



# konnnect

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An overview of  
**CORPORATE TAXATION** in UAE

**Block Chain Technology**  
Decentralized Digital Ledger

P.A.HAMEED & ASSOCIATES  
Chartered Accountants

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of Income Tax Act

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# UAE: CORPORATE TAXATION OVERVIEW

# A natural person is subject to **Corporate Tax** only if

- They conduct business or business activity in UAE; and
- Total Turnover derived from business or business activity exceeds AED 1 million within the accounting year.
- Taxable Persons can prepare Financial Statements using the Cash Basis of Accounting rather than the Accrual Basis of Accounting if their Revenue does not exceed AED 3,000,000 for the relevant Tax Period.

TIER 1: Profits upto

**375,000**

AED = 0%

TIER 2: Profits over

**375,000**

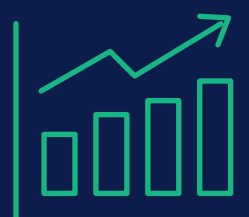
AED = 9%

### TIER 3: Different Tax Rate

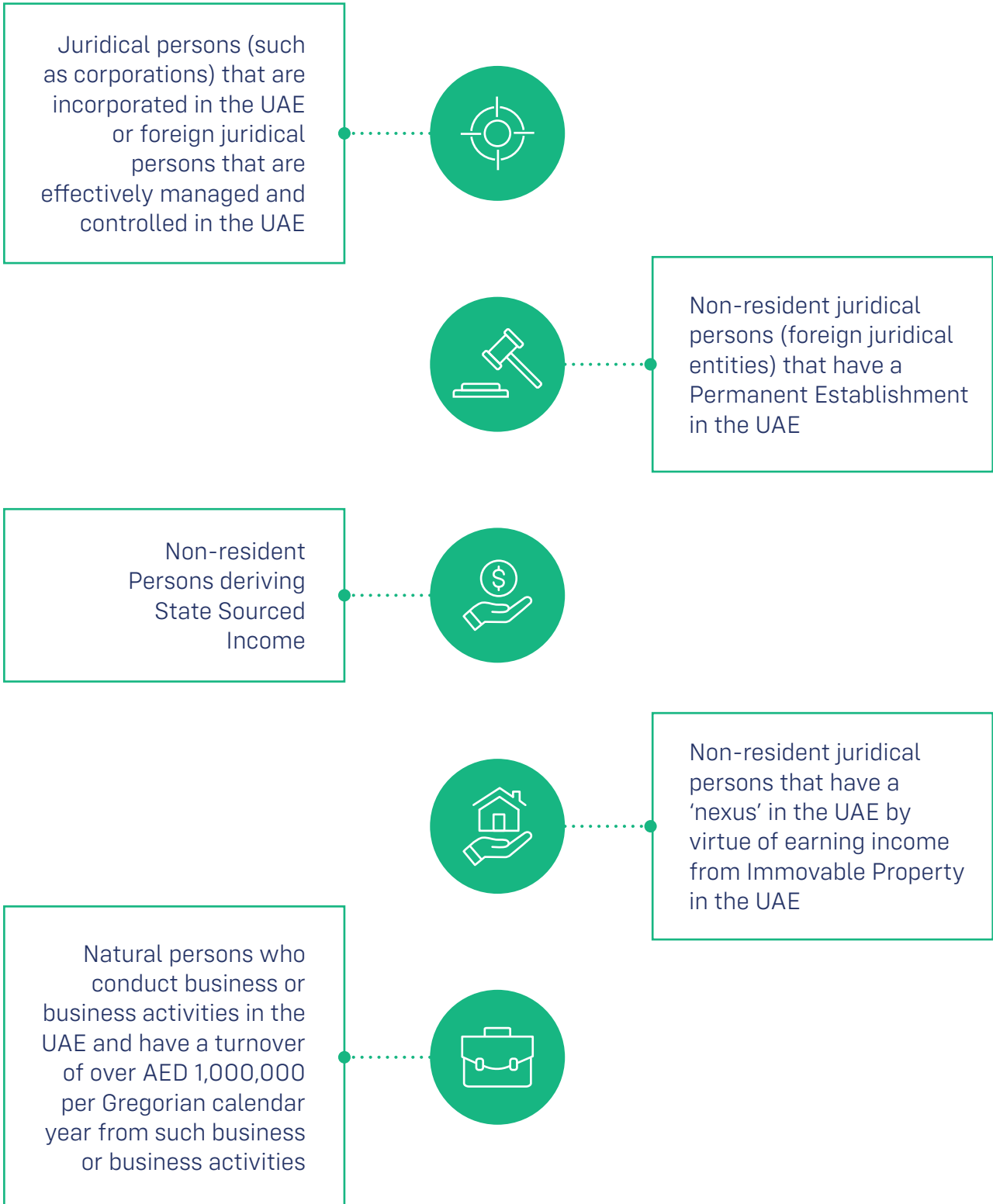
Large multinational companies may be subject to higher tax rate, subject to pillar two of the organization for economic cooperation and development base erosion and profit-sharing project

**3.5 BILLION**

AED = Higher tax rates



# Taxable Person



# Calculation of Taxable Profit

Your taxable profit is normally your revenue less your business-related expenses. Some expenses have specific rules around them, including:

## 1. Salary Paid to Owners

The law states that payments to a related party must meet the “arms –length “ principle. For business owners paying themselves a salary, this means setting the salary at a fair market rate, like what an unrelated employee would receive under a similar employee arrangement.

## 2. Interest

Businesses can deduct their financing and interest costs. However, the amount of interest expense that can be deducted is capped at 30% of earnings before interest, taxes, depreciation and amortization (EBITDA). This cap has been put in place to prevent businesses from exploiting the different tax treatment of equity and debt, whereby a business may take on excessive levels of debt to reduce taxable income via increased interest expenses.

### General Interest Deduction Limitation Rule

- The Corporate Tax Law refers to the amount of Interest that is deductible as Net Interest Expenditure. Net Interest Expenditure is the difference between the amount of Interest expenditure incurred (including any carried forward Net Interest Expenditure) and the Interest income derived during a Tax Period.
- When the Net Interest Expenditure exceeds AED 12,000,000 in a Tax Period, the amount of deductible Net Interest Expenditure is the greater of:
  - 30% of EBITDA (earnings before the deduction of Interest, tax, depreciation and amortisation) for a Tax Period, calculated as the Taxable Income for the Tax Period with adjustments for:
    - Net Interest Expenditure for the relevant Tax Period;
    - Depreciation and amortisation expenditure considered in determining the Taxable Income for the relevant Tax Period, and
    - Any Interest income or expenditure relating to historical financial assets or liabilities held prior to 9 December 2022. and
    - The de minimis threshold of AED 12,000,000.
- This is known as the “General Interest Deduction Limitation Rule”.

### 3. Entertainment Expense

Only 50% of entertainment spending can be deducted. This includes costs such as meals and accommodation, where they are incurred for entertaining customers, suppliers, shareholders or other similar parties.

### 4. Foreign Branches

If a company has a branch in another country, they can claim a foreign tax credit for tax paid in that country in relation to that branch. Alternatively, a company may apply for an exemption of the profit made by their branches outside the UAE.

#### Exempt income

MOF has also announced that income from the following sources will be exempt under most circumstances:

- Dividends and other profit distributions received.
- Capital gains from selling the shares of a subsidiary company under their ownership.

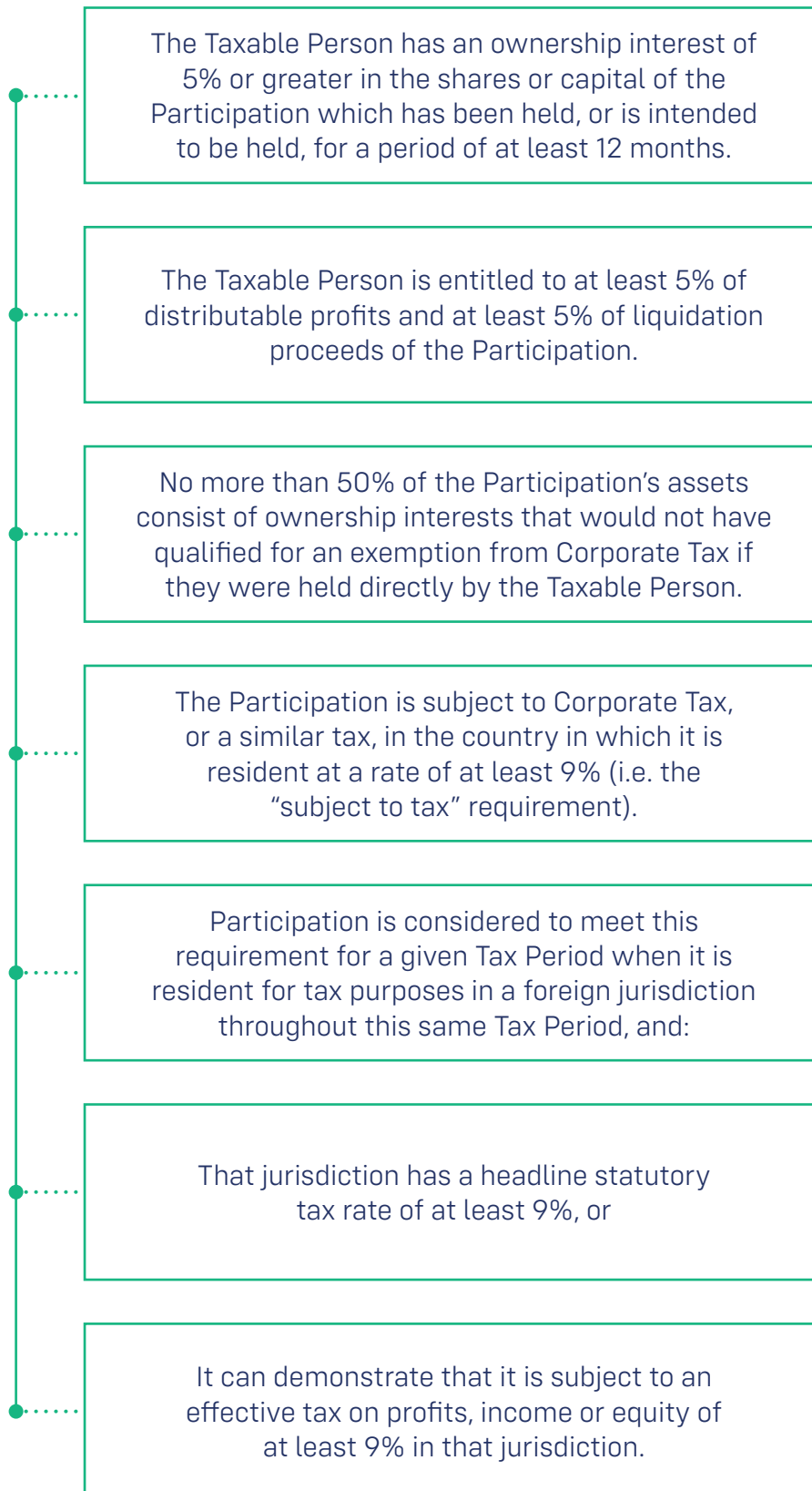
#### Income exempt under the participation exemption

Dividends and other profit distributions received from foreign juridical persons are exempt from Corporate Tax if the recipient has a Participating Interest in the foreign company.

- A Participating Interest is a significant long-term ownership interest in the shares or capital of a juridical person (the "Participation") that provides the basis for the exercise of some level of control or influence over the activities of the Participation.



## A participating interest exists where all of the following conditions are met:







# Concepts of tax groups - Corporate taxation UAE

# Benefits of reconstruction concerning **CT in UAE**

By undergoing the reconstruction process, we can capitalize on the opportunity to establish a “**Tax group**”, a practice permitted under the corporate tax laws in the UAE. This strategic move not only aligns with legal frameworks but also opens avenues for enhanced tax planning and operational efficiency.



## Tax Group Regime

- Entities sharing common ownership have the option to establish a Tax Group, provided they meet the stipulated conditions. This enables the Tax Group to function as a unified Taxable Person, streamlining compliance responsibilities by consolidating financial accounts and eliminating inter-company transactions. **Furthermore, this arrangement enhances flexibility in leveraging Tax Losses, offering strategic advantages in overall tax planning.**
- Tax group with **single registration** need to file **a single return as a group.**



## Formation of Tax group – Pre-requisites

To establish a Tax Group, the Parent Company must apply to the FTA. This application should be initiated by the Parent Company, and each of the Subsidiaries aiming to join the Tax Group must also independently submit their respective applications.

Both the Parent Company and its Subsidiaries are required to share the same Financial Year and adopt consistent accounting standards for the preparation of their Financial Statements.

No member of the Tax Group is allowed to qualify as an Exempt Person or Qualifying Free Zone Person.

