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Digest
An attempt to share knowledge

By

**Interns of
SBS and Company LLP**

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AUDIT

AUDIT OF HIGH SEA SALES

Contributed by Raju. D & Vetted by CA Bhyrav |

Introduction

High sea sale means a sale where goods will be sold when they are in High sea i.e., Sale transaction will be done when the goods are in transit, before the goods are entered in to customs clearance. The major benefits from High sea sale will be original importer can buy them at cheaper cost and can sell at profit, for original buyer he can buy goods in a short time, where importing from origin country will take more time, further he is not required to buy entire shipment, he can buy part shipment based on his requirement.

In this article, I am going to discuss about the Audit considerations of High sea sales.

Let us understand the meaning of High sea sale and other related definitions first, to gain comfort on those terms.

Meaning:

High sea sale refers to **“Sale of Imported Goods on High seas”** based on **“High Sea Sale Agreement”**

'High Sea Sales'(HSS) is a common trade practice where the original importer sells the goods to a third person before the goods are entered into customs clearance i.e., before filing the first bill of entry, either for home consumption or for warehousing, as the case may be.

Therefore, after the transaction of High sea sale of goods has taken place, the Customs declarations i.e. Bill of Entry etc. is filed by the person who buys the goods from the original importer during the said sale.

Definitions

❖ High sea sales agreement:

- The documentation in primary is a formal agreement on a bond paper as an agreement of sale in writing after the date of Bill of Lading (BOL) but before the date of arrival of goods to the port of destination.

❖ Bill of Entry

- Bill of Entry is a document filed by importers or customs clearance agents with the Customs Department.
- On arrival of good or before arrival of goods, bill of entry can be filed along with the requisite documents to initiate the customs clearance formalities.
- Once a bill of entry is filed, the goods are examined and assessed by proper officer of Customs.

- If bill of entry is not filed within 30 days of arrival of goods at a customs station, then the cargo can be auctioned by the authorities.
- A request for extension for filing of bill of entry can also be filed by importers within 30 days of the goods arriving in India, under special cases.

❖ Customs waters

- Section 2 (28) of the Customs Act, 1962 as defined "Indian customs waters" means the waters extending into the sea up to the limit of contiguous zone of India under section 5 of the Territorial Waters, Continental Shelf, Exclusive Economic Zone and other Maritime Zones Act, 1976 (80 of 1976).

❖ Original importer

- The person who imports the goods from outside the origin country and makes the high sea sales on the ship before the ship entering the custom's frontier of the import country.

❖ Original Buyer

- The person who purchases the goods on the ship before the ship reaches the custom's frontier of the import country.

Audit Considerations of High Sea Sales:

While conducting Audit of High sea sales the following aspects has to be considered

❖ **Completeness and accuracy:** To ensure that the sales are accurate and complete in all respects.

- The numerical sequence of the invoices raised are to be verified to confirm that no invoice has been missed from being reflected in the Sales Register/ledger. If missed obtain the reasons for the same
- Check whether any of the sales invoices are recorded duplicate
- Check if there are any unrecorded sales
- Check if there are any under or over recorded sales. If exists obtain the reasons for the same

❖ **Classification:** To ensure that all transactions have been recorded within the correct accounts in the general ledger.

❖ **Cut Off:** To ensure that amounts are correctly recorded in the proper period.

- For a sample of sales invoices around the year-end, inspect the dates and compare with the dates of dispatch and the dates recorded in the ledger for application of correct cut-off.
- Review material after-date invoices, credit notes and adjustments and ensure that they are recorded correctly in the line relevant financial period.

