



PRODUCER COMPANIES – DEFINITIONS

- ▶ "active Member" means a member who fulfils the quantum and period of patronage of the Producer Company as may be required by the articles ;
- ▶ "Chief Executive" means an individual appointed as such under sub-section (1) of section 581W ;
- ▶ "limited return" means the maximum dividend as may be specified by the articles ;
- ▶ "Member" means a person or Producer institution (whether incorporated or not) admitted as a Member of a Producer Company and who retains the qualifications necessary for continuance as such ;
- ▶ "inter-State co-operative society" means a multi-State co-operative society as defined in clause (k) of section 3 of the Multi-State Co-operative Societies Act, 1984 (51 of 1984) and includes any co-operative society registered under any other law for the time being in force, which has, subsequent to its formation, extended any of its objects to more than one State by enlisting the participation of persons or by extending any of its activities outside the State, whether directly or indirectly or through an institution of which it is a constituent ;
- ▶ "mutual assistance principles" means the principles set out in sub-section (2) of section 581G ;
- ▶ "officer" includes any director or Chief Executive or Secretary or any person in accordance with whose directions or instructions part or whole of the business of the Producer Company is carried on ;
- ▶ "patronage" means the use of services offered by the Producer Company to its Members by participation in its business activities ;
- ▶ "patronage bonus" means payments made by a Producer Company out of its surplus income to the Members in proportion to their respective patronage;
- ▶ "primary produce" means -
 - produce of farmers, arising from agriculture (including animal husbandry, horticulture, floriculture, pisciculture, viticulture, forestry, forest products, re-vegetation, bee raising and farming plantation products), or from any other primary activity or service which promotes the interest of the farmers or consumers ; or
 - produce of persons engaged in handloom, handicraft and other cottage industries ;
 - any product resulting from any of the above activities, including by-products of such products ;
 - any product resulting from an ancillary activity that would assist or promote any of the aforesaid activities or anything ancillary thereto ;
 - any activity which is intended to increase the production of anything referred to in sub-clauses (i) to (iv) or improve the quality thereof ;
- ▶ "producer" means any person engaged in any activity connected with or relatable to any primary produce ;



- "Producer Company" means a body corporate having objects or activities specified in section 581B and registered as Producer Company under this Act ;
- "Producer institution" means a Producer Company or any other institution having only producer or producers or Producer Company or Producer Companies as its member whether incorporated or not having any of the objects referred to in section 581B and which agrees to make use of the services of the Producer Company or Producer Companies as provided in its articles.
- "withheld price" means part of the price due and payable for goods supplied by any Member to the Producer Company ; and as withheld by the Producer Company for payment on a subsequent date.

INCORPORATION OF PRODUCER COMPANIES AND OTHER MATTERS

OBJECTS OF PRODUCER COMPANY

The objects of the Producer Company shall relate to all or any of the following matters, namely: -

- production, harvesting, procurement, grading, pooling, handling, marketing, selling, export of primary produce of the Members or import of goods or services for their benefit:
Provided that the Producer Company may carry on any of the activities specified in this clause either by itself or through other institution ;
- processing including preserving, drying, distilling, brewing, vinting, canning and packaging of produce of its Members ;
- manufacture, sale or supply of machinery, equipment or consumables mainly to its Members ;
- providing education on the mutual assistance principles to its Members and others
- rendering technical services, consultancy services, training, research and development and all other activities for the promotion of the interests of its Members ;
- generation, transmission and distribution of power, revitalisation of land and water resources, their use, conservation and communications relating to primary produce ; (g) insurance of producers or their primary produce ;
- promoting techniques of mutuality and mutual assistance ;
- welfare measures or facilities for the benefit of Members as may be decided by the Board ;
- any other activity, ancillary or incidental to any of the activities referred to in clauses (a) to (i) or other activities which may promote the principles of mutuality and mutual assistance amongst the Members in any other manner ;



- financing of procurement, processing, marketing or other activities specified in clauses (a) to (j) which include extending of credit facilities or any other financial services to its Members.

NOTE: Every Producer Company shall deal primarily with the produce of its active Members for carrying out any of its objects specified in this section.

FORMATION OF PRODUCER COMPANY AND ITS REGISTRATION

- Any ten or more individuals, each of them being a producer or any two or more Producer institutions, or a combination of ten or more individuals and Producer institutions, desirous of forming a Producer Company having its objects specified in section 581B and otherwise complying with the requirements of this Part and the provisions of this Act in respect of registration, may form an incorporated Company as a Producer Company under this Act.
- If the Registrar is satisfied that all the requirements of this Act have been complied with in respect of registration and matters precedent and incidental thereto, he shall, within thirty days of the receipt of the documents required for registration, register the memorandum, the articles and other documents, if any, and issue a certificate of incorporation under this Act.
- A Producer Company so formed shall have the liability of its Members limited by the memorandum to the amount, if any, unpaid on the shares respectively held by them and be termed a company limited by shares.
- The Producer Company may reimburse to its promoters all other direct costs associated with the promotion and registration of the company including registration, legal fees, printing of a memorandum and articles and the payment thereof shall be subject to the approval at its first general meeting of the Members.
- On registration under sub-section (1), the Producer Company shall become a body corporate as if it is a private limited company to which the provisions contained in this Part apply, without, however, any limit to the number of Members thereof, and the Producer Company shall not, under any circumstance, whatsoever, become or be deemed to become a public limited company under this Act.

MEMBERSHIP AND VOTING RIGHTS OF MEMBERS OF PRODUCER COMPANY

- Voting
 - In a case where the membership consists solely of individual members, the voting rights shall be based on a single vote for every Member, irrespective of his shareholding or patronage of the Producer Company.
 - In a case where the membership consists of Producer institutions only, the voting rights of such Producer institutions shall be determined on the basis of their participation in the business of the Producer Company in the previous year, as may be specified by articles :
Provided that during the first year of registration of a Producer Company, the voting rights shall be determined on the basis of the shareholding by such Producer institutions.



- In a case where the membership consists of individuals and Producer institutions, the voting rights shall be computed on the basis of a single vote for every Member.
- The articles of any Producer Company may provide for the conditions, subject to which a Member may continue to retain his membership, and the manner in which voting rights shall be exercised by the Members.
- Notwithstanding anything contained in sub-section (7) or sub-section(2), any Producer Company may, if so authorised by its articles, restrict the voting rights to active Members, in any special or general meeting.
- No person, who has any business interest which is in conflict with business of the Producer Company, shall become a Member of that Company.
- A Member, who acquires any business interest which is in conflict with the business of the Producer Company, shall cease to be a Member of that Company and be removed as a Member in accordance with articles.

BENEFITS TO MEMBERS

- Subject to provisions made in articles, every Member shall initially receive only such value for the produce or products pooled and supplied as the Board of Producer Company may determine, and the withheld price may be disbursed later in cash or in kind or by allotment of equity shares, in proportion to the produce supplied to the Producer Company during the financial year to such extent and in such manner and subject to such conditions as may be decided by the Board.
- Every Member shall, on the share capital contributed, receive only a limited return :
Provided that every such Member may be allotted bonus shares in accordance with the provisions contained in section 581ZJ.
- The surplus if any, remaining after making provision for payment of limited return and reserves referred to in section 581ZI, may be disbursed as patronage bonus, amongst the Members, in proportion to their participation in the business of the Producer Company, either in cash or by way of allotment of equity shares, or both, as may be decided by the Members at the general meeting.