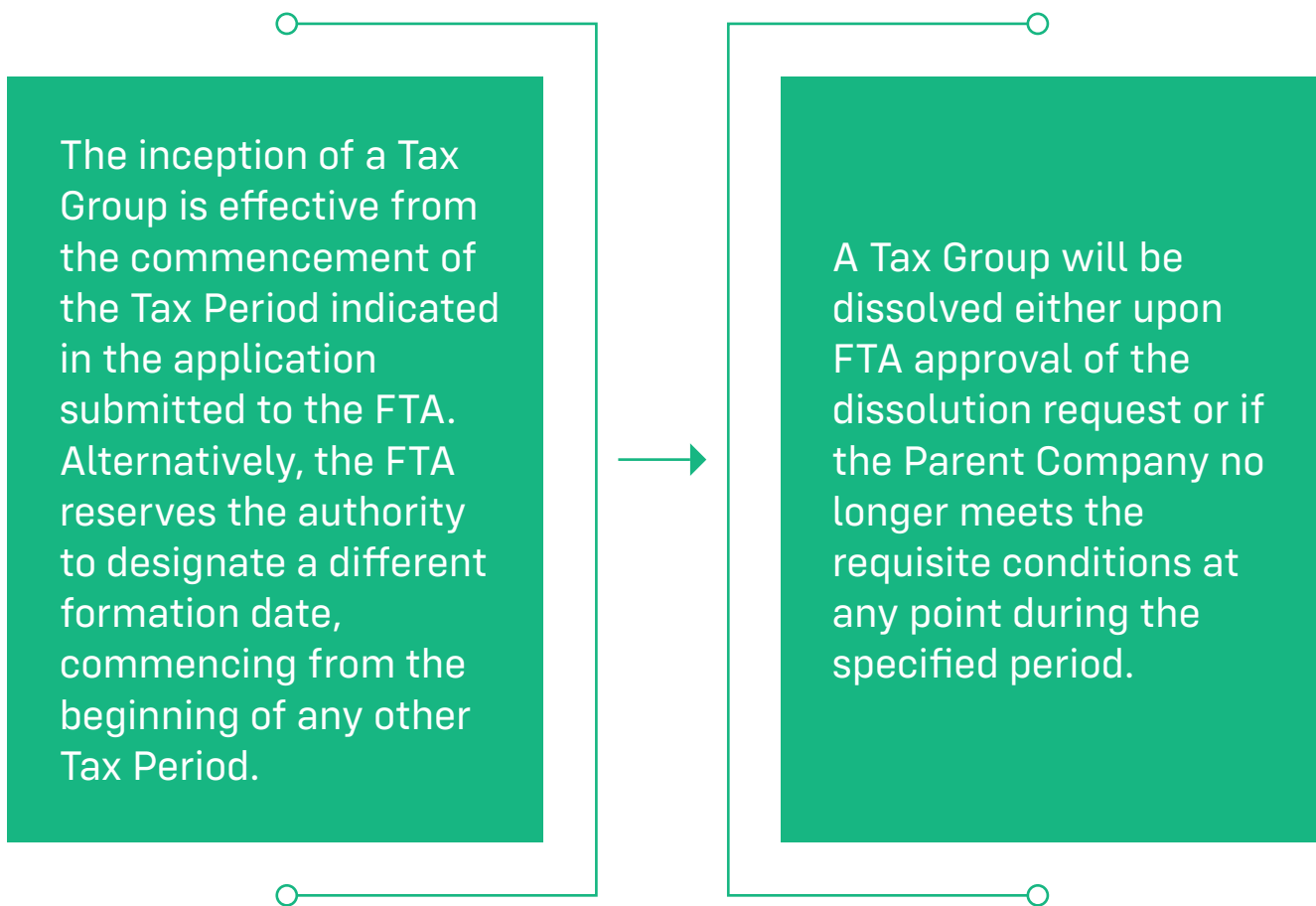
Parent Company must directly or indirectly:

Possess a minimum ownership of 95% of the share capital of the Subsidiary.

Maintain at least a 95% stake in the voting rights within the Subsidiary.

Have entitlement to at least 95% of the Subsidiary's profits and net assets.

## Formation and Cessation of Tax groups



### Joining or Leaving a Tax Group

A subsidiary can seamlessly join an existing Tax Group by submitting a joint application with the Parent Company to the FTA. Newly established Parent Companies or subsidiaries have the flexibility to become part of an existing Tax Group from the date of their incorporation, eliminating the need to wait until the commencement of the subsequent Tax Period.

### Compliance with CT Requirements

The Parent Company serves as the representative of the Tax Group and assumes responsibility for fulfilling the Corporate Tax obligations of the group. However, it's essential to note that both the Parent Company and each subsidiary share joint and several liability for the Corporate Tax obligations incurred by the Tax Group during the periods in which they are active members. The FTA has the authority to approve the limitation of this liability to one or more specific members within the Tax Group.

# Taxable income of a **Tax Group**

To determine the Taxable Income of a Tax Group, the Parent Company must consolidate the financial accounts of each subsidiary for the relevant Tax Period by aggregation. It must eliminate transactions between the members of a Tax Group, including adjustments from valuations, and transactions between two or more members of the same Tax Group.

## Example of taxation in a tax group

A LLC – Holding 100% in B LLC & C LLC , Profit =

**1000,000**

AED

B LLC – (LOSS) =

**600,000**

AED

C LLC – PROFIT =

**500,000**

AED



## Scenario 1 – If each company treated as Independent Companies

LLC				
Particulars	A	B	C	Total
Profit	10,00,000	-6,00,000	5,00,000	
Basic Exemption	3,75,000	0	3,75,000	
Taxable Income	6,25,000	0	1,25,000	
Tax Amount (9%)	56,250		11,250	67,500

In the first scenario, the total tax payable by the entire group is AED 67,500.

## Scenario 2- If the companies are treated as group

TAX GROUP				
Particulars	A	B	C	Total
Profit	10,00,000	-6,00,000	5,00,000	9,00,000
Basic Exemption				3,75,000
Taxable Income				5,25,000
Tax Amount (9%)				47,250

In the second scenario, the total tax payable by the entire group is AED 47,250 .  
Therefore, in this scenario, choosing a Tax Group can result in a tax saving of AED 20,250.

**Plausible  
dissallowance  
of expenses in  
Corporate Tax**

Recoverable input  
VAT

Bribes and illicit  
payments

Expense not  
exclusively incurred  
for Business  
purpose

Donations/ Charity  
Paid to persons  
other than  
qualifying public  
benefit entity

Payment of  
corporate tax

Fines/Penalty other  
than incurred as a  
compensation for  
damages or breach  
of contract

Interest expense  
> 30% of EBIT

Remuneration to  
owners more  
than arm's  
length price

50% of  
entertainment  
expense



# Transfer Pricing



## TP - Analysis

- **Objective:** Transfer pricing rules aim to prevent price manipulation based on relationships between involved parties.
- **Arm's Length Principle:** They use the internationally accepted arm's length principle to determine fair prices for transactions between Related Parties and Connected Persons.
- **Scope:** These rules apply to both international and domestic transactions involving legal entities and individuals.

### General Transfer Pricing disclosure requirements



**Disclosure Requirements:** Taxable Persons dealing with Related Parties may need to disclose transaction details to the tax authority (FTA).



**Risk Assessment:** This disclosure helps the FTA assess transfer pricing risks and ensure compliance with the arm's length principle.



**Information Submission:** Taxable Persons must provide transaction information and Tax Returns upon the FTA's request.



**Purpose of Information:** The disclosed information explains how transfer prices with Related Parties and Connected Persons were determined and why they are comparable to independent party prices.



**Compliance Requirement:** Taxable Persons must comply with FTA requests for information within 30 days or as directed by the FTA.

# Free Zone Persons



When a Free Zone Person meets certain conditions, it will be considered as a Qualifying Free Zone Person and is eligible for a 0% Corporate Tax rate on its Qualifying Income. The 0% Corporate Tax rate is available to Qualifying Free Zone.



**In order to be considered as a Qualifying Free Zone Person, a Free Zone Person must meet the following requirements:**

- Derive Qualifying Income from relevant transactions
- Maintain adequate substance in the UAE
- Satisfy the de minimis requirement
- Have not elected to be subject to Corporate Tax
- Comply with the transfer pricing rules and documentation requirements under the Corporate Tax Law
- Prepare and maintain audited Financial Statements for the purposes of the Corporate Tax Law

# Qualifying Income



Qualifying Income is the income that can benefit from the 0% Corporate Tax rate.

Unlike ordinary Taxable Persons, Qualifying Free Zone Persons are not entitled to a 0% rate on their first AED 375,000 of Taxable Income that is not considered as Qualifying Income. Therefore, any Taxable Income that is not Qualifying Income will be taxed at the general rate of 9%.



## Qualifying Income includes:

- Income derived from transactions with other Free Zone Persons, except for income derived from Excluded Activities.
- Income derived from transactions with any Non-Free Zone Person, domestic and foreign, only in the case of Qualifying Activities that are not Excluded Activities; and
- Any other income where the de minimis requirement is satisfied.

# Reliefs - Small Business Relief



Small business relief is provided to eligible UAE businesses, and reduces their Corporate Tax burden and compliance costs in the Corporate Tax regime, primarily by alleviating the burden of having to calculate and pay Corporate Tax in each relevant Tax Period where the conditions are satisfied.



Any eligible Taxable Person with Revenue equal to or below AED 3,000,000 in a relevant Tax Period and all previous Tax Periods (ending on or before 31 December 2026), can elect to be treated as having no Taxable Income in that period and will not be obliged to calculate its Taxable Income or complete a full Tax Return.



Where a Taxable Person has elected to benefit from small business relief, they will still be able to carry forward any unutilised Tax Losses and disallowed Net Interest Expenditure arising from prior Tax Periods to be used in future Tax Periods in which small business relief no longer applies.



To be eligible for small business relief, the Taxable Person in question must not be a Constituent Company of a Multinational Enterprise that is required to prepare a Country-by-Country Report under the UAE's Country-by-Country Reporting legislation. In addition, a Qualifying Free Zone Person cannot claim small business relief.



For the Tax Period that a Resident Person elects to benefit from small business relief, the Resident Person will not be required to maintain transfer pricing documentation, if applicable. However, they will still be required to apply the arm's length principle.



## Transfers within a Qualifying Group

It is a common practice for closely related businesses to transfer assets and liabilities between each other for operational reasons. Ordinarily, there would be a taxable gain or loss where an asset or liability is transferred for an amount different to its net book value.

However, Corporate Tax relief is available where an asset or liability is transferred between members of a Qualifying Group which allows the transfer to take place without giving rise to a Corporate Tax liability.

Conditions to be a qualifying group. The Taxable Persons are juridical persons that are Resident Persons, or Non-Resident Persons that have a Permanent Establishment in the UAE;

Either Taxable Person has a direct or indirect ownership interest of at least 75% in the other Taxable Person, or a third Person has a direct or indirect ownership interest of at least 75% in each of the Taxable Persons.

- None of the Persons are an Exempt Person
- None of the Persons are a Qualifying Free Zone Person
- The Financial Year of each of the Taxable Person ends on the same date
- Both Taxable Persons prepare their Financial Statements using the same accounting standards

# Business restructuring relief

In certain circumstances, where an entire Business or an independent part of a Business is transferred in exchange for shares or other ownership interests, business restructuring relief may apply to eliminate the Corporate Tax impact of these transactions.

Under this relief, no gains or losses need to be taken into account when calculating the Taxable Income for either party. Conditions are as follows:

- The transfer is undertaken in accordance with, and meets all the conditions imposed by, the applicable legislation of the UAE.
- The Taxable Persons are Resident Persons, or Non-Resident Persons that have a Permanent Establishment in the UAE.
- None of the Persons are an Exempt Person or qualified free zone person.
- The Financial Year of each of the Taxable Persons ends on the same date.
- The Taxable Persons prepare their Financial Statements using the same accounting standards.
- The transfer is undertaken for valid commercial reasons which reflect economic reality.



## Withholding Tax Rate

At the time of enacting the Corporate Tax Law, the rate of Withholding Tax was 0%. Withholding Tax should be deducted by a Resident Person from a payment made to a Non-Resident for certain categories of State Sourced Income derived by the Non-Resident Person, and remitted to the FTA.

The rate of Withholding Tax is currently 0%, this means that, currently, no tax needs to be withheld.

## Documentation

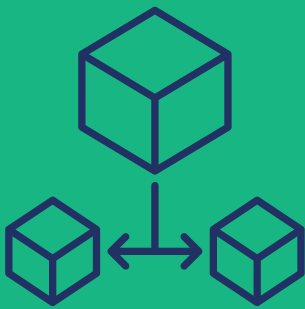
### Financial Statements

- Have to be maintained for all businesses and business activities.
- FTA can request a taxable person to submit the financial statements used to determine taxable income.
- A taxable person with annual revenue exceeding AED 50 Million per tax period and all Qualifying Free Zone Persons must have audited financial statements.
- Record keeping - Document retention period is 7 years after the end.