- ❖ **Presentation and Disclosure:** To ensure proper presentation and disclosure of Sales in accordance with relevant legislation.
- ❖ **Internal Control System:** To ensure adequate and effective internal control system with regard to sales.
 - ✓ **Customer Order**
 - ✓ **Sale Invoice**
 - Examine the mode of preparing sale invoices either electronic or manual
 - Are prenumbered sale invoices used?
 - Are sale invoices duplicated?
 - Verify the terms of each sale. In case of any revision of the terms, check the same is authorized or not
 - Whether the sale invoices are authorized
 - Ensure that the sale invoice has prepared as per the agreed rates with the customer. If it is a Auto or System generated Sales order then reconcile the master data with the Agreements
 - Ensure that there is no pending or open sale invoices for the inactive customers
 - Are sale invoices raised in line with the sale orders received
 - Whether any sale invoice is cancelled, if yes obtain reasons for such cancellation
 - Check whether all the requisite fields in the sale invoices have been filled
 - Examine the relevance and adequacy of requisite fields in the sale invoices
 - Review the client's current policies regarding sales discounts and allowances
- ❖ **Statutory Requirements:** Ensure whether the relevant statutory requirements are compiled with:
 - GST is not chargeable in the hands of original importer; hence the ultimate buyer is responsible for the payment of GST;
 - Ensure that GST is not charged in invoices of the Original Importer;
 - Reconcile high sea sales recorded in books of accounts with that of GST Returns;
 - As Bill of Entry has to be filed by the original buyer, ensure whether the documents such as Bill of Lading, Commercial Invoice, Insurance Copies etc are provided to the ultimate buyer by the original importer.

Following is the sample high sea sale agreement for ready reference:

Sample High Sea Sale Agreement

HIGH SEA SALES AGREEMENT

Know all men by these present that we, ABC Ltd., Nehru Place, New Delhi, made this High Sea Sale Agreement on _____ with XYZ Ltd., Nehru Market, Delhi as per the following terms and conditions:

1. Name of Seller : ABC Ltd., Nehru Place, New Delhi.
2. Name of Buyer : XYZ Ltd., Nehru Market, Delhi.
3. Description of Goods : As mentioned in Schedule Attached.
4. Name of Foreign Supplier : Supplier Address and Country of origin.
5. Invoice No. & Date of Foreign Supplier with details of Import Value (CIF) : Invoice No. _____ Dt. _____

FOB Value USD 00000.00 Equivalent to	Rs. 000000.00
Freight Charges	Rs. 000000.00
Insurance Charges	Rs. 000000.00
CIF Value	Rs. 000000.00
6. Master Airway bill :
7. HAWB No. & Date :
8. Flight No. & Date :
9. Invoice No. & Date of ABC Ltd., Nehru Place, New Delhi. :
10. Value of Invoice No. in Indian Rupees : (This value should be minimum 3% more than the foreign supplier)
11. Port of Discharge : New Delhi Airport
12. Delivery : All the rights and title of ownership to the above goods will be transferred by Seller to Buyer by endorsing the above Mentioned House Airway Bill in favour of said buyer.
13. Import Duty, Demurrage Charges etc. : In view of the sales of the goods on high sea, the buyer shall arrange clearing of goods from the Customs at its sole risk and responsibility. The entire expenses e.g. Import Duty, Clearing Charges, Demurrage etc. if any, will be borne by the Buyer and paid directly to the respective authorities.

This article is contributed by Raju . D, Intern of SBS and Company LLP. The author can be reached at interns@sbsandco.com

DIRECT TAX**ICDS VI - EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES**

Contributed by Indu.K & Vetted by CA Madhusudan & CA Ramprasad |

Introduction:

- Section 145(2) of the Income Tax Act, 1961 ("the Act") grants power to Central Government to notify Income Computation Disclosure Standards.
- So far 10 ICDS were notified by Central Government on 31st March, 2015. However, they are made applicable from the Assessment Year 2017 -18 with a specified deferment period of one year from date of its implementation.
- ICDS are NOT for maintenance of books of accounts, they are only for the purpose of
 - Income Computation &
 - Disclosure (*Notification S.O.892(E) dated 31.03.2015*)

Note: In the case of conflict between the provisions of the Act and the ICDS, the provisions of the Act shall prevail to that extent.

Applicability:

ICDS is applicable to assesseees

- ✓ Having income under head "Profits and gains of business or profession" or "Income from other sources" AND
- ✓ Following mercantile system of accounting.

But it is not applicable to assesseees

- ✓ Who is Individual or HUF and who are not required to get their books get audited u/s 44AB of the Act.
- ✓ Following cash system of accounting.

ICDS-VI-Effects of Changes in Foreign Exchange Rates:

This standard discusses about taxation of income earned through foreign currency transactions.

