

Inspirational Quotes

At Infosys, we continuously endeavour to obsolete our own innovations

- N R Narayanamoorthy, Chief mentor, Infosys

If your actions inspire others to dream more, learn more, do more and become more, you are the leader

- John Quincy Adams

Leadership is doing what is right when no one is watching

- George Van Valkenburg

"Thinking is the hardest work to do, that's why so few people are engaged in it." - Henry Ford

"Risk comes from not knowing what you are doing."

- Warren Buffett



What comes after a million?

One Million = 1,000,000 = Ten Lakhs

One Billion = 1,000,000,000 = One Hundred Crore

One Trillion = 1,000,000,000,000 = One Lakh Crore

Letter 'A'

From number 0 to 1000, the letter 'A' only appears in 1000 (One thousand)

Forthcoming events

New Year Friend....

The new year friend.....its a surprise....all waiting for their friend.....the loving gift....

Tour

Its time for a break....

We are planning our annual office tour on Feb 8th & 9th.

Wow.....This time to the 'gift of the forest'Kodai.....cool.... time to relax and enjoy.....

Great that we have to book a 49 seater bus.

Exchange Programme

Two of our articled assistants are being sent to Bangalore for two months under an exchange programme.



Echo

Quarterly Newsletter - 6

December 2012

Dear Colleagues,

As we move on to yet another edition of Echo, it is overwhelming to note that our quarterly newsletter has been enthusiastically received by one and all.

I feel that the year that has come to a close has been successful one for JVR in terms of opportunities and growth.

The dawn of the new year brings heightened awareness of our expectations for the future and of the opportunities that lie ahead. Progress towards these goals calls for collective effort and inclusive participation.

The positive goals for the future and the achievements of the past year gives us a reason to recommit ourselves to upholding our collective values for a greater common good.

Expanding our knowledge base and proper execution should be our thrust areas in the coming year.

Let us make Echo, our communication channel that keeps us updated about the major happenings at JVR. I exhort all of you to kindly make use of this platform and stay connected by your contributions. Let me also take this opportunity to thank the contributors of the current and last issues of the newsletter.

Wishing you all a happy and prosperous NEW YEAR 2013.....

Anish Abraham FCA
Partner

2013 HAPPY NEW YEAR



Congratulations !!!

Our managing partner **Mr. Jomon K George FCA** has been elected to the regional council of the SIRC with a thumping majority.....

SIRC is a 14 member council representing about 40,000 chartered accountants from South India.

We wish him all the very best for a great tenure at the SIRC.

Basics on International Taxation

Backdrop

When an entity carries out transactions beyond the national borders, it is most likely to fall within the Tax radar of the other country.

Each country will have its own domestic law to tax the transactions occurring within its borders. At the same time, one country cannot tax transactions that take place in other countries. It may happen that an individual will be taxed for same income in two different countries.

Normally, questions arise as to which country has the primary right to tax, how to avail credit for tax paid in the source country at the country of residence of the recipient etc. Double Taxation Avoidance Agreement (DTAA) entered into by the nations plays an important role.

Domestic Tax Law provisions generally looked into:

Foreign Exchange Management Act, 1999 (FEMA)

FEMA enables to analyse and classify a cross border transaction as follows:

- Capital Account/ Current Account transaction,
- Permissible/ Prohibited transaction,
- General Permission/ Specific permission of RBI required,
- Entity wise classification:
Branch/ Project office/ Liaison office/
Subsidiary/ Associate

Income Tax Act, 1961

Some of the important provisions having a bearing on International transactions:

- Section 6 : Determination of Residential Status
- Section 9 : Income deemed to accrue or arise in India
- Section 40(a)(I) : Disallowance of expenditure on non deduction of tax on foreign payments.
- Section 44B/ 44BBA/ 44C: Shipping business/operation of aircraft/deduction of head office expenditure by a non resident.
- Section 44D: Determination of income from Royalty/Fees for technical services earned by a non resident.
- Section 90A : Availment of DTAA benefits
- Section 91 : Availment of tax credits when there is no DTAA
- Section 92- 92F :
Transfer Pricing Methods and audit in case of International transaction

- Section 200 : Filing of TDS return
- Section 195 : Deduction of tax on payment to non resident.
- Section 245N-245V : Application to Authority for Advance Ruling to determine tax liability in a cross border transaction
- Section 206AA : Rates of TDS in case of no PAN
- Section 115C to 115I : Special provisions applicable to non residents.

