax on payments made to sellers and deposit it with the Indian authorities on the seventh day of the subsequent month, which in this case is 7 September. Long-term capital gains tax (LTCG) is levied at 20% for shares sold by foreign investors after 24 months of purchase.

However, the I-T law also provides for a taxpayer to pay taxes at a lower or nil rate if he is eligible to claim the benefits under double taxation avoidance agreement between India and the country from where the investment was routed. (countries like Singapore and Mauritius)

**Current position of the acquisition:**

- On September 7, Walmart paid Rs 7,439 crore tax on payments it made to buy out shares of 10 major shareholders of Flipkart but had not done so for another 34 who exited the Indian e-commerce company in the USD 16 billion deal.
- After Walmart deposited Rs 7,439 crore tax, the tax department asked Walmart to explain the rationale followed while deducting or not deducting taxes from Flipkart shareholders.
- Walmart has now replied to I-T authorities reasoning out the basis of tax deduction “We take our legal obligations seriously, including paying taxes to governments where we operate. As we said before, following our Flipkart investment, we completed our tax withholding obligations under the guidance of the Indian Tax authorities.”
- Response to the above the I-T department may reach out to the shareholders directly or may write to Walmart once again if it is unsatisfied with the response. The next course of action would be on a case to case basis.
- Walmart in reply to above said, in future we will continue to work with authorities to respond to their queries, if any.

**Coming to Second Prospect regarding carry forward the losses:**

Since there is a change of shareholding by more than 49%, any tax losses of the Indian entity, would no longer be available for carry forward for future years. However, given the limitation of 8 years for carry forward of tax losses, and the fact that online marketplace model takes years to turn profitable, one may say that these may not have any real value.

It's a long road ahead on the matter for the parties involved in the transaction and the tax office. As things unfold, one would need to see, whether this is another tax dispute in the making, which only time would reveal.



-Shri Raksha .S.R

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