MEMORANDUM OF PRODUCER COMPANY

The memorandum of association of every Producer Company shall state : -

- the name of the company with "Producer Company Limited" as the last words of the name of such Company;
- the State in which the registered office of the Producer Company is to situate ;
- the main objects of the Producer Company shall be one or more of the objects specified in section 581B ;



- the names and addresses of the persons who have subscribed to the memorandum ;
- the amount of share capital with which the Producer Company is to be registered and division thereof into shares of a fixed amount ;
- the names, addresses and occupations of the subscribers being producers, who shall act as the first directors in accordance with sub-section (2) of section 581J ; (g) that the liability of its members is limited ;
- opposite to the subscriber's name the number of shares each subscriber takes : Provided that no subscriber shall take less than one share ;
- in case the objects of the Producer Company are not confined to one State, the States to whose territories the objects extend.

ARTICLES OF ASSOCIATION

- There shall be presented, for registration to the Registrar of the State to which the registered office of the Producer Company is, stated by the memorandum of association, to be situate : -
 - memorandum of the Producer Company ;
 - its articles duly signed by the subscribers to the memorandum.
- The articles shall contain the following mutual assistance principles, namely : -
 - the membership shall be voluntary and available, to all eligible persons who, can participate or avail of the facilities or services of the Producer Company, and are willing to accept the duties of membership ;
 - each Member shall, save as otherwise provided in this Part, have only a single vote irrespective of the share holding ;
 - the Producer Company shall be administered by a Board consisting of persons elected or appointed as directors in the manner consistent with the provisions of this Part and the Board shall be accountable to the Members;
 - save as provided in this Part, there shall be limited return on share capital ;
 - the surplus arising out of the operations of the Producer Company shall be distributed in an equitable manner by : -
 - ✓ providing for the development of the business of the Producer Company ;
 - ✓ providing for common facilities ; and
 - ✓ distributing amongst the Members, as may be admissible in proportion to their respective participation in the business ;
 - provision shall be made for the education of Members, employees and others, on the principles of mutuality and techniques of mutual assistance ;
 - the Producer Company shall actively co-operate with other Producer Companies (and other organisations following similar principles) at local, national or international level so as to best serve the interest of their Members and the communities it purports to serve.



➤ Without prejudice to the generality of the foregoing provisions of sub-sections (1) and (2), the articles shall contain the following provisions, namely :-

- the qualifications for membership, the conditions for continuance or cancellation of membership and the terms, conditions and procedure for transfer of shares ;
- the manner of ascertaining the patronage and voting right based on patronage ;
- subject to the provisions contained in sub-section (1) of section 581N, the manner of constitution of the Board, its powers and duties, the minimum and maximum number of directors, manner of election and appointment of directors and retirement by rotation, qualifications for being elected or continuance as such and the terms of office of the said directors, their powers and duties, conditions for election or co-option of directors, method of removal of directors and the filling up of vacancies on the Board, and the manner and the terms of appointment of the Chief Executive ;
- the election of the Chairman, term of office of directors and the Chairman, manner of voting at the general or special meetings of Members, procedure for voting, by directors at meetings of the Board, powers of the Chairman and the circumstances under which the Chairman may exercise a casting vote ;
- the circumstances under which, and the manner in which, the withheld price is to be determined and distributed;
- the manner of disbursement of patronage bonus in cash or by issue of equity shares, or both ;
- the contribution to be shared and related matters referred to in subsection (2) of section 581Z I ;
- the matters relating to issue of bonus shares out of general reserves as set out in section 581Z J ;
- the basis and manner of allotment of equity shares of the Producer Company in lieu of the whole or part of the sale proceeds of produce or products supplied by the Members ;
- the amount of reserves, sources from which funds may be raised, limitation on raising of funds, restriction on the use of such funds and the extent of debt that may be contracted and the conditions thereof ;
- the credit, loans or advances which may be granted to a Member and the conditions for the grant of the same ;
- the right of any Member to obtain information relating to general business of the company ;
- the basis and manner of distribution and disposal of funds available after meeting liabilities in the event of dissolution or liquidation of the Producer Company ;
- the authorisation for division, amalgamation, merger, creation of subsidiaries and the entering into joint ventures and other matters connected therewith ;
- laying of the memorandum and articles of the Producer Company before a special general meeting to be held within ninety days of its registration ;
- any other provision, which the Members may, by special resolution recommend to be included in articles.

AMENDMENT OF MEMORANDUM

➤ A Producer Company shall not alter the conditions contained in its memorandum except in the cases, by the mode and to the extent for which express provision is made in this Act.



- A Producer Company may, by special resolution, not inconsistent with section 581B, alter its objects specified in its memorandum.
- A copy of the amended memorandum, together with a copy of the special resolution duly certified by two directors, shall be filed with the Registrar within thirty days from the date of adoption of any resolution referred to in sub-section (2):
Provided that in the case of transfer of the registered office of a Producer Company from the jurisdiction of one Registrar to another, certified copies of the special resolution certified by two directors shall be filed with both the Registrars within thirty days, and each Registrar shall record the same, and thereupon the Registrar from whose jurisdiction the office is transferred, shall forthwith forward to the other Registrar all documents relating to the Producer Company.
- The alteration of the provisions of memorandum relating to the change of the place of its registered office from one State to another shall not take effect unless it is confirmed by the National Company Law Tribunal / Company Law Board on petition.

AMENDMENT OF ARTICLES

- Any amendment of the articles shall be proposed by not less than two-third of the elected directors or by not less than one-third of the Members of the Producer Company, and adopted by the Members by a special resolution.
- A copy of the amended articles together with the copy of the special resolution, both duly certified by two directors, shall be filed with the Registrar within thirty days from the date of its adoption.

OPTION TO INTER-STATE CO-OPERATIVE SOCIETIES TO BECOME PRODUCER COMPANIES

- Notwithstanding anything contained in sub-section (1) of section 581C, any inter-State co-operative society with objects not confined to one State may make an application to the Registrar for registration as Producer Company under this Part.
- Every application under sub-section (1) shall be accompanied by -
 - a copy of the special resolution, of not less than two-third of total members of inter-State co-operative society, for its incorporation as a Producer Company under this Act ;
 - a statement showing -
 - ✓ names and addresses or the occupation of the directors and Chief Executive, if any, by whatever name called, of such co-operative ; and
 - ✓ list of members of such inter-State co-operative society ;
 - a statement indicating that the inter-State co-operative society is engaged in any one or more of the objects specified in section 581B;
 - a declaration by two or more directors of the inter-State co-operative society certifying that particulars given in clauses (a) to (c) are correct.
- When an inter-State co-operative society is registered as a Producer Company, the words "Producer Company Limited" shall form part of its name with any word or expression to show its identity preceding it.



- On compliance with the requirements of sub-sections (1) to (3), the Registrar shall, within a period of thirty days of the receipt of application, certify under his hand that the inter-State co-operative society applying for registration is registered and thereby incorporated as a Producer Company under this Part.
- A co-operative society formed by producers, by Federation or Union of co-operative societies of producers or co-operatives of producers, registered under any law for the time being in force which has extended its objects outside the State, either directly or through a union or federation of co-operatives of which it is a constituent, as the case may be, and any Federation or Unions of such co-operatives, which has so extended any of its objects or activities outside the State, shall be eligible to make an application under sub-section (1) and to obtain registration as a Producer Company under this Part.
- The inter-State co-operative society shall, upon registration under sub-section (1), stand transformed into a Producer Company, and there-after shall be governed by the provisions of this Part to the exclusion of the law by which it was earlier governed, save insofar as anything done or omitted to be done before its registration as a Producer Company, and notwithstanding anything contained in any other law for the time being in force, no person shall have any claim against the co-operative institution or the company by reason of such conversion or transformation.
- Upon registration as a Producer Company, the Registrar of Companies who registers the company shall forthwith intimate the Registrar with whom the erstwhile inter-State co-operative society was earlier registered for appropriate deletion of the society from its register.