Scope:

1. Treatment of Transactions in foreign currencies.
2. Translating the Financial Statements of foreign operations.
3. Treatment of Foreign currency transactions in nature of forward exchange contract.

Definitions:

- Average rate - The mean of the exchange rates in force during the particular period.
- Closing rate - The exchange rate existing at the last day of the previous year.
- Exchange difference - The difference resulting from converting the same number of units of a foreign currency into the reporting currency of a person at different exchange rates.
- Exchange rate - The rate at which two currencies are exchanged.

- Foreign currency - Currency other than the reporting currency of a person.
- Reporting currency - **Indian Currency as per ICDS-VI.**

In order to include the exchange differences in the total income the following classification is to be followed:

- All Assets and Liabilities are classified into Monetary Items & Non-Monetary Items:
 - **Monetary items:** These are money held and assets to be received or liabilities to be paid in fixed or determinable amounts of money.
The following are the monetary items:
 - ✓ Money held i.e. cash and cash equivalents held by the entity.
 - ✓ Assets which are receivable in terms of money.
 - ✓ Liabilities which are payable in terms of money.
 - Non-monetary items: Non-monetary items are those other than monetary items.

The classification of Assets and Liabilities into Monetary item & Non-monetary items depends upon a question:

Q: If there is a right or obligation to deliver fixed or determinable amounts of currency units?

A: If yes, then it is a monetary item.

Receivable in money or Payable in money=Monetary Item

The words **receivable in money** and **payable in money** are to be focused.

Examples:

Particulars	Monetary / Non-monetary	Reason
Fixed Assets	Non-monetary	These are held by the entity and these are not receivable or payable to any as on balance sheet date.

Current Assets:

Particulars	Monetary / Non-monetary	Reason
Cash in hand & Bank	Monetary	It is the money held by the entity
Trade receivables, Bills receivables	Monetary	These are receivable from customers in terms of money

Investments:

<i>Particulars</i>	<i>Monetary / Non-monetary</i>	<i>Reason</i>
Investments in equity shares	Non-monetary	These are held by the entity and these are not receivable or payable to any as on balance sheet date.
Investment in Debentures, Government Bonds etc.	Monetary	Receivable from issuing entity

Equity and Liabilities:

<i>Particulars</i>	<i>Monetary / Non-monetary</i>	<i>Reason</i>
Debentures	Monetary	Payable in terms of money
Convertible Debentures	Non-monetary	Entity issues shares and is not liable to pay money
Share Capital	Non-monetary	It is held by the entity
Trade payables, Bills payables	Monetary	Payable in terms of money
Provisions for income tax	Monetary	Payable in terms of money

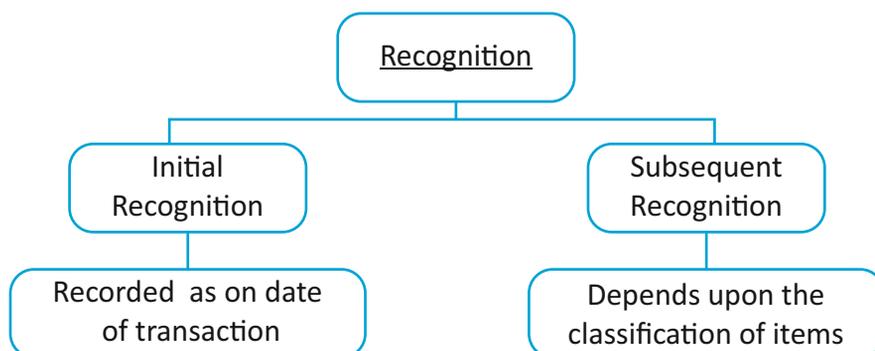
Treatment of Foreign currency Transactions directly entered by the entity:

- What is a "Foreign currency transaction"?
- It is a transaction which is denominated in (or) requires settlement in a foreign currency.

It includes the following:

- ✓ buying or selling of goods or services,
- ✓ borrowing or lending of funds,
- ✓ becomes a party to an unperformed forward exchange contract,
- ✓ acquisition or disposal of assets,
- ✓ incurs or settles liabilities, denominated in a foreign currency.