DTAA:

- Section 200 : Filing of TDS return
Some of the important aspects covered in DTAA are given below:
 - a) Persons covered,
 - b) Taxes covered,
 - c) Determination of Residence,
 - d) Permanent Establishment,
 - e) Business Profits,
 - f) Taxation of Shipping/Airlines on International Traffic etc
- Review of DTAA provisions enables to understand the following:
 - Specific definition for a transaction,
 - Determining an appropriate head of taxation

Recent Developments

- Budget 2012 Amendments
- Tax Residency Certificate a must for availing the benefit of DTAA.
- An assessee can enter into Advance Pricing Agreement with Income Tax authorities to have certainty in pricing between associated enterprises in International transaction.

FAQ

- 1) **Whether DTAA overrides Domestic Law.**
DTAA overrides to the extent it provides for any beneficial provision as compared to domestic law
- 2) **When DTAA is silent on any definition.**
In that situation, definition in domestic law has to be looked into.
- 3) **Whether amendment in Domestic Law affects DTAA**
Domestic law cannot override DTAA since it is an international agreement entered into between two independent nations. DTAA can be amended only by way of protocols.

Recent Case Law : In ref. Bosh Limited (Bangalore Bench of ITAT)

Question: Whether the provisions of section 206AA which requires that TDS has to be deducted at higher rate if the payee is not having PAN applies to international transactions where there is DTAA between the respective nations:

Held: Section 206AA will not apply to withholding of tax u/s 195

Shawn Jeff Christopher FCA
Partner

Audit Documentation

Audit documentation refers to the record of audit procedures performed, relevant audit evidence obtained, and the conclusions the auditor has formed in an audit.

It is also termed as “working papers” or “workpapers”.

The Revised SA 230 deals with the objectives and requirements of audit documentation in detail.

➤ The objective of the auditor is to prepare documentation that provides:

- a) A sufficient and appropriate record of the basis for the auditor's report; and
- b) Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.

➤ Proper documentation helps the audit engagement team in the following aspects:

- Audit planning
- Supervision and review responsibilities.
- Accountability
- Reference for future audits.
- Quality control reviews and inspections as per SQC 1.

➤ **Audit file** – One or more folders or other storage media, in physical or electronic form, containing the records that comprise the audit documentation for a specific engagement.

➤ Some examples of audit documentation include:

- Audit programme
- Analyses
- Issues memoranda.
- Summaries of significant matters.
- Letters of confirmation and representation.
- Checklists.
- Correspondence (including e-mail) concerning significant matters.

➤ The auditor shall prepare sufficient and appropriate audit documentation on a timely basis, ideally at the point of time when such work is performed.

Form, Content and Extent of Audit Documentation

➤ The audit documentation should be sufficient to enable an experienced auditor, having no previous connection with the audit, to understand:

- a) The nature, timing, and extent of the audit procedures performed to comply with the SAs and applicable legal and regulatory requirements
- b) The results of the audit procedures performed, and the audit evidence obtained; and
- c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

➤ In documenting the nature, timing and extent of audit procedures performed, the auditor shall record:

- a) The identifying characteristics of the specific items or matters tested;
- b) Who performed the audit work and the date such work was completed; and
- c) Who reviewed the audit work performed and the date and extent of such review.

➤ The auditor shall also document:

- a) Discussions of significant matters with management, those charged with governance, and others
- b) Cases of inconsistency in significant matters
- c) Departure from a relevant requirement
- d) Matters arising after the date of the auditor's report and additional procedures undertaken

Assembly of the Final Audit File

➤ The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis (ordinarily not more than 60 days) after the date of the auditor's report.

➤ Once the assembly of the final audit file has been completed, the auditor shall not delete or discard audit documentation of any nature before the end of its retention period.

➤ The retention period for audit engagements ordinarily is ten years from the date of the auditor's report, or, the date of the group auditor's report, whichever is later.

➤ SQC 1 provides that, unless otherwise specified by law or regulation, audit documentation is the property of the auditor.

Shela Jose