EFFECT OF INCORPORATION OF PRODUCER COMPANY

Every shareholder of the inter-State co-operative society immediately before the date of registration of Producer Company (hereafter referred to as the transformation date) shall be deemed to be registered on and from that date as a shareholder of the Producer Company to the extent of the face value of the shares held by such shareholder.

VESTING OF UNDERTAKING IN PRODUCER COMPANY

- All properties and assets, movable and immovable, of, or belonging to, the inter-State co-operative society as on the transformation date, shall vest in the Producer Company.
- All the rights, debts, liabilities, interests, privileges and obligations of the inter-State co-operative society as on the transformation date shall stand transferred to, and be the rights, debts, liabilities, interests, privileges and obligations of, the Producer Company.
- Without prejudice to the provisions contained in sub-section (2), all debts, liabilities and obligations incurred, all contracts entered into and all matters and things engaged to be done by, with or for, the society as on the transformation date for or in connection with their purposes, shall be deemed to have been incurred, entered into, or engaged to be done by, with or for, the Producer Company.



- All sums of money due to the inter-State co-operative society immediately before the transformation date, shall be deemed to be due to the Producer Company.
- Every organisation, which was being managed immediately before the transformation date by the inter-State co-operative society shall be managed by the Producer Company for such period, to such extent and in such manner as the circumstances may require.
- Every organisation which was getting financial, managerial or technical assistance from the inter-State co-operative society, immediately before the transformation date, may continue to be given financial, managerial or technical assistance, as the case may be, by the Producer Company, for such period, to such extent and in such manner as that company may deem fit.
- The amount representing the capital of the erstwhile inter-State co-operative society shall form part of the capital of the Producer Company.
- Any reference to the inter-State co-operative society in any law other than this Act or in any contract or other instrument shall be deemed to be reference to the Producer Company.
- If, on the transformation date, there is pending any suit, arbitration, appeal or other legal proceeding of whatever nature by or against the inter-State co-operative society, the same shall not abate, be discontinued or be in any way prejudicially affected by reason of the incorporation of the Producer Company under section 581C or transformation of the inter-State co-operative society as a Producer Company under section 581J, as the case may be, but the suit, arbitration, appeal or other proceeding, may be continued, prosecuted and enforced by or against the Producer Company in the same manner and to the same extent as it would have, or may have been continued, prosecuted and enforced by or against the inter-State co-operative society as if the provisions contained in this Part had not come into force.

CONCESSION, ETC., TO BE DEEMED TO HAVE BEEN GRANTED TO PRODUCER COMPANY

With effect from the transformation date, all fiscal and other concessions, licences, benefits, privileges and exemptions granted to the inter-State co-operative society in connection with the affairs and business of the inter-State cooperative society under any law for the time being in force shall be deemed to have been granted to the Producer Company.

PROVISIONS IN RESPECT OF OFFICERS AND OTHER EMPLOYEES OF INTER-STATE CO-OPERATIVE SOCIETY

- Notwithstanding anything contained in section 581-O, all the directors in the inter-State co-operative society before the incorporation of the Producer Company shall continue in office for a period of one year from the transformation date and in accordance with the provisions of this Act.
- Every officer or other employee of the inter-State co-operative society (except a director of the Board, Chairman or Managing Director) serving in its employment immediately before the transformation date shall, insofar as such officer or other employee is employed in connection with the inter-State co-operative



society which has vested in the Producer Company by virtue of this Act, become, as from the transformation date, an officer or, as the case may be, other employee of the Producer Company and shall hold his office or service therein by the same tenure, at the same remuneration, upon the same terms and conditions, with the same obligations and with the same rights and privileges as to leave, leave travel concession, welfare scheme, medical benefit scheme, insurance, provident fund, other funds, retirement, voluntary retirement, gratuity and other benefits as he would have held under the erstwhile inter-State cooperative society if its undertaking had not vested in the Producer Company and shall continue to do so as an officer or, as the case may be, other employee of the Producer Company.

- Where an officer or other employee of the inter-State co-operative society opts under sub-section (2) not to be in employment or service of the Producer Company, such officer or other employee shall be deemed to have resigned.
- Notwithstanding anything contained in the Industrial Disputes Act, 1947 or in any other law for the time being in force, the transfer of the services of any officer or other employee of the inter-State co-operative society to the Producer Company shall not entitle such officer or other employee to any compensation under this Act or under any other law for the time being in force and no such claim shall be entertained by any court, tribunal or other authority.
- The officers and other employees who have retired before the transformation date from the service of the inter State co-operative society and are entitled to any benefits, rights or privileges, shall be entitled to receive the same benefits, rights or privileges from the Producer Company.
- The trusts of the provident fund or the gratuity fund of the inter-State cooperative society and any other bodies created for the welfare of officers or employees shall continue to discharge functions in the Producer Company as was being done hitherto in the inter-State co-operative society and any tax exemption granted to the provident fund or the gratuity fund would continue to be applied to the Producer Company.
- Notwithstanding anything contained in this Act or in any other law for the time being in force or in the regulations of the inter-State co-operative society, no director of the Board, Chairman, Managing Director or any other person entitled to manage the whole or substantial part of the business and affairs of the inter-State co-operative society shall be entitled to any compensation against the inter-State co-operative society or the Producer Company for the loss of office or for the premature termination of any contract of management entered into by him with the inter-State cooperative society.



COMMERCIAL PAPER

COMMERCIAL PAPER

Money Market Instruments: Commercial Paper

The concept of Commercial Paper (CP) was originated in USA in early 19th century when commercial banks monopolised and charged high rate of interest on loans and advances.

In India, the CP was introduced in January 1990 on the recommendation of Vaghul Committee subject to various conditions.

Commercial Paper (CP) is a Rupee Denominated Short Term; Unsecured Negotiable Usance Promissory Note issued by Indian public sector and private sector Companies.

The maturity varies between 15 days and one year with the 91 days variety being the most commonly issued one. CP is issued at a discount to the face value.

CP is in the form of physical security, transferable by Endorsement and Delivery or in a dematerialized form approved and registered by SEBI.

Eligible investors in CP are Individuals, Corporate, Unincorporated Bodies, Insurance Companies and Banks.

The purpose of introduction of CP was to release the pressure on bank funds for small and medium sized borrowers and at the same time allowing highly rated companies to borrow directly from the market.

Role of RBI

As a regulatory body, RBI lays down the policies and guidelines with regard to commercial paper to maintain a control on the operational aspects of the scheme.

- Prior approval of RBI is required before a company can issue CP in the market.
- RBI controls the broad timing of the issue to ensure orderly fund-raising.
- Every issue of CP launched by a company, including roll-over will be treated as fresh issue and the issuing company will be required to seek prior permission from RBI, before each roll-over.
- RBI approval is valid for 2 weeks only.
- RBI guidelines prohibits the banks from providing any underwriting support or co-acceptance of issue of CP.



Printing of Commercial Paper

Issuer has to ensure that CP is printed on good quality security paper and that necessary precautions are taken to guard against tampering with the documents, since CP will be freely transferable by endorsement and delivery. CP should be signed by at least 2 authorised signatories and authenticated by the issuer's agent (bank).



Benefits of Commercial Paper

CPs have been introduced in the Indian market so as to provide a diversified source of funding to the borrowers as well as an additional investment option to the investors. CPs can now be issued as a low cost alternative to bank financing to meet a part of working capital requirements.