Recognition and Measurement of Assets and Liabilities is divided into two phases as below:

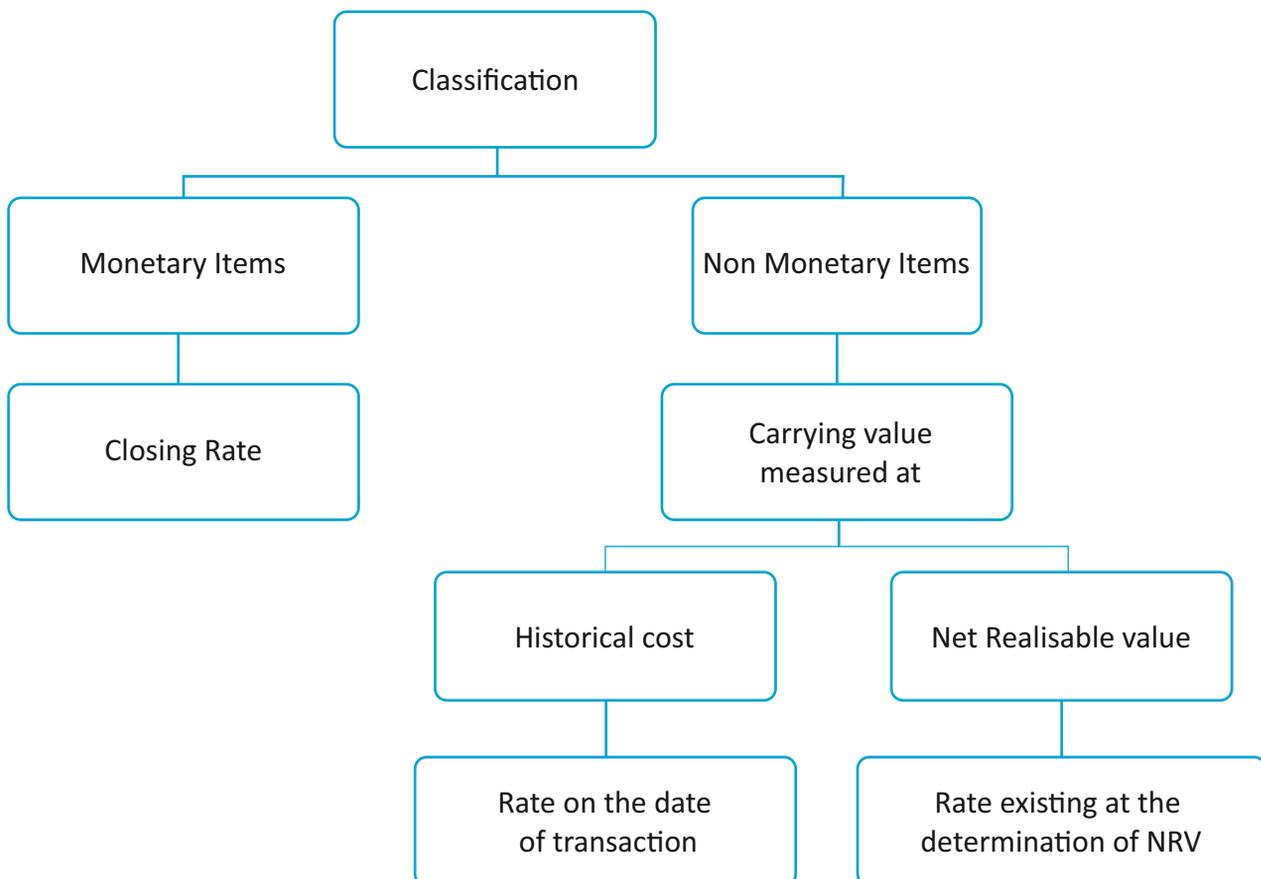


Initial Recognition:

- A Foreign Currency Transaction (FCT) is initially recorded using the exchange rate on the date of transaction.
 - ❖ Example: X ltd purchased goods of \$500 from Y ltd of Canada on 02-12-2018. The exchange rate is 1\$= Rs60. Describe recognition.
 - ❖ Answer: As per this ICDS all the transactions are initially recorded using the rate on the date of transaction. So the purchases are to be recorded at Rs.30,000.
- In case a person is dealing with number of FCT's the average rate of week or month shall be taken.
- If there is a significant fluctuation in the exchange rates the actual rate on the date of transaction shall be taken.