### Transfer Pricing Documentation – General Documentation

- A disclosure on a taxable person's transactions with related parties and connected persons and may be required to be filed as part of the tax return.
- Any other information to support the arm's length nature of the transactions may be provided to the FTA within 30 days upon request by the FTA.





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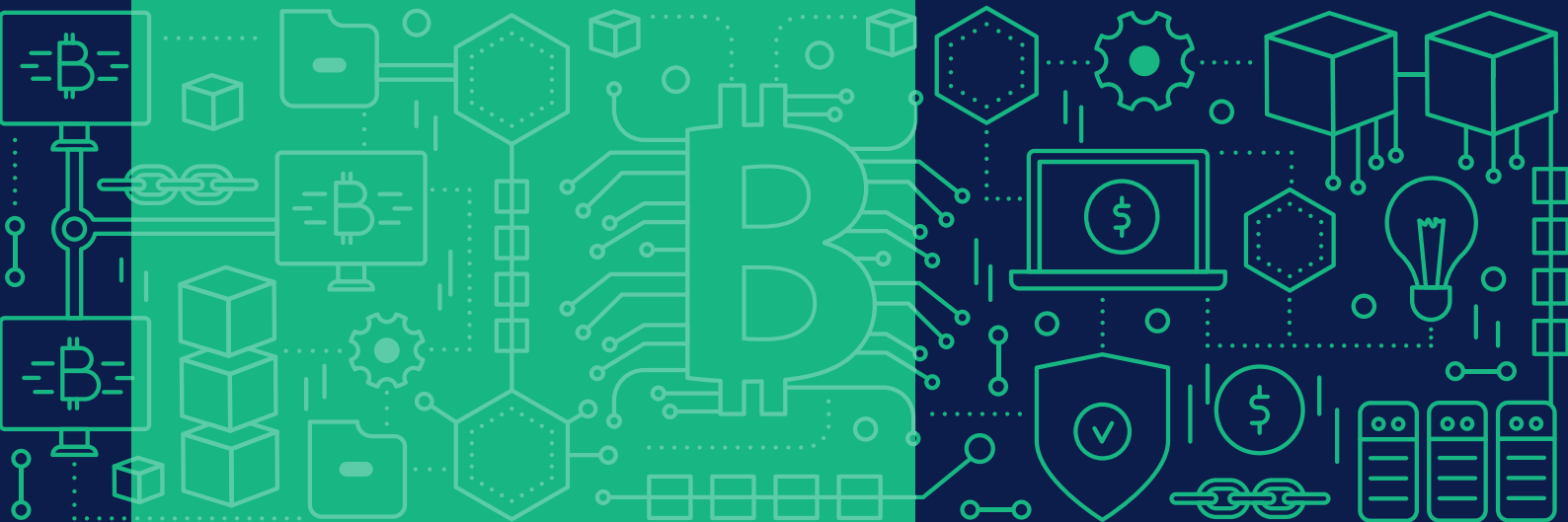
# **BLOCK CHAIN TECHNOLOGY: DECENTRALIZED DIGITAL LEDGER**



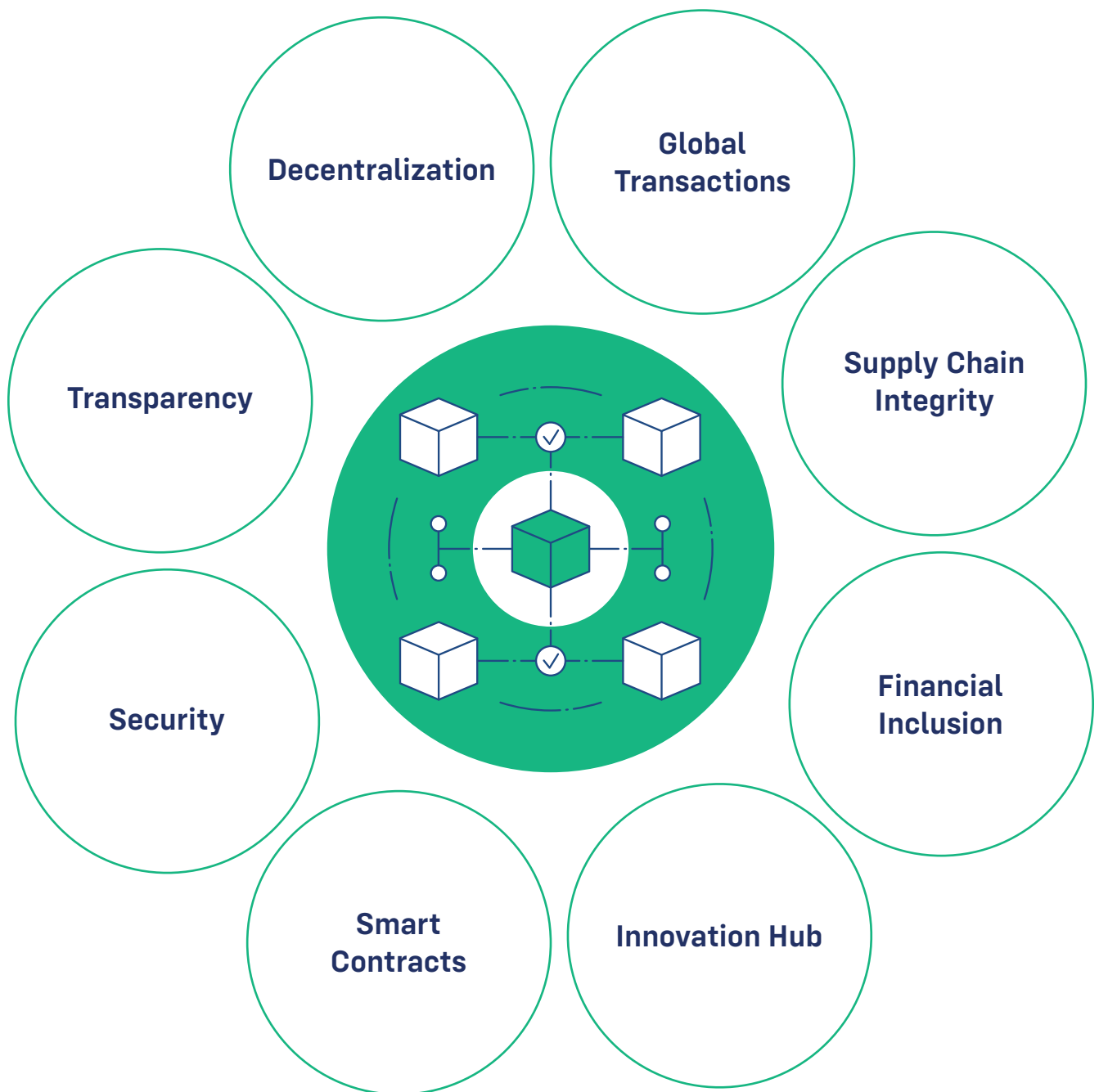
# “Block Chain is more than a market **It's a movement**”

## What is Blockchain ?

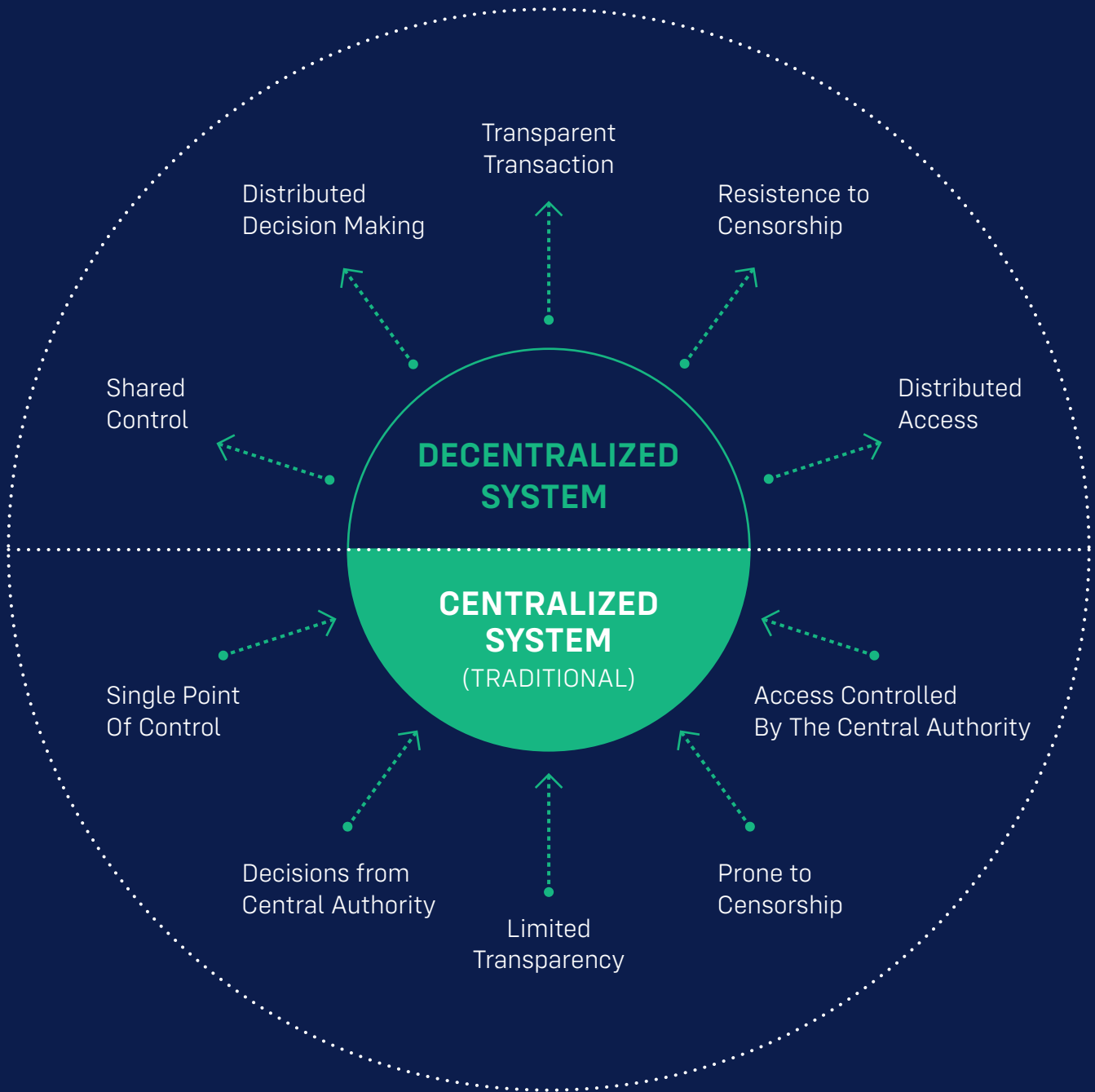
Blockchain technology is a decentralized and distributed ledger system that enables the secure and transparent recording of transactions across a network of computers. It consists of a chain of blocks, each containing a list of transactions, and is maintained by a network of nodes (computers) that reach consensus on the validity of transactions through a consensus algorithm.