Benefits to the Issuer

- Low interest expenses: The interest cost associated with the issuance of CP is normally expected to be less than the cost of bank financing, as among other things, it is related to the inter-corporate money market rate, which in normal times is within the cost of bank finance.
- Access to short term funding: CP issuance provides a company with increased access to short term funding sources. By bringing the short term borrower into direct contact with investors.
- Flexibility and liquidity: CP affords the issuer increased flexibility and liquidity in matching the exact amount and maturity of its debt to its current working capital requirement.
- Investor recognition: The issuance of CP provides the issuer with favourable exposure to major institutional investors as well as wider distribution of its debt.
- Ease and low cost of establishment: A CP programme can be established with ease at a low cost, once the basic criteria have been satisfied.



Benefits to the Investor

- Higher yield: Higher yields are expected to be generally obtainable on CP than on other short term money market instruments like bank deposits.
- Portfolio Diversification: Commercial Paper provides an attractive avenue for short term portfolio diversification.
- Flexibility: CPs can be issued for periods ranging from 15 days to less than one year, thereby affording an opportunity to precisely match cash flow requirements.

Effective Yield of commercial paper is given by:

$$Y = \frac{(F-P)}{P} \times \frac{365}{M} \times 100$$

Please note that F-P denotes discount. As far as CP is concerned, the yield to an investor and the cost to the company are not the same. A company incurs additional costs apart from interest payable to investor. They include rating charges, Issuing and Paying Agent (IPA) charges and stamp duty. Thus these three charges add to the cost of the issuer.



Illustration 1.

Mr. A purchased a commercial paper of Zenith Inc. Issued for 6 months in the market for ₹9,61,000. The company issued the CP with a face value of ₹10,00,000. Determine the rate of return which Mr. A earns.

Solution

$$\text{Rate of return} = \left(\frac{F-P}{P} \right) \times \frac{12}{M} \times 100$$

Given F = ₹10 lakhs, P = ₹9.61 lakhs, M = 6 months

Therefore the yield to issuer = return of Mr. A = 8.11%



Illustration 2.

Suppose a company issues a Commercial Paper as per the following details:

Date of Issue	: 17 th January 2014
Date of Maturity	: 17 th April 2014
No. of Days	: 90 days
Face Value	: ₹1000
Issue Price	: ₹985
Credit Rating Exp.	: 0.5% of the size of issue
IPA charges	: 0.35%
Stamp Duty	: 0.5%

What is the cost of the commercial paper?

Solution

We know that — $\frac{\text{Face Value} - \text{Sale Price}}{\text{Sale Price}} \times \frac{360}{\text{Maturity Period}} = \text{cost of CP}$

Numerator = Total Discount = Discount + Rating Charges + IPA charges + Stamp Duty

Therefore Discount [on FV ₹1000] = ₹(15+5+5+3.5) = ₹28.5

$$\text{Cost of CP} = \frac{28.5}{985} \times \frac{360}{90} = 0.1157 \text{ or } 11.60\%$$



Illustration 3.

Given the following details you are required to calculate the effective interest p. a. as the total cost of funds to BRGL which is planning a CP issue.

Issue price of C. P.	= ₹98,250
Face value	= ₹1,00,000
Maturity period	= 3 months
Issue Expenses:	
Brokerage	0.025% of issue amount (for 3 months)
Rating charges	0.5% p.a.
Stamp duty	0.125% (for 3 months).

Solution

$$\text{Effective interest} = \left(\frac{F-P}{P} \right) \times \frac{12}{M} \times 100$$

Substituting the given values of F, P and M we get,

$$\text{Effective Interest} = 7.12\%$$

Cost of funds to the company

$$\text{Effective interest rate} = 7.12\%$$

Brokerage

$$(0.025 \times 4) = 0.1\%$$

$$\text{Rating charges} = 0.5\%$$

$$\text{Stamp duty} = 0.5\%$$

$$(0.125 \times 4)$$

$$\text{Total cost of Funds to BRGL} = 8.22\% \text{ p.a.}$$



ASSESSMENT OF CO- OPERATIVE SOCIETIES

SYSTEMATIC STUDY

Section 2(19) of Income-tax Act, 1961 has defined a co-operative society as: a society registered under the Co-operative Societies Act, 1912, or under any other law for the time being in force in any state for the registration of Co-operative societies.

Computation of Total Income

The Total income of a co-operative society is also computed in the manner in which income of any other assessee is computed. The first and foremost step in this direction is to ascertain gross total income by calculating income under the four relevant heads and then deductions permissible under Chapter VIA i.e. sections 80G to 80P are deducted. The following deductions are available to co-operative societies under Chapter VIA:

Sl. No.	Section	Particulars
1.	80G	Donations to certain funds/charitable institutions, etc.
2.	80GGA	Certain donations for scientific research or rural development
3.	80GGC	Donation in respect of contributions given by any person to political Parties
4.	80-IA	Profits and gains of new industrial undertakings or enterprises engaged in infrastructure development
5.	80-IB	Profits and gains from certain industrial undertakings other than infrastructure development undertakings
6.	80-IC	Special provisions in respect of certain undertaking, or enterprises in certain special category States
7.	80-ID	Deduction in respect of profits and gains from business of hotels and convention centres in specified area
8.	80-IE	Special provisions in respect of certain undertakings in North-Eastern States
9.	80JJA	Deduction in respect of profits and gains from business of collecting and processing of bio-degradable waste
10.	80JJAA	Deduction in respect of employment of new workmen
11.	80P	Income of co-operative societies.

The gross total income, minus the above deductions, if available, is known as the Total Income.



Deduction in respect of income of Co-operative Societies [Section 80P]

(A) Where 100% deduction is allowed

In the case of the following co-operative societies, 100% deduction is allowable in respect of following incomes:

(I) Profits attributable to certain specified activities [Section 80P(2)(a)]: 100% of the profits, included in Gross Total Income, attributable to any one or more of the following activities are deductible:

(i) Carrying on the business of banking or providing credit facilities to its members; or

As per section 80P(4), the provisions of section 80P shall not be available to any co-operative bank other than a primary agricultural credit society or a primary co-operative agricultural and rural development bank.

However, deduction shall still be available to a co-operative society which is engaged in the business of providing credit facilities to its members. Regional Rural Banks are not eligible to take deduction under section 80P. **[Circular No. 6/2010, dated 29-0-2010].**

1. "Co-operative bank" means a state co-operative bank, a central co-operative bank and a primary co-operative bank.
2. "Primary Co-operative Bank" means a co-operative society, other than a primary agricultural credit society—
 - (1)** the primary object or principal business of which is the transaction of banking business;
 - (2)** the paid-up shares capital and reserves of which are less than ₹1,00,000; and
 - (3)** the bye-laws of which do not permit admission of any other co-operative society as a member. However, this provision shall not apply to the admission of a Co-operative Bank as a member by reason of such co-operative Bank subscribing to the share capital of such co-operative society out of funds provided by the State Government for the purpose.
3. As per part V of the Banking Regulation Act, 1949, unless the context otherwise requires, "primary agricultural credit society" means a co-operative society,—
 - (i)** the primary object or principal business of which is to provide financial accommodation to its members for agricultural purposes or for purposes connected with agricultural activities (including the marketing of crops); and
 - (ii)** the bye-laws of which do not permit admission of any other co-operative society as member.

However, the above sub-clause shall not apply to the admission of a co-operative bank as a member by reason of such co-operative bank subscribing to the share capital of such co-operative society out of funds provided by the State Government for the purpose.

The term 'primary co-operative agricultural and rural development bank' has now been defined to mean a society whose area of operation is confined to a taluka and has as its principal object the provision of long-term credit for specified activities.