Subsequent Recognition:

- If any Asset or Liability continues till the Balance sheet date, then assessee should revalue i.e. remeasure its value on the Balance sheet date.
- However, its remeasurement depends upon the classification of items as follows:



Examples of Non-Monetary items that can be measured at fair value or NRV:**Inventory:**

- As per AS-2 "Valuation of Inventories" inventory is to be measured at cost or NRV whichever is lower.
- If inventory is to be measured at cost- use the rate on date of transaction.
- If inventory is to be measured at NRV – use the rate on date of valuation (i.e. Closing rate). Since inventory is valued on balance sheet date, the rate existing on the balance sheet date is to be used.

Current Investments:

- As per AS-13 "Accounting for Investments" current investments are measured at cost or fair value whichever is lower.
- If current investment is valued at Cost- consider the rate on date of transaction. If current investment is measured at Fair value – use the rate on date of valuation.

<i>Particulars</i>	<i>Net realisable value/ Fair value</i>	<i>Cost</i>
Inventory	Closing Rate	Rate on date of transaction
Current Investments	Closing Rate	Rate on date of transaction

- Exchange Differences arising as result of conversion or settlement of:
 - ✓ Monetary items shall be recorded as income (gain) or expense (loss) in the Previous Year.
 - ✓ Non-Monetary Items shall not be recorded as income or expense in the Previous Year.

Financial Statements of Foreign Operation:

- Foreign operation of a person refers to overseas Branch of such person whose activities are conducted in a country other than India.

Foreign Operation = Overseas Branch

- The same principles (as stated in classification) shall be applied for conversion of Financial Statements of a foreign operation (i.e. Branch) as if the transactions of operation had been those of the person himself.
- The Assets and liabilities of such branch shall be classified into Monetary items and Non - Monetary Items and the resulting difference (gain or loss) shall be recognised in the profit and loss account as income or expense.

Forward Exchange Contract:

- Forward exchange contract is an agreement to buy or sell the foreign currency at a pre-determined rate (i.e. Forward Rate) on a specified date.
- This Forward exchange contract also includes buying or selling of:
 - a) Foreign Currency
 - b) Foreign Currency Option
 - c) A Financial Instrument
- Forward rate is the rate agreed in forward exchange contract to exchange the two currencies, options or financial instruments at a specified date.
- These contracts are entered for any of the following purposes:
 - ✓ Hedging: This transaction is entered to minimize the loss that may occur due to changes in exchange rates.

Example: Swift Ltd. Purchased goods from Switzerland on 25-07-2018 for \$6000 with a credit period of one month i.e. on 25-08-2018. No one is aware about exchange rate on date of payment. If the dollar rate increases the liability also increases. So, in order to avoid those losses, the entity enters into a contract called Forward exchange contract.

- ✓ Trading or speculation purposes: The main objective of this activity is to grab the advantage of changes in exchange rates.

Example: In continuation to the above example If Swift Ltd. expects that dollar rate rises to Rs.65 the entity will enter into Forward exchange contract today where dollar rate is Rs.62 to sell the units either at end of credit period or on any day whenever it is profitable to the entity.

- ✓ Other than above two (as per ICDS highly probable forecast transaction)
- The premium or discount in this contract is measured by the difference between the exchange rate on the date of transaction and forward rate agreed in the contract.
- The exchange difference of the contract is the difference between closing rate or settlement rate (if settled) and inception rate of contract or opening rate whichever is later.
- The premium or discount shall be recognised on the Date of Settlement.

Comparisons:

S.no	Points of comparison	ICDS-VI	AS- 11
1	Applicability	As stated above	Applicable to level 1,2and 3 entities
2	Foreign Operation includes	Only Branch	Branch, Associate, Subsidiary
3	Types of Foreign Operation	It does not specify the types	Foreign operations are divided into: – Integral
4	Forward Exchange Contract includes	foreign currency, foreign options, other financial instruments	only foreign currency
5	Disclosure	No disclosure requirements	The amount of exchange differences included in Net profit to be disclosed

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FEMA

CHALLENGES TO THE SHELL COMPANIES IN INDIA

Contributed by Vaishnavi.A& Vetted by CA Murali krishna |

General Meaning of Shell Company:

The Companies Act does not define “**Shell Company**” and no other piece of Legislation provides for the guidance on what does it constitutes; however, the general definition is understood as:

“A shell company is a company that exists only on papers, without active business operations or significant assets and has no office or employees. These types of companies are not necessarily be illegal, but they are sometimes used illegitimately, such as to disguise business ownership from law enforcement or the public. Legitimate reasons for a shell company include such things as a start up using the business entity as a vehicle to raise, funds, conduct a hostile takeover or to go public.”