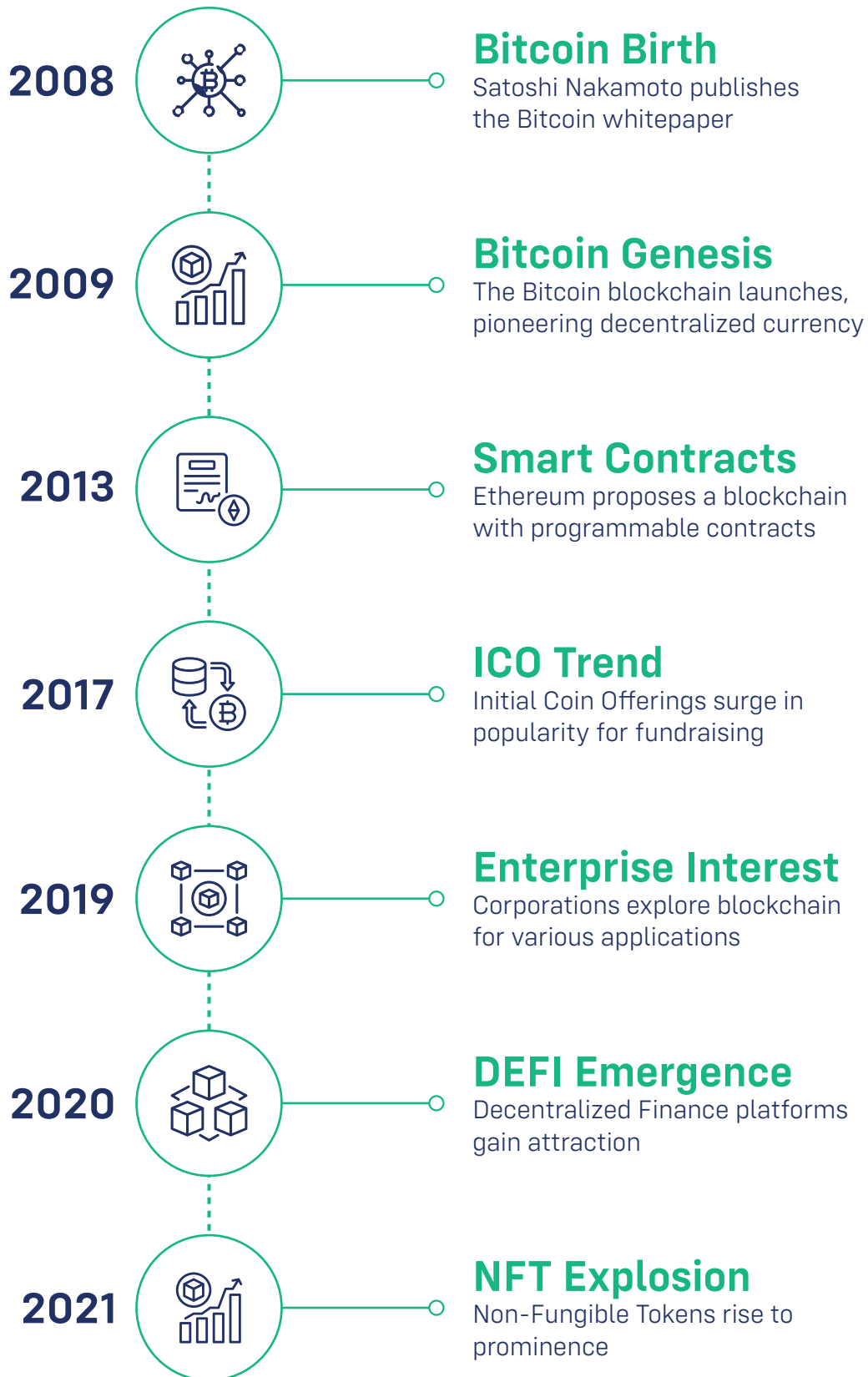
# Significance of Blockchain in a Digital Era



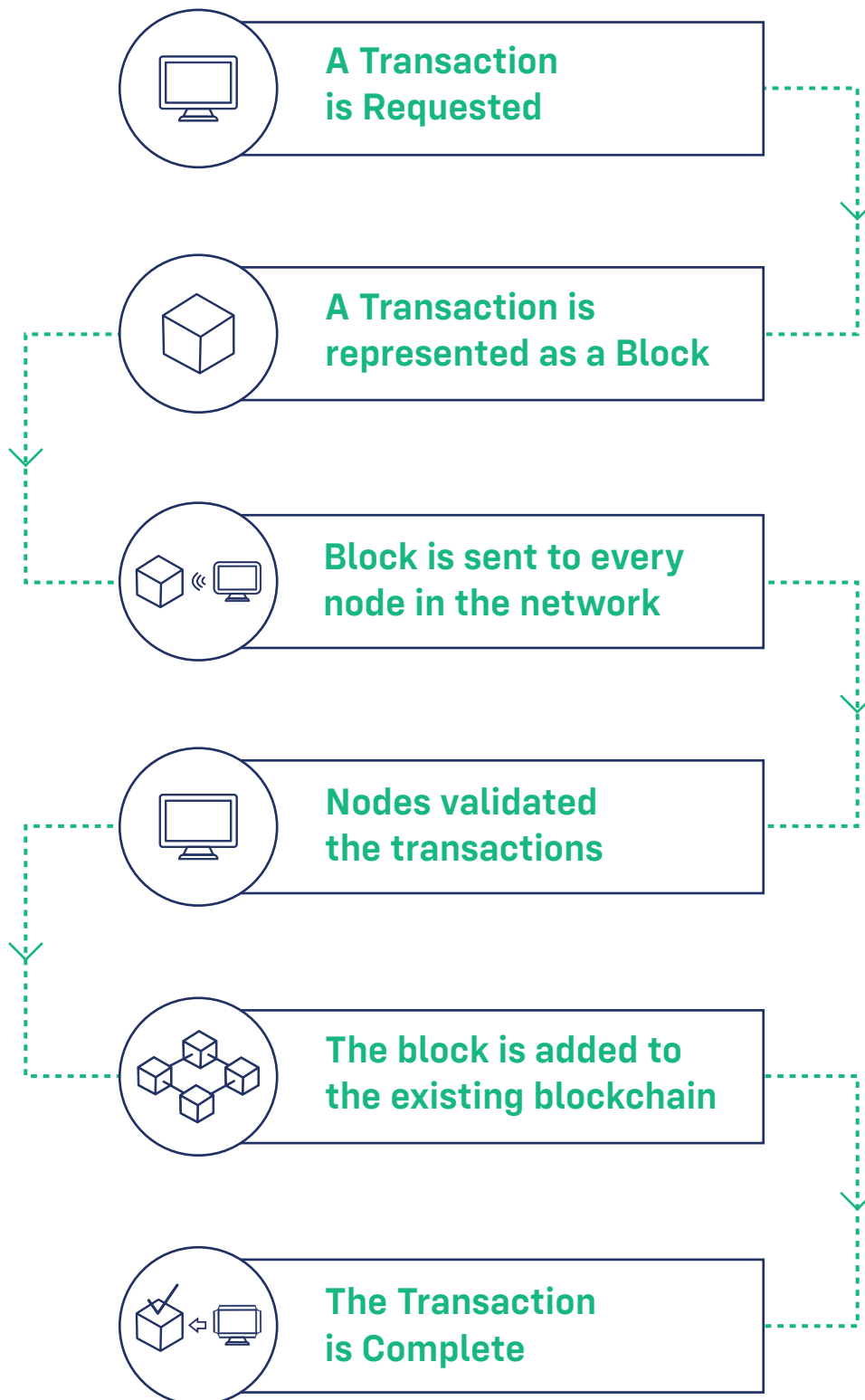
# Decentralized vs Centralized System



# Chronicles Of Blockchain: A Historical Perspective



# How Block Chain Technology Works



# Blockchain's Strengths: A Catalog Of Benefits



# Roadblocks and realities



## Scalability

Blockchain faces challenges in handling a growing number of transactions, leading to potential delays.



## User education

Lack of understanding and awareness among users about blockchain technology hinders its mainstream adoption.



## Privacy concern

Striking a balance between transparency and user privacy remains a challenge in blockchain applications.



# Revolutionizing CA practices

## The integration of blockchain



### Regulatory Compliance

Ensuring compliance with financial regulations by recording and validating transactions on a transparent blockchain



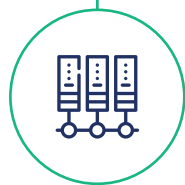
### Accounting Software

Adopting accounting software built on blockchain for real-time updates, accuracy, and enhanced collaboration



### Auditing and Assurance

Blockchain can streamline the auditing process by providing a secure and transparent ledger of financial transactions



### Supply Chain for Document Flow

Implementing blockchain for managing the flow of documents within the firm, ensuring authenticity and traceability



### Client Verification and Onboarding

Leveraging blockchain for client identity verification, streamlining the onboarding process securely



# Conclusion

**Blockchain** stands as a decentralized digital ledger, promising a future where **trust and transparency** are inherent in our digital interactions.

As industries increasingly adopt blockchain solutions, the transformative potential of this technology becomes more evident, reshaping the digital landscape.





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# **BUDGET: DECODING BUDGET 2024**

# Blue Print

## Decoding of Interim Budget

With the **'mantra' of 'Sabka Saath, Sabka Vikas, and Sabka Vishwas'** and the whole of nation approach of "Sabka Prayas", the Union Minister for Finance and Corporate Affairs Smt. Nirmala Sitharaman made history by presenting her sixth consecutive budget, matching the record set by former Prime Minister Morarji Desai, just ahead of the Parliamentary elections.

Budget Day is an eagerly anticipated event in India, with both businesses and the general public waiting with baited breath to understand the schemes and initiatives that could potentially benefit them.

This year, in light of the upcoming elections, Budget 2024 has been substituted with an Interim Budget.