The assessee-society was providing credit mainly to its members and its transactions with non-members were insignificant. Moreover the bye laws of society did not allow any co-operative society to become its member. On appeal it was held that the assessee was not a co-operative bank rather it was a co-operative society and therefore its claim for deduction under section 80P(2)(a)(i) was to be allowed. **[Quepem Urban Co-operative Credit Society Ltd. v ACIT (2015) 58 taxmann.com 113 (Bom)]**

Where assessee was not a credit co-operative bank but a credit co-operative society and receipt of and lending money was confined to its members only it was held that deduction under section 80P could not be denied by applying exclusion clause of sub-section (4) of section 80P which is applicable only for a co-operative bank. **[Shree Laxmananda Multipurpose Co-operative Society Ltd. v ITO (2014) 52 taxmann.com 104 (Bangalore) (Trib): (2014) 34 ITR(T) 472 (Bangalore) (Trib)]**

- (ii) a cottage industry; or
- (iii) the marketing of the agricultural produce grown by its members; or
- (iv) the purchase of agricultural implements, seeds, livestock or other articles intended for agriculture for the purpose of supplying them to its members; or
- (v) the processing, without the aid of power, of the agricultural produce of its members; or
- (vi) the collective disposal of the labour of its members; or
- (vii) fishing or allied activities, that is to say, the catching, curing, processing, preserving, storing or marketing of fish or the purchase of materials and equipment in connection therewith for the purpose of supplying them to its members.

However, in case of co-operative societies falling under clause (vi) and (vii) above, the deduction, is available subject to the condition that the rules and bye-laws of the society restrict the voting rights to the following classes of its members, namely:—

- (1) the individuals who contribute their labour or, as the case may be, carry on the fishing or allied activities;
- (2) the co-operative credit societies which provide financial assistance to the society;
- (3) the State Government.

(II) Profits of certain primary co-operative societies [Section 80P(2)(b)]: 100% of the profits, included in Gross Total Income are deductible in the case of a co-operative society, being a primary society engaged in supplying milk, oilseeds, fruits or vegetables raised or grown by its members to:

- (i) a federal co-operative society, being a society engaged in the business of supplying milk, oilseeds, fruits, or vegetables, as the case may be; or
- (ii) the Government or a local authority; or
- (iii) a Government company or a statutory corporation (being a company or corporation engaged in supplying milk, oilseeds, fruits or vegetables, as the case may be, to the public).



Where district societies like the assessee collected milk from primary societies at village or taluk level and thereafter processed the milk and supplied it to the affiliated federal societies, it was held that the assessee was one step above the primary co-operative societies. The assessee was a federal co-operative society not only collecting and supplying milk but also processing the milk. The processing activities carried on by the assessee did not match the expression "being a primary society engaged in supplying the milk" used under section 80P(2)(b) of the Act. Therefore, the assessee was not entitled to deduction under section 80P of the Act. **[Asst. CIT v Salem District Co-op. Milk Producers Union Ltd. (2009) 313 ITR (AT) 43 (Chennai)].**

- (III) Income from investment with other co-operative societies [Section 80P(2)(d)]:** 100% of the profits, included in Gross Total Income are deductible in respect of any income by way of interest or dividends derived by the co-operative society from its investments with any other co-operative society.

Assessee, a co-operative society, rendered variety of services to its members against collection of annual subscription from them. It received interest from co-operative societies and co-operative banks. Assessing Officer held that deduction under section 80P(2)(d) would be available to assessee only on net income from interest received from co-operative societies/co-operative banks, which will have to be worked out after determining and deducting expenses debited to income and expenditure account relating to earning of such income. Court held that view of Assessing Officer was held to be justified. **[CIT v U.P. Co-operative Sugar Factories (2013) 219 Taxman 33 (All)].**

Where assessee, a co-operative society, having accepted deposits from its members, kept idle funds with bank, since there was no nexus between interest earned on said deposits and business of assessee providing credit facilities to its members, it could not claim deduction under section 80P(2)(d) in respect of interest income in question. **[State Bank of India Employees Co-Op. Credit & Supply Society Ltd. v CIT (2015) 57 taxmann.com 367 (And) (Trib)]**

- (IV) Income from letting of "godowns or warehouse" [Section 80P(2)(e)]:** 100% of the profits, included in Gross Total Income are deductible in respect of any income derived by the co-operative society from the letting of godowns or warehouses for storage, processing or facilitating the marketing of commodities.

(B) Where deduction is allowed to a limited extent

In the following cases, the co-operative societies are entitled to deduction to a limited extent:—

- (1) Co-operative society engaged in other activities [Section 80P(2)(c)]:** In the case of a co-operative society engaged in activities, other than those specified in I and II of (A) above, either independently or in addition to, all or any of the activities so specified, the profits and gains attributable to such other activities upto the limits indicated below are deductible.



- (i) where such co-operative society is a consumers' co-operative society ₹1,00,000
(ii) in any other case ₹50,000.

1. Consumer co-operative means a society for the benefit of consumers
2. Where the assessee co-operative society, supplied coal and diesel to its members for use in production of bricks and tiles, the society was not a 'consumer' co-operative society as the purchases by the members was not for , their own consumption, **[Tamil Nadu Brick and Tiles Manufacturers Industrial Service Co-operative Society Ltd vs CIT (2004) 265 ITR 332 (Mad)]**

- (2) **Entire income by way of interest on securities or income from house property if gross total income of a co-operative society (other than specified co-operative society) does not exceed ₹20,000 [Section 80P(2)(f)]:** 100 % of the income from interest on securities or income from house property shall be allowed as deduction in case of a co-operative society not being—

- (i) a housing society or
- (ii) an urban consumer society, or
- (iii) a society carrying on transport business, or
- (iv) a society engaged in the performance of any manufacturing operation with the aid of power provided its gross total income does not exceed ₹20,000.

Urban Consumer Co-operative Society means a society for the benefit of the consumers within the limits of municipal corporation, municipality, municipal committee, notified area committee, town area or cantonment.

Where an assessee is also entitled to deduction u/s 80-IA, deduction u/s 80P shall be allowed with reference to such profits and gains as reduced by the deduction allowed under those Sections. [Section 80P(3)]

Rates of Tax

For the assessment years 2015-16 and 2016-17:

Net Income Range	Rate of Income Tax
Upto ₹ 10,000	10%
Next ₹ 10,000	20%
Balance Income	30%

Surcharge @ 10% (raised to 12% w.e.f. AY 2016-17) shall be applicable if the total income of the co-operative society exceeds ₹1 crore.

Education cess: Education cess @ 2% shall be levied on the total tax including surcharge if any payable by the assessee.



SHEC: SHEC @ 1% shall be levied on the total tax including surcharge if any (exclusive of education cess) payable by the assessee.

Besides, the above normal rates, certain incomes of the co-operative societies, like other assessees, are taxable at special rates.

Alternate Minimum Tax (AMT) on all persons other than companies [Section 115JC to 115JF Chapter XII-BA]

AMT, which was hitherto applicable to LLP only, has been made applicable to all assessees other than a company.

- (1) All persons other than a company required to pay alternate minimum tax [Section 115JC(1)]:** Where the regular income-tax payable for a previous year by a person (other than a company) is less than the alternate minimum tax payable for such previous year, the adjusted total income shall be deemed to be the total income of such person and he shall be liable to pay income-tax on such total income at the rate of 18.5%.
- (2) Meaning of adjusted total income [Section 115JC(2)]:** "Adjusted total income" shall be the total income before giving effect to provisions of this Chapter i.e. Chapter XII-BA as increased by the deductions, if any, claimed—
 - (a)** under sections 80-IA to 80RRB other than section 80P included in Chapter VI-A,
 - (b)** under section 10AA, and
 - (c)** under section 35AD as reduced by the amount of depreciation allowable in accordance with the provisions of section 32 as if no deduction under section 35AD was allowed in respect of the assets on which the deduction under that section is claimed (inserted by the Finance (No. 2) Act, 2014, w.e.f. A.Y. 2015-16).