**Background and its rapid evolution:**

Historically, these companies were deliberate arrangements created to benefit from favourable tax treaties. This explained the limited economic activity. However, over time these innocuous companies were used for unscrupulous activities.

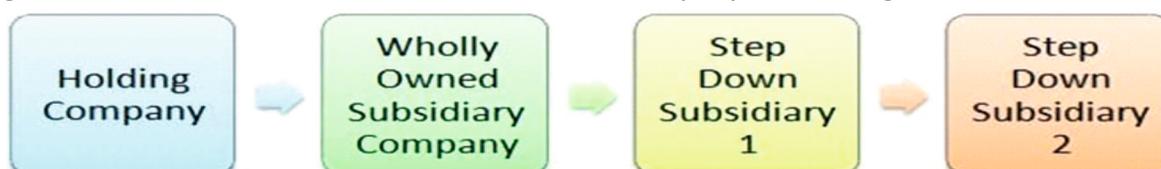
Today, the ascent of a shadow economy is no surprise. Though this system has existed since the very inception of the term ‘economy’, what’s surprising is how shell companies are mushrooming around the world. The clandestine activities which govern these shell companies, like carrying out business transactions for cash, evading taxes, and dodging regulations flourish during times of financial uncertainty.

The Need to know about the Shell Company:

If you end up investing in a shell company, or in entities which set up a shell company, your money could be used for illegal purposes and may not even be recoverable given the government crackdown on these entities.

**Is a Shell Company always illegal?**

A Shell Company may be legal or illegal. There are many shell companies which work within the legal limits. For example, a company may create a subsidiary to look after only its HR functions but not to engage in its main trade or business. It would be a shell company but not illegal.



The term 'shell company' is mostly used to refer illegal shell companies and such companies should be identified based on purpose of their creation.

Objectives and purpose of formation of Shell Companies:

The below mentioned purposes are beyond the permitted legal limits and can result into illegal shell companies (the list is not exhaustive):

1. Companies formed as multiple layers to hide the identities of real / beneficial owner such that it becomes difficult to locate the precise ownership, persons or business operations.
2. Tax evasion/Tax avoidance
3. For money laundering and siphoning off the black money. This is the major reason why shell companies suddenly started being discovered during the demonetization drive of November 2016. A significant number of shell companies were used to deposit surplus cash so that there would not be excessive deposits of cash by the original holders. There were instances of shell companies being created based on stolen/ fake identities of people who had no idea about how their identity documents were being used.
4. For Ponzi schemes. Fraudsters can use shell companies for defrauding people by creating Ponzi schemes so that eventually, when the fraud is discovered, the box or the company is all that finally remained and the real people behind the entity would have escaped, probably out of the country.
5. For shifting incomes to tax neutral jurisdictions. This happens in international transactions to evade tax in the source country.

Laws Violated:

Below are major laws violated by shell companies having connection with India through conducting the above activities in illegal way:

1. The Companies Act, and in specific The Companies (Restriction on the number of layers) rules, 2017
2. Securities and Exchange Board of India Act and rules made thereunder
3. Benami Transactions Prohibition (Amendment) Act, 2016
4. Prevention of Money Laundering Act, 2002
5. Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015
6. Indian Penal Code
7. The Income Tax Act, 1961, and in specific PoEM Guidelines issued by CBDT



Challenges around the Shell companies in India:

1. Firstly, there is no legal definition for Shell Company under Companies Act, 2013 or under any other corporate law
2. Secondly, there is no specific law to deal with only the Shell Companies. The recent procedures are done under the Benami Transaction (Prohibition) Amendment Act, 2016; Prevention of Money Laundering Act, 2002; the Companies Act, 2013, and Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015
3. Thirdly, it is difficult to gather data on transactions and difficult to distinguish between genuine and illegal shell companies. Transactions from multiple accounts can make tracking difficult. Existence of complex corporate structure in India also makes it difficult to find the shell companies.