### Full Budget

Full-fledged budget covering the entire fiscal year

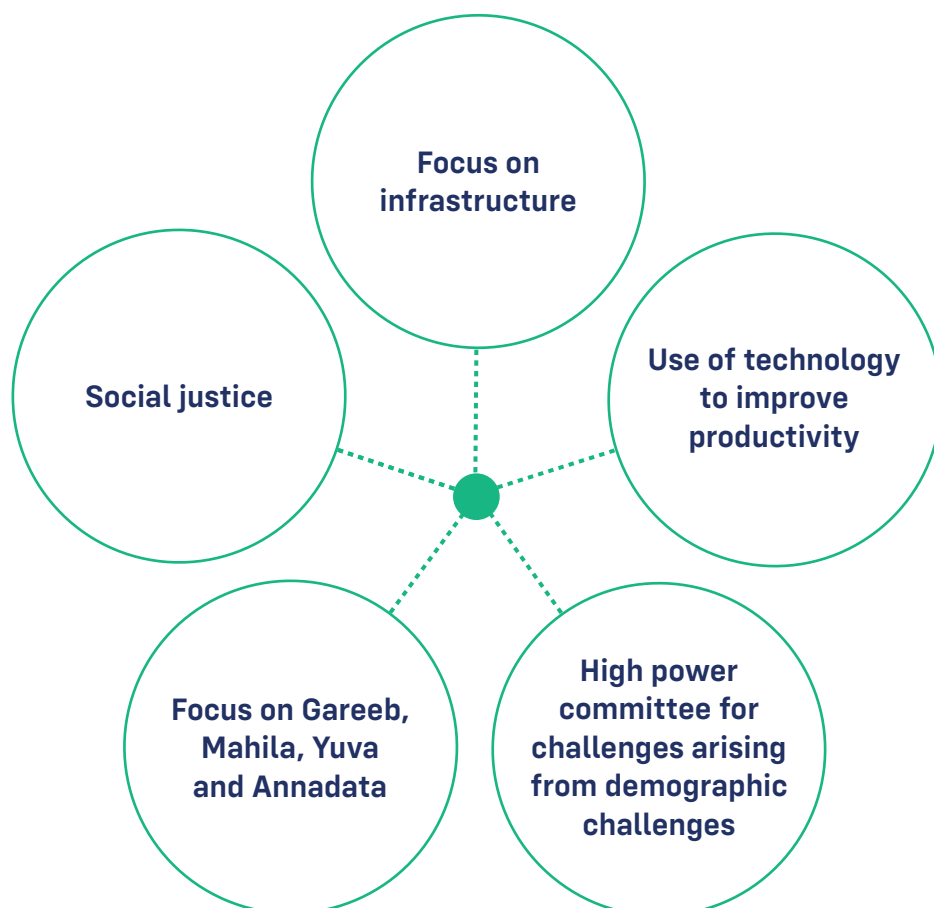
### Interim Budget

Temporary Financial Plan that bridges the gap until a new government is formed



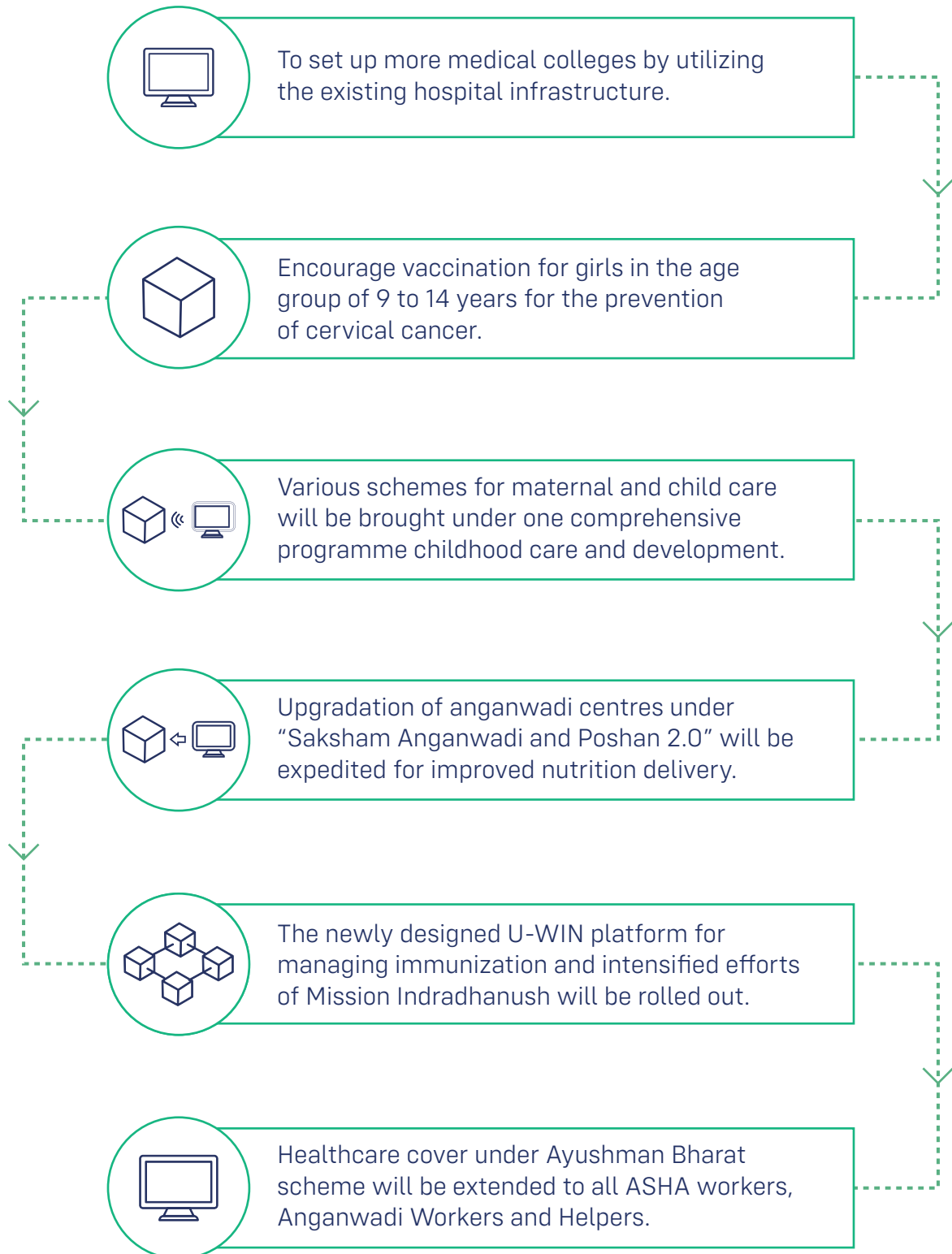
# Disha Nirdashak Baatein

The Budget stressed  
on 5 'Disha Nirdashak'  
Baatein



# Part-A

## Sectoral overview - Health



# Agriculture and Food Processing

Application of Nano DAP on various crops will be expanded in all agro-climatic zones.

Pradhan Mantri Kisan Sampada Yojana has benefitted **38 Lakh** farmers and generated **10 Lakh** employment.

Pradhan Mantri Formalisation of Micro Food Processing Enterprises Yojana has assisted **2.4 Lakh** SHGs and sixty thousand individuals with credit linkages.

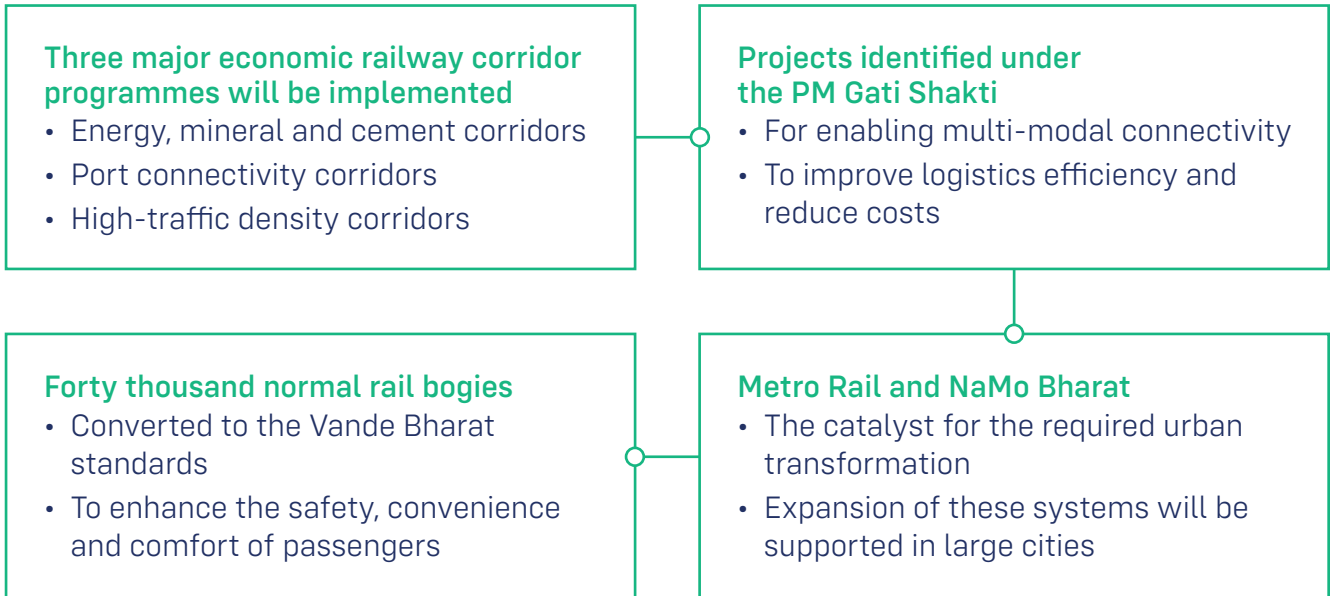
A comprehensive programme for supporting dairy farmers will be formulated.

Implementation of Pradhan Mantri Matsya Sampada Yojana (PMMSY) will be stepped up.

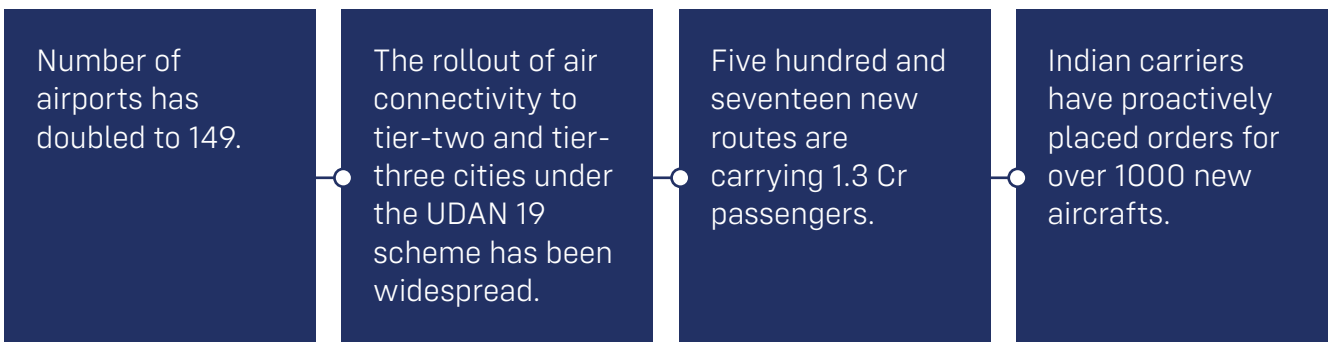
For ensuring faster growth of the sector, Government will further promote private and public investment in post-harvest activities. Five integrated aquaparks will be set up.

A strategy will be formulated to achieve 'Atmanirbharta' for oil seeds such as mustard, groundnut, sesame, soybean, and sunflower.

# Railways



# Aviation



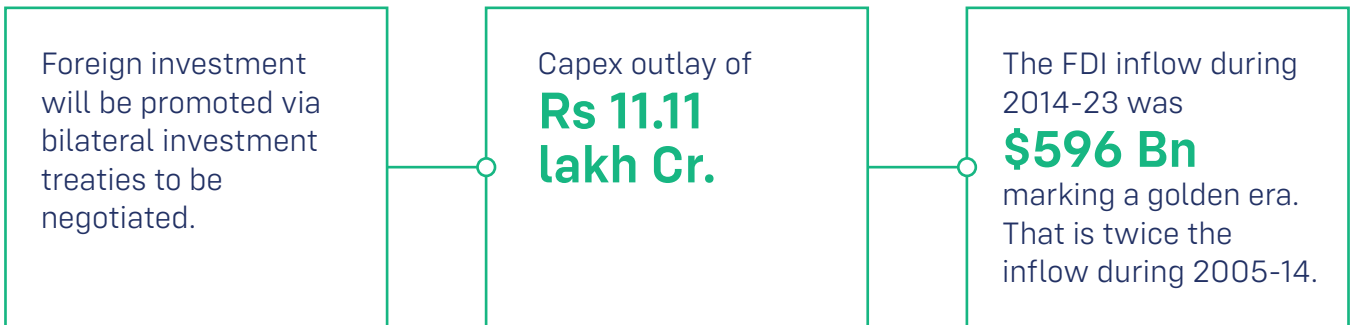
## Sustainable Development/Green Energy

The FM highlighted the need for sustainable development by committing to meet 'Net Zero' by 2070 under Amrit Kaal. In this regard, the FM proposed:

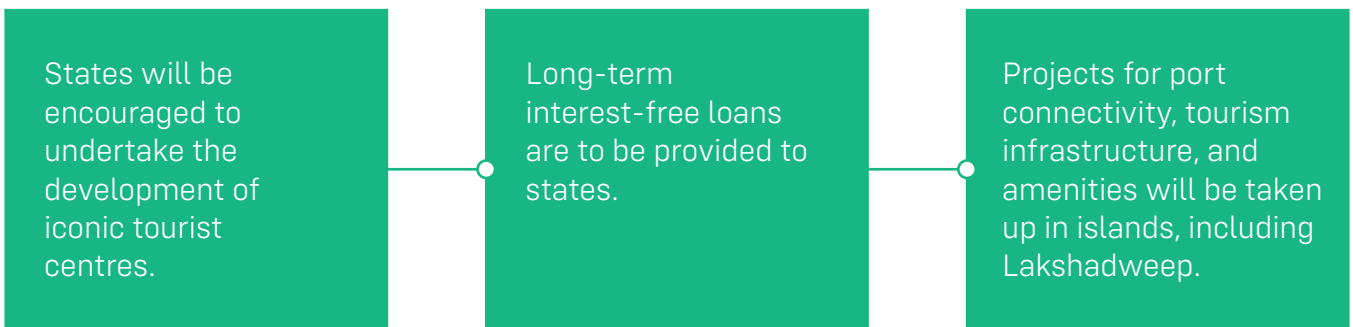
- Viability gap funding for harnessing offshore wind energy for an initial capacity of **one giga-watt.**
- Setting up of coal gasification and liquefaction capacity of **100 MT** by 2030.
- Phased mandatory blending of CNG, PNG, and compressed biogas for domestic purposes.
- Financial assistance for the procurement of biomass aggregation machinery.
- Rooftop solarisation with **1Cr** households to obtain up to **300** units of free electricity pm.
- e-buses for public transport and strengthen the e-vehicle ecosystem by supporting the manufacturing and charging of electric vehicles.
- A new scheme of biomanufacturing and bio-foundry will be launched.
- **1.3 crore** LED street lights will be installed under the SNLP scheme.
- The Blue Economy 2.0 scheme will be launched to restore and adapt coastal aquaculture and mariculture.



## Investment



## Tourism



# Research

and **Innovation** for catalyzing growth, employment and development



A corpus of **Rs.1 lakh Cr** to be established with **50 year** interest free loan to provide long-term financing.



A new scheme will be launched for strengthening deep-tech technologies for defence purposes and expediting 'Atmanirbharta'.



# Social Justice

PM to focus on upliftment of four major castes, that is, 'Garib' (Poor), 'Mahilayen' (Women), 'Yuva' (Youth) and 'Annadata'(Farmer)

## Garib Kalyan, Desh ka Kalyan

- PM-SVANidhi provided credit assistance to 78 lakh street vendors.
- PM-JANMAN Yojana to aid the development of Particularly Vulnerable Tribal Groups (PVTG).
- PM-Vishwakarma Yojana provides end-to-end support to artisans and crafts people engaged in 18 trades.

## Welfare of 'Annadata'

- PM-KISAN SAMMAN Yojana provided financial assistance to 11.8 crore farmers.
- PM Fasal BimaYojana: Crop insurance is given to 4 crore farmers.
- Electronic National Agriculture Market (e-NAM) integrated 1361 mandis, providing services to 1.8 crore farmers with trading volume Welfare of 'Annadata' of Rs. 3 lakh crore.

## Momentum for Nari Shakti

- 30 crore Mudra Yojana loans given to women entrepreneurs.
- Female enrolment in higher education gone up by 28%.
- Over 70% houses under PM Awas Yojana given to women from rural areas.
- 1 Cr women are assisted by 83 lakh SHGs to become Lakhpati Didis.