Example:

Total income	₹60
Deduction claimed under Chapter VI-A	₹ 40
Deduction claimed under section 35AD on a capital asset	₹100

Computation of adjusted total income for the purposes of AMT

Total income	₹ 60
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Addition:

(i) deduction under Chapter VI-A (on non-specified business)	₹ 40
(ii) deduction under section 35AD (on specified business)	₹ 100
Less: depreciation under section 32	₹ 15
Adjusted total income under section 115JC	₹ 185



- (i) "alternate minimum tax" shall be the amount of tax computed on adjusted total income at a rate of 18.5%; **[Section 115JF(b)]**
- (ii) "regular income-tax" shall be the income-tax payable for a previous year by a person other than a company on his total income in accordance with the provisions of the Act other than the provisions of Chapter XII-BA. **[Section 115JF(d)]**

(3) Report from an accountant [Section 115JC(3)]: Every person to whom this section applies shall obtain a report, in Form No. 29C, from an accountant, certifying that the adjusted total income and the alternate minimum tax have been computed in accordance with the provisions of this Chapter and furnish such report on or before the due date of furnishing of return of income under section 139(1).

(4) To whom AMT shall be applicable [Section 115JEE(1)]

The provisions of AMT shall apply to a person who has claimed any deduction under:

- (a) sections 80-IA to 80RRB other than section 80P;
- (b) section 10AA; or
- (c) section 35AD.

(5) To whom AMT shall not be applicable [Section 115JEE(2)]

The provisions of AMT under Chapter XII-BA shall not apply to—

- (a) an individual or
- (b) a Hindu undivided family or
- (c) an association of persons or a body of individuals (whether incorporated or not) or
- (d) an artificial juridical person referred to in section 2(31)(vii),

if the adjusted total income of such person does not exceed ₹20,00,000.

(6) Tax credit for AMT Section 115JD: The credit for tax (tax credit) paid by a person on account of AMT under Chapter XII-BA shall be allowed to the extent of the excess of the AMT paid over the regular income-tax. This tax credit shall be allowed to be carried forward up to the tenth assessment year immediately succeeding the assessment year for which such credit becomes allowable. It shall be allowed to be set off for an assessment year in which the regular income-tax exceeds the AMT to the extent of the excess of the regular income-tax over the AMT.

No interest shall be payable on tax credit allowed under section 115JD.

(7) Benefit of tax credit will be available even if section 115JEE(1) & (2) not applicable [Section 115JEE(3)]

Notwithstanding anything contained in section 115JEE(1) or section 115JEE(2), the credit for tax paid under section 115JC shall be allowed in accordance with the provisions of section 115JD.



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Illustration:

Greenfield Society is a co-operative society, engaged in processing agricultural produce of its members. It carries on its activities without the aid of power. It furnishes the following particulars of its income for the previous year 2015-16. Determine the total income tax payable by the society for the assessment year 2016-17.

	₹
1. Income from processing of agricultural produce	38,500
2. Income from marketing of the agricultural produce	12,000
3. Dividends from other co-operative societies	41,400
4. Income from letting out of its godowns	24,000
5. Income from commission	91,000

Solution:

	₹	₹
Income from letting out of godowns		24,000
Business Income:		
(i) From processing of agricultural produce	38,500	
(ii) From marketing of agricultural produce	12,000	
(iii) Commission income	91,000	1,41,500
Income from other Sources		
- Dividend Income		41,400
Gross Total Income		2,06,900
Less: Deduction under section 80P		
(i) from processing of agricultural produce	38,500	
(ii) from marketing of agricultural produce	12,000	
(iii) commission income exempt upto ₹50,000	50,000	
(iv) letting out of godowns	24,000	
(v) dividend income	41,400	1,65,900
Total income		41,000
Tax on ₹41,000		
First ₹10,000 – 10%		1,000
Next ₹10,000 – 20%		2,000
Balance ₹21,000 – 30%		6,300
		9,300
Add: Education cess & SHEC - @ 3%		279
Total tax payable (round off)		9,580



SERVICE EXPORTS FROM INDIA SCHEME (SEIS): AN ASPECT OF FOREIGN TRADE POLICY

The objective of reward/ incentive schemes is to provide rewards to exporters to offset infrastructural inefficiencies and associated costs involved and to provide exporters a level playing field. There shall be following two schemes for exports of Merchandise and Services respectively:

- (i) Merchandise Exports from India Scheme (MEIS).
- (ii) Service Exports from India Scheme (SEIS).

Duty Credit Scrips shall be granted as rewards under MEIS and SEIS. The Duty Credit Scrips and goods imported / domestically procured against them shall be freely transferable. Objective of Merchandise Exports from India Scheme (MEIS) is to offset infrastructural inefficiencies and associated costs involved in export of goods/products, which are produced/ manufactured in India, especially those having high export intensity, employment potential and thereby enhancing India's export competitiveness.

In this newsletter, we will discuss Service Exports from India Scheme (SEIS) in detail.

SERVICE EXPORTS FROM INDIA SCHEME (SEIS): Objective of Service Exports from India Scheme (SEIS) is to encourage export of notified Services from India.

(1) Eligibility:

(A) Manner of rendering services: Service Providers of notified services, located in India, shall be rewarded under SEIS, subject to conditions as may be notified. Only Services rendered on or after 1-04-2015 in the manner given below shall be eligible:

- (i) Supply of a 'service' from India to any other country; (Mode 1 - Cross border trade)
- (ii) Supply of a 'service' from India to service consumer(s) of any other country in India; (Mode2- Consumption abroad). [words 'in India' inserted w.e.f. 01-04-2015]

In other words, services rendered in the following manners, shall not be eligible:

- (I) Supply of a 'service' from India through commercial presence in any other country. (Mode 3- Commercial Presence.)
- (II) Supply of a 'service' from India through the presence of natural persons in any other country (Mode 4- Presence of natural persons.)

(B) Minimum NFE (Net free Foreign Exchange) of preceding Financial Year: To be eligible for Duty Credit Scrip, such service provider should have minimum Net free Foreign Exchange (NFE) earnings of the following amount in preceding financial year —

- (i) For individual service providers and sole proprietorship : US \$10,000;
- (ii) Any other case : US\$15,000,



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(C) Deemed NFE: Payment in Indian Rupees for service charges earned on specified services, shall be treated as receipt in deemed foreign exchange as per guidelines of Reserve Bank of India.

(D) Computation of NFE for service sector only: Net Foreign exchange earnings for the scheme = Gross Earnings of Foreign Exchange - Total expenses/payment/remittances of Foreign Exchange by the IEC (Importer-Exporter Code) holder, relating to service sector in the Financial year.

Computation for service sector only: If the IEC holder is a manufacturer of goods as well as service provider, then the foreign exchange earnings and Total expenses/ payment/ remittances shall be taken into account for service sector only.

(E) Service provider must have active IEC: In order to claim reward under the scheme, Service provider shall have to have an active IEC at the time of rendering such services for which rewards are claimed.