Examples of Major Fraud Disclosures about the Shell companies:

- In 2013, Offshore Leaks
- In 2016, Panama Papers

**How Shell companies turn black money to white and vice-versa?**

There are numerous procedures for converting the white money to black and vice-versa. One of such procedures as followed is described below in nutshell for basic understanding:

- 1st. Company A, in need of cash for various transactions, **writes a cheque to shell company B** and accounts for it as payment of commission. Company B returns the money as cash (after taking a small cut). This way, company A has obtained cash for various illicit payoffs, but has managed to account for it in its books (making it tax deductible). In this process, **white money is converted to black.**
- 2nd. Company B shows the 'income' from company A as **contractual income** instead of commission to avoid GST.
- 3rd. To avoid income tax on these earnings, **company B shows payments are made to another shell companies towards fulfilment of contracts.**
- 4th. **The money is routed to a further clutch of companies – C, D, E & F**, who account for it as share capital. All these money flows are notional – no actual money flows to these firms.
- 5th. **These four companies can now be 'sold' off** to others who want to convert black money to white. Anyone who wants to do this, buys the shares of the company at a huge discount to book value (i.e. paying say, 1 for a share worth 50). Depending on your requirements and how much you want to launder, there are shell companies of different size available.
- 6th. By doing this, **the buyer has gained the control of a company**, whose assets are 'clean' by only a fraction of the cost in white. It's similar to buying land by paying part of the value in black and part in white.
- 7th. The buyer can bring in the black money into the company – and **convert it into white** – by organising small cash payments through various banks, and into the account of the company.
- 8th. The shell company operator acts as an intermediary or a broker between two different players. **One wants to convert white to black and the other wants to do the opposite.**

Status of companies registered in India:

Data from the ministry of corporate affairs showed that 67% of the 17.87 lakh companies registered in India were active at the end of July 2018, amid the government continuing its clampdown on shell companies. There were more than 11.98 lakh active companies as of July-end. Active companies are those carrying out normal business activities and make their statutory filings to the stock exchanges on time.

Out of the total number of 17.87 lakh registered companies in India, 5.43 lakh were closed as on July 31, and 1,381 were classified as dormant. As many as 38,802 companies were in the process of being struck-off while 6,111 were under liquidation. Among those struck off, 103 companies were in the process of being reactivated, according to the ministry.

In terms of economic activities, 3.74 lakh companies were into business services and 2.37 lakh entities were engaged in manufacturing and other lines of work. Business services include information technology (IT), research and development, law and consultancy.

Government of India Initiatives:

Formation of Task force (for Tackling the malpractices through Shell companies) and its composition:



The actions began with the financial regulators launching a two-pronged attack on shell companies. The 'Task Force' was set up in February 2017 by the Prime Minister's Office under the joint Chairmanship of the Revenue Secretary, MoF and Secretary, MCA with a mandate to check in a systematic way, through a coordinated multi-agency approach, the menace of companies indulging in illegal activities including facilitation of tax evasion and commonly referred to as 'Shell Companies'. Department of Financial Services, CBDT, CBEC, CBI, ED, SFIO, FIU-IND, RBI, SEBI, DG GSTI and DG-CEIB are its Members.

In terms of economic activities, 3.74 lakh companies were into business services and 2.37 lakh entities were engaged in manufacturing and other lines of work. Business services include information technology (IT), research and development, law and consultancy.

Actions proposed to be taken by members of Task Force in tackling the shell companies:

- Government had requested the Reserve Bank of India (RBI) for freezing of accounts of the defaulting companies who have long exceeded the stipulated time limit, for filing the financial statements and returns under the Companies Act, 2013.
- To help the genuine corporates in regularizing their pending returns, the Condonation of Delay Scheme, 2018 was brought in by Central Government. It was effective from 1.01.2018 to 1.05.2018
- SEBI has asked stock exchanges to verify the credentials of suspect companies by appointing an independent auditor. If exchanges do not find appropriate fundamentals about the existence of the company, the stock can be delisted.
- Centre has initiated action against more than two lakh shell companies as part of Operation Clean Money.