## PM Awas Yojana (Grameen)

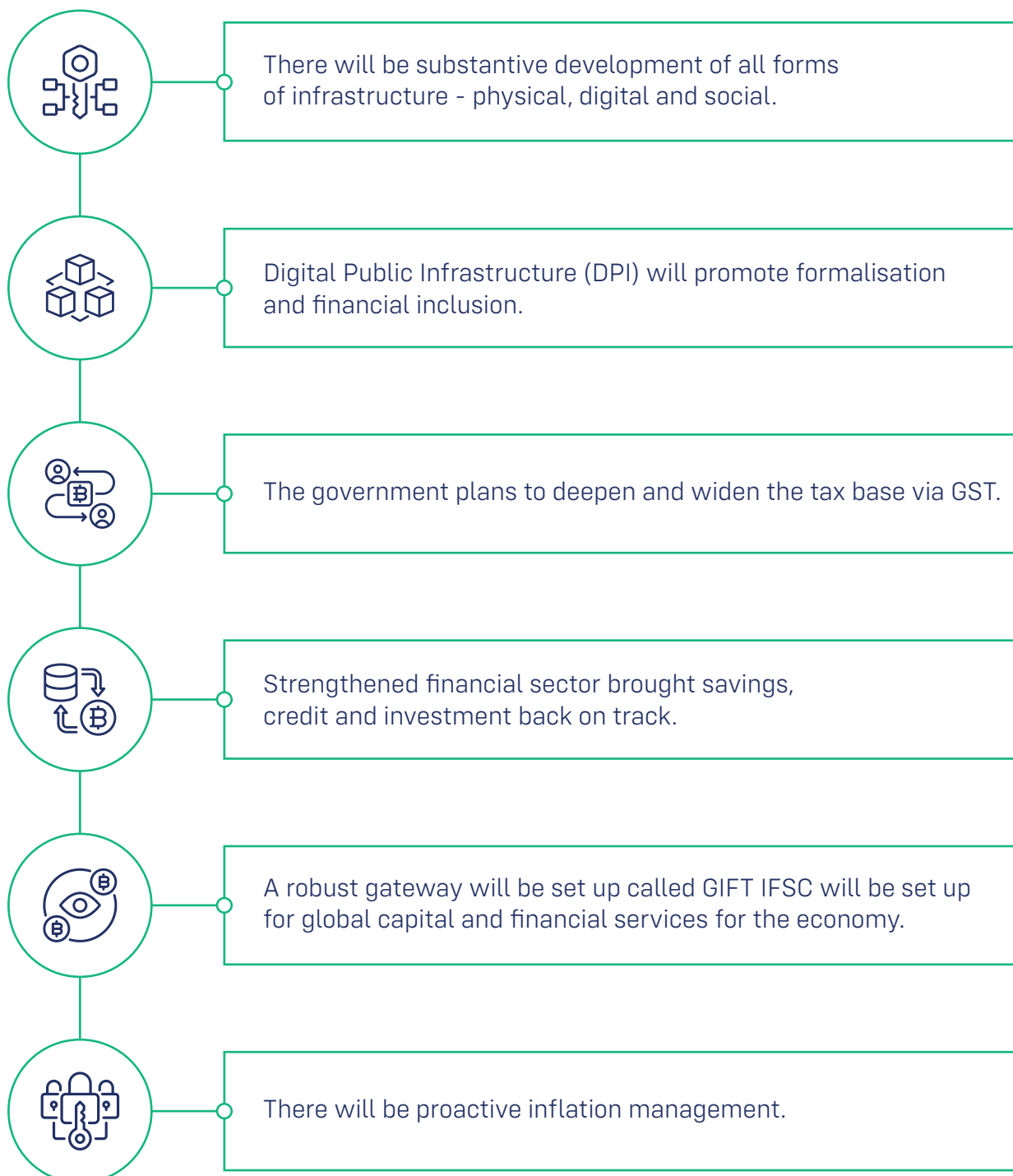
- 3cr houses under PM Awas Yojana (Grameen) will be achieved soon.
- 2cr more houses to be taken up in the next five years.

## Reforms in the States for 'Viksit Bharat'

- Rs.75,000 crore as 50 year interest free loan to support milestone-linked reforms by the State govts.

# Roadmap for Viksit Bharat 2047

In light of the people-centric inclusive development plan, the FM announced:



# Revised Estimates (RE) 2023-24 & Budget Estimates 2024-25

## Revised Estimates (RE) 2023-24

Total receipts other than borrowings is Rs.27.56 lakh Cr, of which the tax receipts are Rs.**23.24** lakh Cr.

RE of the total expenditure is Rs.**44.90** lakh Cr.

Fiscal deficit is **5.8%** of GDP for 2023-24.

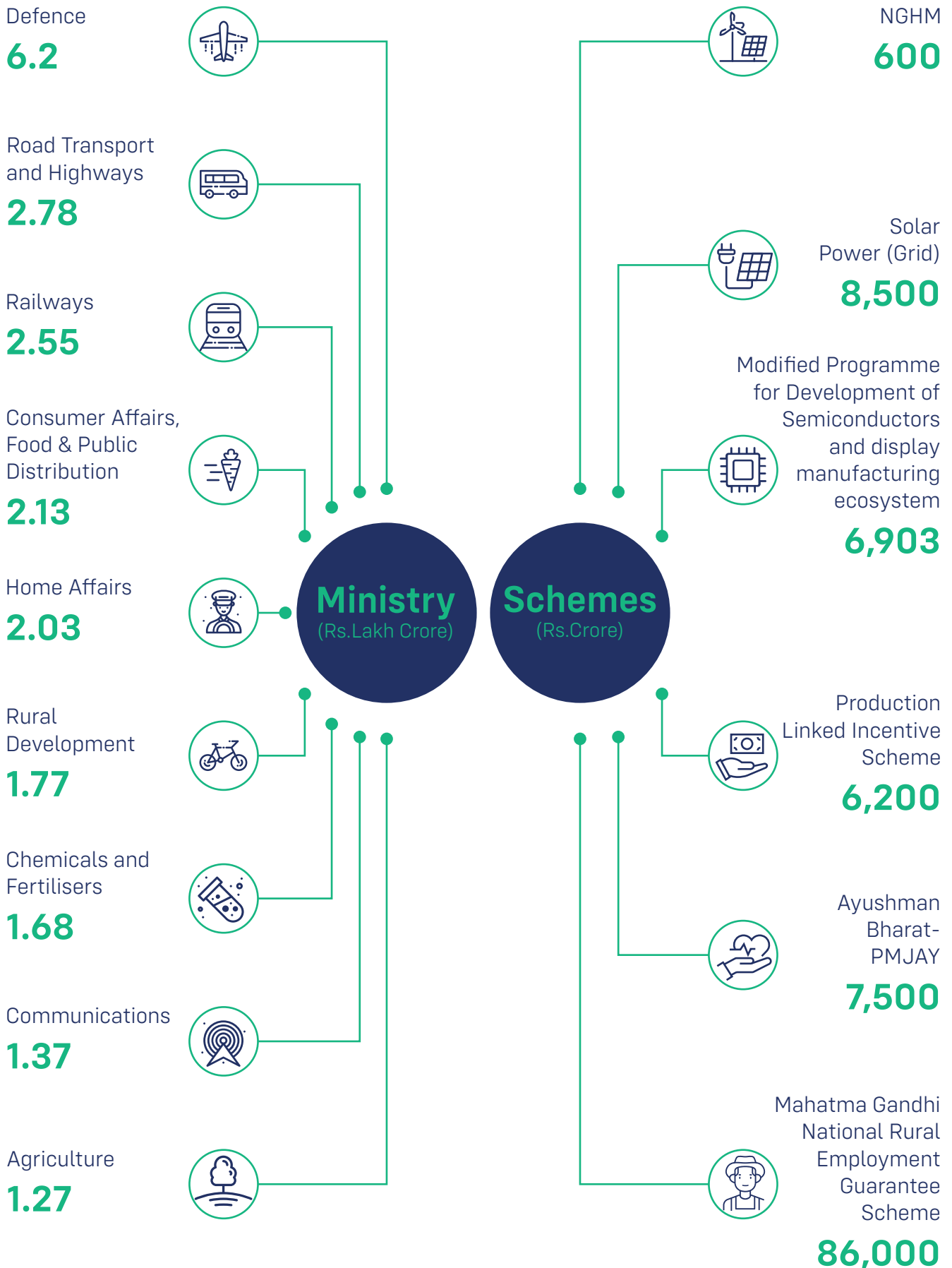
## Budget Estimates 2024-25

Total receipts other than borrowings are estimated at Rs.30.80 of which the tax receipts are Rs.**26.02** lakh Cr.

Total expenditure are estimated Rs.**47.66** lakh Cr.

Fiscal deficit in 2024-25 is estimated to be **5.1%** of GDP.

# Allocations for Various Ministries and Schemes



# Part-B

# Direct Taxes

## Retain same tax rates

- Direct tax collection tripled, return filers increased to 2.4 times, in the last 10 years
- Tax Benefits to startups, investments made by Sovereign Wealth funds extended to 31.03.25

## Tax exemption on certain income of IFSC units extended by a year to 31.03.2025 from 31.03.2024

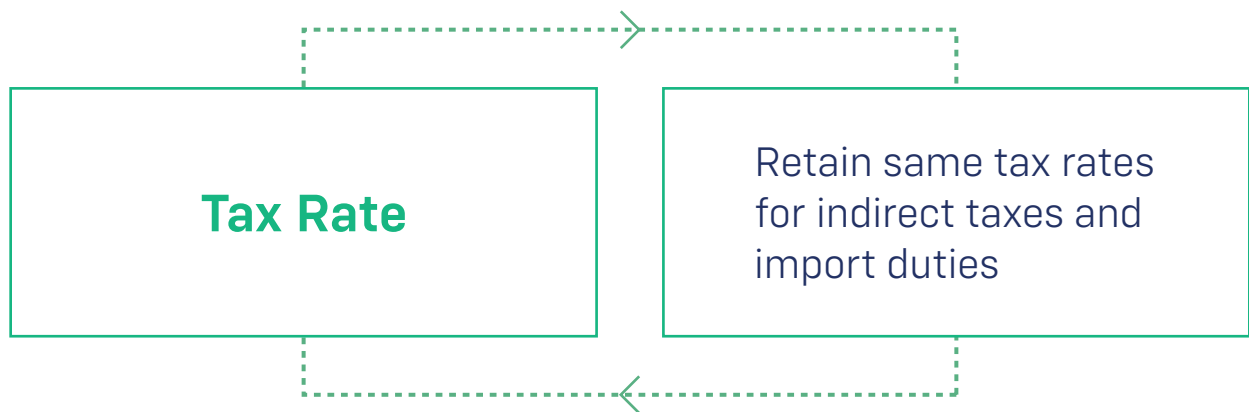
Government to improve tax payer services to benefit 1 Cr Tax Payers.