The notified services and rates of rewards are listed as follows:

SI No	SECTORS	Admissible Rate
(1)	<p>Business Services —</p> <p>(A) Professional services : Legal services, Accounting, auditing and bookkeeping services, Taxation services, Architectural services, Engineering services, Integrated engineering services, Urban planning and landscape architectural services, Medical and dental services, Veterinary services, Services provided by midwives, nurses, physiotherapists and paramedical personnel</p> <p>(B) Research and development services: R&D services on natural sciences, R&D services on social sciences and humanities, Interdisciplinary R&D services</p> <p>(C) Rental/Leasing services without operators: Relating to ships, Relating to aircraft, Relating to other transport equipment, Relating to other machinery and equipment</p> <p>(D) Other business services: Advertising services, Market research and public opinion polling services Management consulting service, Services related to management consulting, Technical testing and analysis services, Services incidental to agricultural, hunting and forestry, Services incidental to fishing, Services incidental to mining, Services incidental to manufacturing, Services incidental to energy distribution, Placement and supply services of personnel, Investigation and security, Related scientific and technical consulting services, Maintenance and repair of equipment (not including maritime vessels, aircraft or other transport equipment), Building- cleaning services, Photographic services, Packaging services, Printing, publishing and Convention services</p>	<p>5%</p> <p>5%</p> <p>5%</p> <p>3%</p>
(2)	<p>Communication Services —</p> <p>Audiovisual services: Motion picture and video tape production and distribution service, Motion picture projection service, Radio and</p>	5%



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	television services, Radio and television transmission services, Sound recording.	
(3)	Construction And Related Engineering Services — General Construction work for building, General Construction work for Civil Engineering, Installation and assembly work, Building completion and finishing work	5%
(4)	Educational Services (Note 1) — Primary education services, Secondary education services, Higher education services, Adult education	5%
(5)	Environmental Services — Sewage services, Refuse disposal services, Sanitation and similar services	5%
(6)	Health-Related And Social Services — Hospital services	5%
(7)	Tourism And Travel-Related Services — (A) Hotels and Restaurants (including catering) (i) Hotel (ii) Restaurants (including catering) (B) Travel agencies and tour operators services (C) Tourist guides services	 3% 3% 5% 5%
(8)	Recreational, Cultural And Sporting Services (other than audiovisual services) — Entertainment services (including theatre, live bands and circus services), News agency services, Libraries, archives, museums and other cultural services, Sporting and other recreational services	5%
(9)	Transport Services (Note 2) — (A) Maritime Transport Services: Passenger transportation*, Freight transportation*, Rental of vessels with crew*, Maintenance and repair of vessels, Pushing and towing services, Supporting services for maritime transport (B) Air transport services: Rental of aircraft with crew, Maintenance and repair of aircraft, Airport Operations and ground handling (C) Road Transport Services: Passenger transportation, Freight transportation, Rental of Commercial vehicles with operator, Maintenance and repair of road transport equipment, Supporting services for road transport services (D) Services Auxiliary To All Modes of Transport : Cargo-handling services, Storage and warehouse services, Freight transport agency services	 5% 5% 5% 5%

Notes:

- (i) Under education services, SEIS shall not be available on Capitation fee.
- (ii) *Operations from India by Indian Flag Carriers only are allowed under Maritime transport services.



(2) Ineligible categories under SEIS:

- (a) Foreign exchange remittances other than those earned for rendering of notified services would not be counted for entitlement. Thus, other sources of foreign exchange earnings such as equity or debt participation, donations, receipts of repayment of loans etc. and any other inflow of foreign exchange, unrelated to rendering of service, would be ineligible.
- (b) Following shall not be taken into account for calculation of entitlement under the scheme:
- (i) Foreign Exchange remittances :
 - (A) Related to Financial Services Sector;
 - (B) Raising of all types of foreign currency Loans;
 - (C) Export proceeds realization of clients;
 - (D) Issuance of Foreign Equity through ADRs / GDRs or other similar instruments;
 - (E) Issuance of foreign currency Bonds;
 - (F) Sale of securities and other financial instruments;
 - (G) Other receivables not connected with services rendered by financial institutions; and
 - (H) Earned through contract/regular employment abroad (e.g. labour remittances);
 - (ii) Payments for services received from EEFC Account;
 - (iii) Foreign exchange turnover by Healthcare Institutions like equity participation, donations etc.
 - (iv) Export turnover relating to services of units operating under SEZ / EOU / EHTP / STPI / BTP Schemes or supplies of services made to such units; [Amended by Notification No: 8/2015-2020 dated 04-06-2015]
 - (v) Clubbing of turnover of services rendered by SEZ / EOU /EHTP / STPI / BTP units with turnover of DTA Service Providers;
 - (vi) Exports of Goods.
 - (vii) Foreign Exchange earnings for services provided by Airlines, Shipping lines service providers plying from any foreign country X to any foreign country Y routes not touching India at all.
 - (viii) Service providers in Telecom Sector.

- (3) Remittances through Credit Card and other instruments for MEIS and SEIS:** Free Foreign Exchange earned through international credit cards and other instruments, as permitted by RBI shall also be taken into account for computation of value of exports.

Policy Circular No. 1/2015 – 20 dated 11.06.2015: SEZ is 'Indian Territory' and supply of a service to SEZs is not eligible for rewards under SEIS: Only Services rendered in the specified manner of this policy shall be eligible for rewards.



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*Specified manner is supply of a 'service' from India to any other country; (Mode 1- Cross border trade) and supply of a 'service' from India to service consumer(s) of any other country in India; (Mode 2-Consumption abroad).

Thus, this policy makes it abundantly clear that 'supply' of a service to any other country only is eligible for SEIS benefits under Mode 1. Since SEZ is 'Indian Territory' supply of a service to SEZs is not eligible for rewards under SEIS.

Therefore it is clarified that regardless of the amendment notified vide Notification No. 08/2015-2020 dated 04-06-2015 (through which export turnover relating to services of units operating under SEZ Scheme or supplies of services made to such units has been deleted from the list of ineligible categories under SEIS thereby making supply of a 'service' from SEZ to other countries eligible for SEIS benefits), supply of a 'service' by units located in DTA to SEZ units was and shall continue to remain ineligible for rewards under SEIS as explained above.

Illustration 1: ABC Ltd., a service exporter of specified service, having net free foreign exchange earnings or US \$ 26,000 during preceding financial year, requires you to compute its duty credit scrip entitlement for the current financial year under the Service Exports from India Scheme (SEIS) from the following information -

- (1) Supply from India to US : \$ 32,000 (Expenses incurred US \$ 1,500)
- (2) Amount of \$ 4,000 (net of expenses) realised on behalf of client who is also an exporter of specified services.

Notified rate for SEIS is 5%.

Solution:

Service providers of notified services who have earned minimum net free foreign exchange earnings of US \$ 15,000 in preceding financial year are eligible for Duty Credit Scrip. Since ABC Ltd. is eligible for SEIS benefit, as its NFE (net free foreign exchange earnings) during preceding financial year was US \$ 26,000 it is eligible for SEIS benefit.

The SEIS benefit is computed below:

	Gross (\$)	Expenses in foreign exchange (\$)	NFE of current year (\$)
Supply from India to US - Eligible	32,000	1,500	30,500
Realization on behalf of client	Ineligible	Ineligible	Ineligible
Total	32,000	1,500	30,500
Credit scrip entitled @ 5 % of \$ 30,500			1,525

Reportable Segments



An enterprise deals in multiple products / services and operates in different geographical areas. Multiple products / services and their operations in different geographical areas are exposed to different risks and returns.

Information about multiple products / services and their operation in different geographical areas are called segment information. Such information is used to assess the risk and return of multiple products / services and their operation in different geographical areas.