- Ministry of Corporate Affairs (MCA) and Central Board of Direct Taxes (CBDT) have signed MoU for automatic and regular exchange of tax information. The purpose of the MoU is to curb the menace of shell companies, money laundering and black money in the country and prevent misuse of corporate structure by shell companies for various illegal purposes.
- Income tax act provides that a company would be treated as resident in India on the one of the conditions that, if its Place of Effective Management (PoEM) in the previous year was in India, thereby making many shell companies fall under its scope
- Serious Fraud Investigation Office (SFIO) is creating a database of shell companies, and sharing to all required regulators
- Task Force has directed all member Law Enforcement Agencies to send to Institute of Chartered Accountants of India (ICAI), the details of action taken by them against Chartered Accountants involved in such malpractices, if any.

Achievements of the Task force since its formation:

The major achievements of the Task Force include the compilation of a database of shell companies by SFIO. This database, as on date, comprises of 3 lists, viz the Confirmed List, Derived List and Suspect List. The Confirmed List has confirmed shell companies based on the information received from the various Law Enforcement Agencies of the companies found to be involved in illegal activities. The Derived List has companies identified based on 100% common directorships with the confirmed shell companies. The Suspect List has suspected shell companies and has been drawn up by SFIO using certain Red Flag Indicators.



MINISTRY OF CORPORATE AFFAIRS

In the drive conducted by MCA, it targeted the shell companies with deregistration. The first point of attack was the companies which have not filed their financial statements as per Section 248 of The Companies Act 2013.

During the First Drive in the previous Financial Year 2017-18, over two lakhs companies were struck off under this section and MCA placed a list of these companies ROC wise on their website. Further MCA has also put up a list of directors associated with these companies. The directors of the companies were disqualified to act as directors of any other entities for a period of five years. The banking operations of these companies were also restricted, and the directors were disallowed from operating their bank accounts.

And Initiatives to be taken under the 2nd drive during the current Financial Year 2018-19 and the appropriate actions will be taken.

SEBI directed to stock exchanges to initiate action against 331 suspected shell companies and ban them from trading. BSE and NSE moved 162 and 48 companies into Stage-VI of the Graded Surveillance Measure (GSM), implying these stocks would not be available for active trading.

Suggestions considered by Task Force:

One of the key issues hampering the investigations and prosecutions against entities involved in financial irregularities has been lack of a proper and uniform definition for “shell companies”. It has arrived at a criterion to define the “shell companies” and it has suggested some possible parameters to define if a company has been set up to launder money or exploit regulatory arbitrage. Government is expected to come out soon with definition of shell companies based on these suggestions.

Conclusion:

Tackling of shell companies in India is on full-fledged mode to protect the interests of the investors thereby to ensure the ease of doing business and reducing the menace of black money will over time result in higher tax revenue which will not only help the government enhance public spending but will also lower the tax burden on honest taxpayers.

This article is contributed by Vaishnavi.A, Intern of SBS and Company LLP. The author can be reached at interns@sbsandco.com

SATURDAY SESSIONS

S.No.	Event	Date	Speaker	Venue
1	Loans under The Companies Act, 2013 - Part II	09/03/2019	Arun	SBS - Hyd
2	Concept of Agent under GST		Bharadwaja	SBS - Hyd
3	Foreign remittance : Fee for technical services	16/03/2019	Harini	SBS - Hyd
4	Procedure for Import / Procurement of goods under SEZ		Sauchit	SBS - Hyd
5	Refund of GST	23/03/2019	Divya Sree	SBS - Hyd
6	February month - 2019		Panel discussion	SBS - Hyd
7	Penalties u/s 270A of Income Tax Act,1961	30/03/2019	Indu	SBS - Hyd
8	SA 550 - Related Parties		Sarvani	SBS - Hyd

SESSION TIMINGS: 2:30 to 4:30 PM**Composition Scheme under GST - Gnaneshwar.Y****Outsourcing in a Manufacturing Sector - Adhitya. G****SA 701 - Communicating Key Audit Matters in the Independent Auditor's Report - Suma. B****Section 56 under Income Tax Act,1961 - Ravi Raju.D**



Team SBS

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