## Tax Payer Services

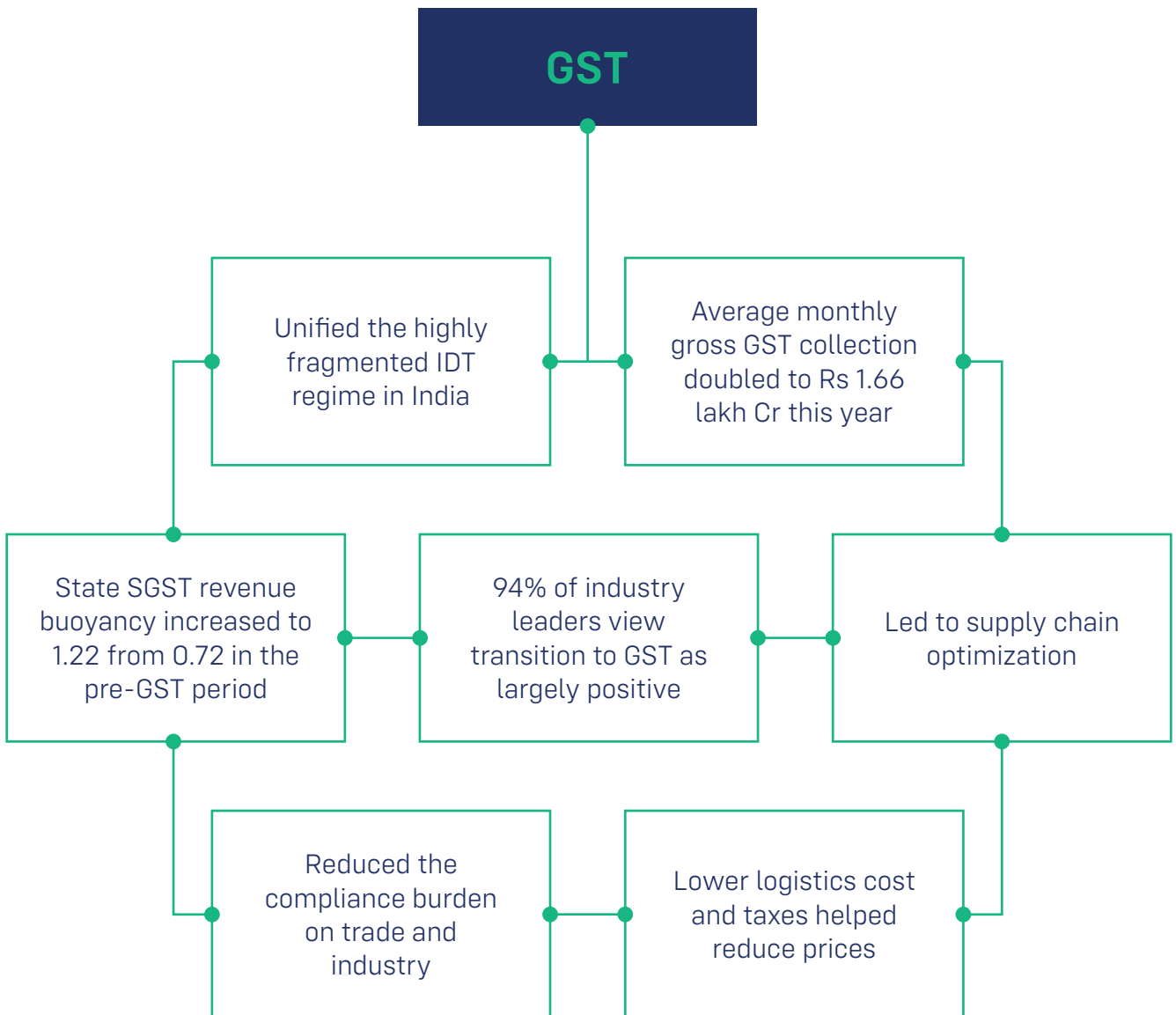


## Indirect Taxes





# GST over the years...



# Tax rationalization efforts over the years

No tax liability for  
income upto

**Rs 7 lakh,**  
up from Rs 2.2 lakh in  
FY 2013-14

Presumptive taxation  
threshold for retail  
businesses increased to

**Rs 3 crore**  
from Rs 2 crore

Presumptive taxation  
threshold for  
professionals increased to

**Rs 75 lakh**  
from Rs 50 lakh

Corporate income tax  
decreased to

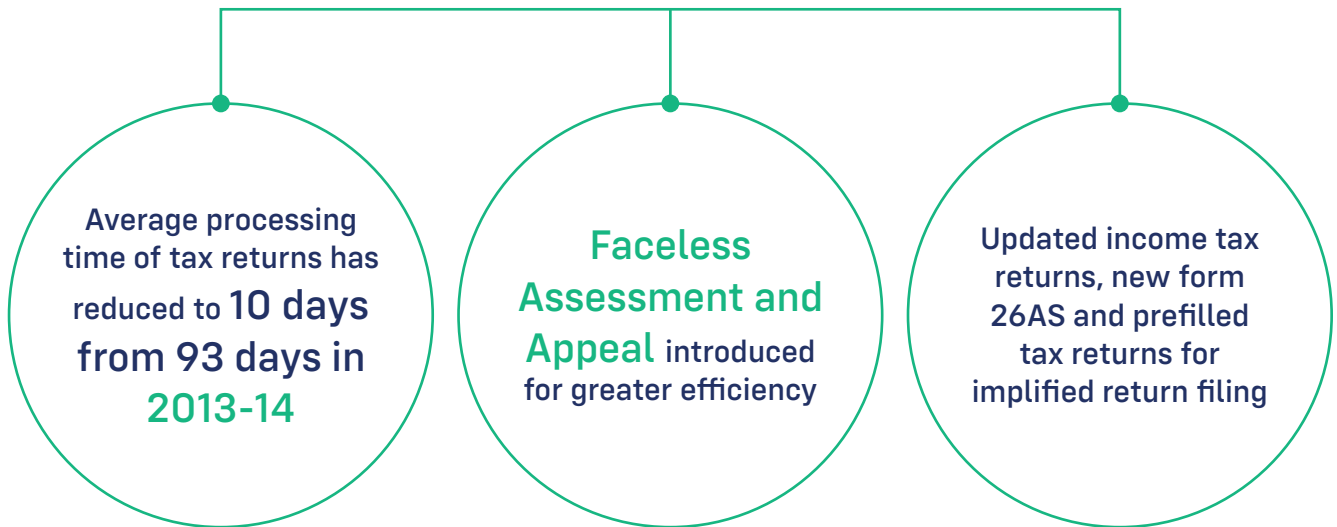
**22%**  
from 30% for existing  
domestic companies

Corporate income tax rate at

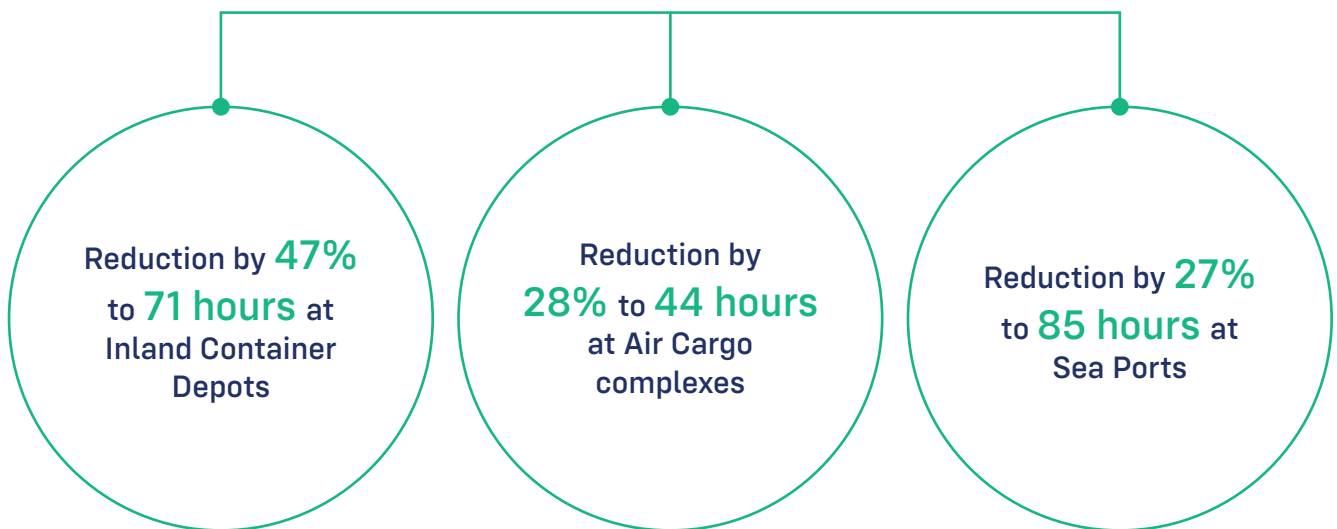
**15%**  
for new manufacturing  
companies



## Achievements In Tax-Payer Services



## Reforms In Customs Leading To Reduced Import Release Time



While the 2024 interim budget might not be a game-changer, it provides valuable insights into the country's financial health and future priorities.

Remember, the interim budget is not the final act. The full-fledged budget for FY 2024-25 will be presented after the elections, reflecting the new government's vision and plans. So, stay tuned for the next chapter in India's economic saga!

**The "trinity of democracy, demography and diversity can fulfill aspirations of every Indian".**



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# FORENSIC ACCOUNTING: UNEARTHING FINANCIAL CRIMES

# What is a Forensic Accounting?

The word forensic comes from the Latin word forensis, meaning "of or before the forum". Forensic Accounting has established itself as dynamic and strategic tool in combating corruption, financial crimes and frauds through investigations and resolving allegations of fraud and embezzlement. Thus, a new area of auditing, known as Forensic Accounting, was needed to detect the frauds in companies that suspected fraudulent transactions. Forensic accounting can be conducted in order to prosecute a party for fraud, embezzlement or other financial claims. In addition, an audit may be conducted to determine negligence.

# Who is a Forensic Professional?

A Forensic Professional is often retained to analyze, interpret, summarize and present complex financial and business-related issues in a manner which is both understandable and properly supported. Forensic Professionals are trained to look beyond the numbers and deal with the business reality of the situation.



# Why

# Forensic Accounting?

## Fraud detection

Investigating and analyzing financial evidence, detecting financial frauds and tracing misappropriated funds.

## Computer forensics

Developing computerized applications to assist in the recovery, analysis and presentation of financial evidence.

## Fraud prevention

Either reviewing internal controls to verify their adequacy or providing consultation in the development and implementation of an internal control framework aligned to an organization's risk profile.

## Providing expert testimony

Assisting in legal proceedings, including testifying in court as an expert witness and preparing visual aids to support trial evidence.

## Audit Vs Forensic Accounting

Particulars	Other Audits	Forensic Accounting
<b>Objectives</b>	Express an opinion as to 'True & Fair' presentation	Whether fraud has actually taken place in books
<b>Techniques</b>	Substantive & Compliance. Sample based	Investigative, substantive or in-depth checking
<b>Period</b>	Normally for a particulars accounting period	No such limitations
<b>Verification of stock, Estimation realisable value of assets, provisions, liability etc.</b>	Relies on the management certificate/Management Representation	Independent/verification of suspected/selected items where misappropriation is suspected
<b>Off balance sheet items (like contracts etc.)</b>	Used to vouch the arithmetic accuracy & compliance with procedures	Regulatory & propriety of these transactions/contracts are examined
<b>Adverse findings if any</b>	Negative opinion or qualified opinion expressed with/without quantification	Legal determination of fraud impact and identification of perpetrators depending on scope

## Areas Where Forensic Services Are Rendered:

### Corporate Fraud Investigations

Forensic professionals are often engaged to investigate allegations of fraud within companies. This can include financial statement fraud, embezzlement, bribery, corruption, and other forms of white-collar crime.

### Financial Statement Fraud

Examining financial statements to identify intentional misrepresentations, omissions, or manipulations of financial information.

### Asset Misappropriation

Investigating cases where assets, including cash, inventory, or intellectual property, have been misused or misappropriated.

### Settlement Of Insurance Claims

In case of policyholders seek the help of a forensic professional when they need to challenge the claim settlement as worked out by the insurance companies. A forensic professional handles the claims relating to consequential loss policy, property loss due to various risks, fidelity insurance and other types of insurance claims.

### Arbitration Service

Forensic professionals render arbitration and mediation services for the business community. Their expertise in data collection and evidence presentation makes them sought after in this specialized practice area.





# Forensic Accounting Process

## Initialization

It is often useful to carry out a preliminary investigation prior to the development of a detailed plan of action. This will allow subsequent planning to be based upon a more complete understanding of the issues.

## Develop The Plan

During planning phase, set out the objectives to be achieved and the methodology to be utilized to accomplish them.

## Obtain Relevant Evidence

In order to gather detailed evidence, the investigator must understand the specific type of fraud that has been carried out, and how the fraud has been committed. The evidence should be sufficient to ultimately prove the identity of the fraudster(s), the mechanics of the fraud scheme, and the amount of financial loss suffered.

## Perform Analysis

**It is dependent upon the nature of assignment and may involve:**

- Utilizing charts and graphics to explain the analysis.
- Performing a tracing of assets;
- Summarizing a large number of transactions;
- Utilizing a computerized application such as a spread sheet, data base or computer model.