Disclosure of such information is called segment reporting.

Reportable segment is a business segment or a geographical segment identified on the basis of their definitions for which segment information is required to be disclosed by the statement.

Business segment or geographical segment which has been identified as reportable segment shall be further divided to include sub-segments based on the following conditions:

- Segment Revenue from sales to external customers and internal transfer is 10% or more than total external and internal revenue of all segments.
Or
- 10% or more of segment result
(Segment result means: If some segments are in loss then total of loss of all loss-making segments or if some segments are in profit, total profit of all profit-making segments. Whichever is higher i.e., total profit or total loss figure in absolute term.)
Or
- Segment asset is 10% or more than total assets of all segments.
- All the above three criteria must be applied first and –



- Further, Management may at its discretion choose any segment as reportable segment even if such segment does not fulfill the criteria stated above.
- Ensure whether at least 75% of total external revenue should be in the reportable segments.
- If 75% of total external revenue is not in the reportable segments, then additional reportable segments should be identified ignoring 10% threshold limits until at least 75% of total external revenue is included in reportable segments.

Note: Any segment, which was reportable segment in the previous year on the fulfillment of 10% threshold limit, should be reportable segment during current year even if 10% threshold limit in current year is not fulfilled.

Example: 1

The Chief Accountant of BHD Ltd. gives the following data regarding its six segments:

							₹ in Lakhs	
Particulars	M	N	O	P	Q	R	Total	
Segment Assets	50	25	10	5	5	5	100	
Segment Results	(50)	(140)	80	10	(10)	10	(100)	
Segment Revenue	200	320	200	90	90	100	1000	

Determine the reportable segments as per AS – 17.

Solution:

As per AS -17 a business segment or a geographical segment should be identified as a reportable segment if:

Its revenue from sales to external customers and from other transactions with other segments is 10% or more of the total revenue — external and internal of all segments. Hence, M,N,O and R reportable segments as the revenue is 10% or more of the total revenue.

Or,

Its segment result whether profit or loss is 10% or more of

- The combined result of all segments in profit; or
- The combined result of all segments in loss, in absolute terms.

Hence M,N and O have at least 10% of Total Segment Result i.e. ₹200 lakhs.

Or,

Its segment assets are 10% or more of the total assets of all segments. M,N and O have at least 10% of Total Segment Assets.



Timing Differences and Permanent Differences



Timing Differences and Permanent Differences —

Timing Differences

1. As per AS 22, Timing Differences are those differences between Taxable Income and Accounting Income for a period which arise in one period and are capable of reversal in one or more subsequent periods.
2. Deferred Tax should be recognized for all timing differences.
3. Timing Difference results in Deferred Tax Asset (DTA) if future tax saving is expected from it due to less Accounting Income (or more Accounting Loss) for Current period.

(a) As per AS 22, DTA in case of unabsorbed depreciation or carry forward of losses should be recognized and carried forward only to the extent that there is virtual certainty supported by convincing evidence that sufficient future taxable income will be available against which such deferred tax assets can be realized.

(b) As per AS 22, DTA in other cases should be recognized and carried forward only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized.

4. Timing Difference results in Deferred Tax Liability (DTL) if future tax loss is expected from it due to more Accounting income (or less Accounting Loss) for Current period.

Example:

- Unabsorbed depreciation and carry forward of losses which can be set -off against future taxable income.

Permanent Differences

1. Permanent Differences are the differences between Taxable Income and Accounting Income for a period which arise in one period but do not reverse subsequently. For instance, if for the purpose of computing taxable income, the tax laws allow only a part of an item of expenditure, the disallowed amount would result in a permanent difference.

2. Permanent Difference does not result in Deferred Tax and as a consequence no Deferred Tax Asset or Deferred Tax Liability is created.

Example:

- Agricultural Income.



- Classify of the following as Timing Difference and Permanent Difference, state whether such Difference result in Deferred Tax Liability or Deferred Tax Asset and state the extent to which Deferred Tax Asset should be recognized and carried forward as per AS 22
 - Interest on loans from Scheduled Banks not paid till due date of filing Return of Income but accounted as an expenditure in the books.
 - Difference in Depreciation Rates as per Income Tax and as per Books.
 - Unabsorbed Losses & Depreciation
 - Donations
 - Income Tax Penalty
 - Revaluation Reserve.
 - Agricultural Income

Nature of Difference and DTA & DTL

Item	Nature of Difference	DTL/DTA	Extent of DTA
Interest on loans from Scheduled Banks not paid till due date of filing Return of Income	Timing	DTA	As per AS 22. DTA should be recognized and carried forward only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized.
Difference in Depreciation Rates	Timing	DTA/DTL	As per AS 22,DTA, should be recognized and carried forward only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized.
Unabsorbed Losses & Depreciation	Timing	DTA	As per AS 22.DTA should be recognized and carried forward only to the extent that there is virtual certainty supported by convincing evidence that sufficient future taxable income will be available against which such deferred tax assets can be realized.
Donations	Permanent	No DTA/DTL is to be created.	—
Income Tax Penalty	Permanent	No DTA/DTL is to be created.	—
Revaluation Reserve	Permanent	No DTA/DTL is to be created.	—
Agricultural Income.	Permanent	No DTA/DTL is to be created.	—



Discounted Cash Flow Method



The value of money earns a given amount of interest over a given period of time.

Example: ₹100 of today's money invested for one year and earning 5% interest will be worth ₹105 after one year. Today's ₹100 is more valuable than tomorrow's ₹100.

Discounted Cash Flow (DCF) approach is also known as the Income approach, where the value is determined by calculating the net **present value** of the stream of benefits generated by the asset. DCF approach equals the enterprise value to all future cash flows discounted to the present, using the appropriate discount rate.

Present value (PV) is the value on a given date of a future payment or series of future payments, discounted to reflect the time value of money and other factors.

$$PV = \frac{C}{i}$$

C: constant cash flow in an unlimited year in the future

i : discount rate

DCF approach has its foundation in the present value rule, where the value of any asset is the present value of expected future cash flows.

Here,

$$DCF = CF_1/(1+r)^1 + CF_2/(1+r)^2 + CF_3/(1+r)^3 \dots + CF_n/(1+r)^n$$

$$DCF \text{ Value} = \sum_{t=1}^{t=n} \frac{CF_t}{(1+r)^t}$$

Where,

n = Life of the asset

CF = Cash flow in period t

R = Discoun rate reflecting the riskiness of the estimated cash flows



The cash flows will vary from asset to asset for example – dividends for stocks, interest for coupons , the face value for the bonds and after tax cash flows for a real project. The discount rate will be a function of the riskiness of the estimated cash flows, which is high for riskier assets and low for safer assets.

For example, If DCF is applied for valuation of a asset say machinery:

A Ltd. is having a machine of carrying amount ₹200 lakhs as on 31.03.2009. Its balance useful life is 5 years and residual value at the end of 5th year is ₹10 lakhs. Estimated future cash flows from the machine for the next five years are:

Year	Estimated cash flow (₹ in lakhs)
2010	52
2011	34
2012	32
2013	28
2014	32

Compute the value of the machine, discount rate is 15%.

Here,

The value of the Machine will be the P.V. of future cash flow

Year	Future cash flow ₹	Discount rate @ 15%	DCF ₹
2010	52	0.870	45.24
2011	34	0.756	25.704
2012	32	0.658	21.056
2013	28	0.572	16.016
2014	32	0.497	15.904
			123.92

Present Value of residual price is ₹10 lakhs × 0.497= ₹4.97 lakhs

∴ Value of the machine is ₹(123.92+4.97)=₹128.89 lakhs.