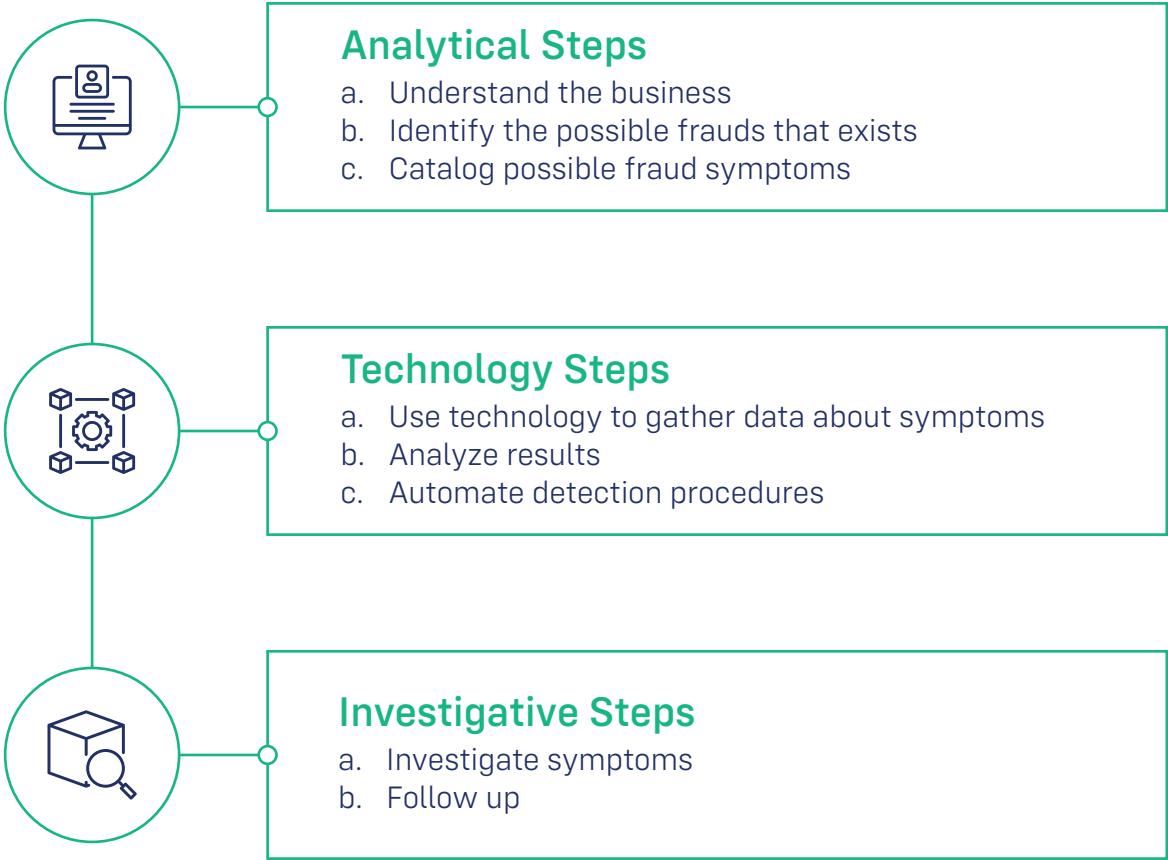
## Reporting

Establish a reporting structure and ensure that the final report is comprehensive, clear, and supported by adequate evidence.

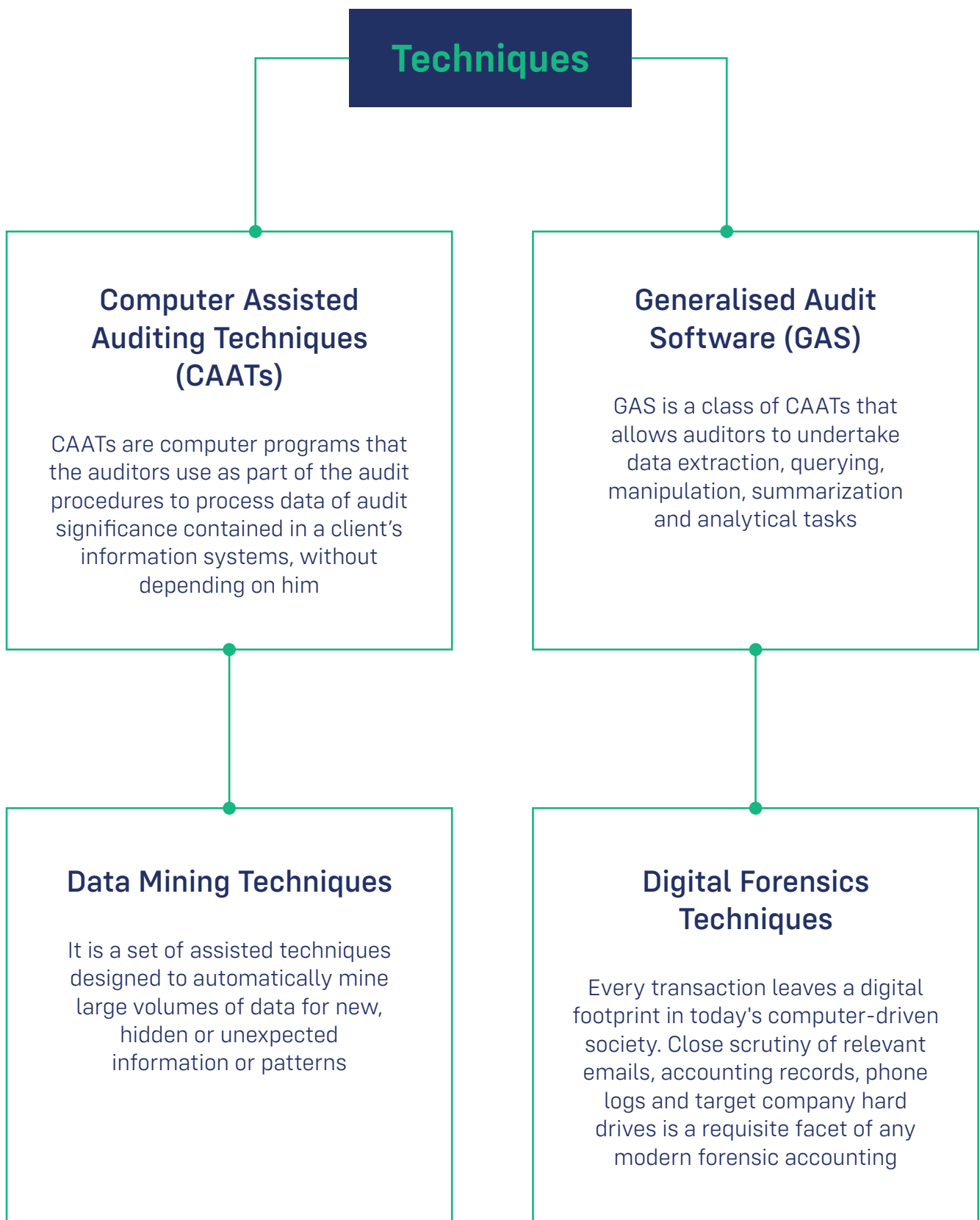
## Court Proceedings

The evidence gathered during the investigation will need to be presented at court, and team members may be called to court to describe the evidence they have gathered and to explain how the suspect was identified.

# Steps in Forensic Accounting



# Techniques used by Forensic Professional



# Forensic Accounting & Investigation Report

A forensic accounting requires a written report about the fraud to be presented to the client to proceed to file a legal case if they so desire. At a minimum, the report should include:



## Points to be kept in mind while reporting:



# Forensic Accounting & Investigation Report





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# AMENDMENTS AND UPDATES

# Breaking News: Personal Income Tax Benefits Expanded!



In a significant stride towards fulfilling promises made in the Finance Act, 2023, the Ministry of Finance has announced a game-changing development in personal income tax benefits. Through an official post on platform X, the Ministry revealed that Section 87A of the Income-tax Act, 1961 has been amended to grant a substantial rebate, ensuring no tax liability for individuals with income up to Rs. 7 lakh.

## Key Highlights

### **Revised Rebate:**

The amendment to Section 87A expands the rebate limit to Rs. 7 lakh, providing a tax-free status for individuals falling within this income bracket under the new tax regime.

### **Middle-Income Focus:**

Aligned with the government's commitment to ease the tax burden on the middle-income segment, this move aims to stimulate economic growth by putting more disposable income in the hands of taxpayers.

### **CBDT's Proactive Measures:**

The Central Board of Direct Taxes (CBDT) has diligently delivered on the promises outlined in the Finance Act, 2023, particularly focusing on providing personal income tax relief.





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# DECODING SECTION 43B(H) OF INCOME TAX ACT

# Timely Payments to MSMEs

## Decoding Section 43B(h) of Income Tax Act

The amendment to Section 43B, slated for implementation from the assessment year 2024-2025 and effective as of April 1, 2024, is poised to revolutionize payment dynamics, particularly benefiting Micro and Small Enterprises (MSMEs) operating under the aegis of the MSMED Act, 2006. This transformative provision serves as a catalyst for expediting the settlement of dues between enterprises, thereby addressing the chronic issue of working capital scarcity prevalent in the MSME sector.

Under the purview of this amendment, large entities are incentivized to settle outstanding payments with MSMEs within stipulated timeframes - 15 days in the absence of a written agreement and 45 days with a written agreement. Micro enterprises have a turnover limit of Rs. 5 crores, with an investment limit of Rs. 1 crore in plant and machinery. Small enterprises, on the other hand, have a turnover limit of Rs. 50 crores and an investment limit of Rs. 10 crores shall be covered by the section 43B (h).

This concerted effort ensures a cash flow cycle for MSMEs, pivotal for their sustained operations and growth trajectory. Furthermore, by delineating clear payment timelines, the provision endows MSMEs with enhanced bargaining power during negotiations with larger counterparts, empowering them to assertively advocate for adherence to agreed-upon deadlines.

It's imperative to note that this amendment does not extend its applicability to medium enterprises, unregistered MSMEs, or traders whose registration primarily serves the purpose of priority sector lending. Nevertheless, for MSMEs falling within the purview of this provision, the benefits are manifold. Beyond facilitating a smoother payment cycle, it also serves as a bulwark against potential disputes and legal entanglements arising from delayed payments, thereby saving valuable time and resources for both MSMEs and larger enterprises.

Under Section 2(n) of the MSMED Act, a "supplier" refers to a micro or small enterprise registered under Udyam, as specified in Section 8(1). Additionally, the term "supplier" encompasses entities such as the National Small Industries Corporation, Small Industries Development Corporation of a State or Union territory, and any company, cooperative society, trust, or body legally registered and involved in selling goods produced by micro or small enterprises and providing services offered by such enterprises.

It's crucial to note that only micro and small enterprises with Udyam Registration are considered suppliers according to Section 15 of the MSMED Act. Furthermore, they are recognized as suppliers solely for goods supplied or services rendered after their Udyam Registration date. This means that their status as suppliers does not apply retrospectively to transactions that occurred before their registration under Udyam.

# Frequently Asked Questions (FAQ)

1

**Would assesses opting for presumptive taxation schemes such as 44AD, 44ADA, 44AE, etc., be subject to disallowance under Section 43B(h)?**

Section 43B is not applicable to assessee opting presumptive taxation. Hence, no disallowance can be made in such cases.

2

**If a sum payable to an MSE attracts disallowance under Section 43B(h), will the GST component also be subject to disallowance?**

If the sum payable to a Micro or Small Enterprise includes GST and the buyer claims Input Tax Credit (ITC), the disallowance under Section 43B(h) is limited to the amount excluding GST. However, if the buyer opts not to claim ITC and treats GST as an expense in its Profit and Loss account, deduction against GST will only be allowed based on actual payment.

3

**How can an assessee determine if their supplier qualifies as a micro or small enterprise?**

The onus is typically on suppliers to indicate their MSE status on relevant documents like supply orders and invoices. If suppliers fail to do so, it can be challenging for assesses and auditors to identify MSE suppliers and fulfill disclosure requirements. In such cases, the non-detection or omission of disclosures may not be the assesses' or auditors' fault. However, it's advisable for buyer entities to proactively request MSE suppliers to confirm their registration status and provide Udyam Registration Numbers and certificates to ensure timely payments in compliance with Section 15 of the MSMED Act.

4

**Would the purchase of goods from MSEs on April 1, 2023, and payment made on March 31, 2024, be subject to disallowance under Section 43B(h) for the assessment year 2024-25?**

There won't be any disallowance even if the payment surpasses the timeline set by Section 15 of the MSMED Act, as long as it's settled within the same financial year and isn't pending at year-end. Hence, the amount will be approved based on actual payment instead of being disallowed. Nevertheless, delaying payments isn't a wise strategy, as it incurs interest charges under Section 16 of the MSMED Act, 2006, wherein the assessee must compensate the supplier at three times the bank rate compounded monthly.

**5****What if the cheque is issued to the MSEs on or before the due date but is encashed by them after the due date?**

According to accepted commercial practices, payment is considered made on the date the cheque is handed over to the payee, provided the cheque is not dishonored later. Hence, in such instances, payment must be recognized as made within the due date.

**6****What if any charitable trust is making payment to an MSME? Will Section 43B(h) apply?**

Section 43B(h) pertains to businesses and professions, not charitable trusts governed by Sections 11 to 13 of the IT Act. Charitable trusts compute income based on commercial principles, not ordinary provisions. While certain provisions from "Profits & Gains of Business or Profession" apply to trust income calculation, there's no mention of Section 43B(h) disallowances. Therefore, disallowance under Section 43B(h) doesn't apply to trust income computation under Section 11. However, delays in payments to MSEs by trusts can incur interest under Section 16 of the MSMED Act.

**7****Are the terms stated within an invoice or purchase order to be regarded as a formal agreement?**

The MSMED Act lacks a specific definition for "agreement," suggesting it can be oral or written. In general, an agreement entails one party making an offer and another party accepting it, covering aspects such as due dates, acceptance of goods/services, late payment consequences, and dispute resolution. Thus, if an invoice or purchase order includes these details, it can be considered an agreement.





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