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Faridabad Small Industries Association

The face of Modern Indian MSMEs

www.fsiindia.com

FSIA Park , Opp. Plot No.23, Sector-24, Faridabad- 121005, Haryana , India
Ph: +91-9711187374 (Santosh Rai, Executive Secretary) E-mail: fsiindia@gmail.com



Rajive Chawla
President, FSIA



Sangeet Kr Gupta
Hon. Consultant, FSIA

Happy Diwali



Happy Diwali Season to all FSIA Members, and Well-Wishers

NEW Remember, once upon a time, we used to send Greeting Cards on the occasion of Diwali festival.

Today, we sometimes don't send physical greeting Cards, but atleast, we can do that electronically, via the E-Greetings Cards. So, if interested, do send a e-card to any of your near and dear ones, using the links below : **NEW**

<http://www.123greetings.com/events/diwali/index.html>
http://www.greet2k.com/festivals/diwali/diwali_cards.shtml (with Music)
<http://www.diwaliCards.com>

Some Quick Diwali Notes from FSIA cell

Quick notes for Diwali Expenses (from Taxation point of view)

Source of Funds ?

Pay the expenses in cash, cheque, credit card as convenient. Account for them as normal business voucher. There is no need to hide, or be afraid of. Follow the relevant tax laws and rules

How to pay the Sweets shop for Sweet boxes ?

Suppose you are buying say, 200 boxes from Haldiram's or Bikanerwala, or SRS, or any other store, then, **Don't pay over Rs. 20,000 in cash.** It will be fully "disallowed" under section 40a(3), Rule 6DD.

Try to plan ahead, and talk to them they will love to get payment by Cheque, or DD. They may ask you to wait for clearing of cheque. No problems, if your bill is expected to be Rs 45000 pay them the 40000 Rs by chq in advance, and balance can be paid on the date of delivery.

How to pay the Gift shop for Diwali Gifts ?

Suppose you are buying any goods, (electronics, crockery, dry fruit, any utility or show-piece item) for gifting , again, **Don't pay over Rs. 20,000 in cash.** It will be fully "disallowed" under section 40a(3), Rule 6DD. Try to plan ahead, and pay them by Cheque, or DD. (if required in advance)

One more thing : The limit of Rs 20000 is not "per bill", or "per transaction".

It is "max Rs. 20000 per day",

Source : What does the income Tax Act say

Section 40A(3) "

40A : Expenses or payments not deductible in certain circumstances.

*40A(3) Where the assessee incurs any expenditure in respect of which a payment or aggregate of payments made to a person in a day, otherwise than by an account payee cheque drawn on a bank or account payee bank draft, **exceeds twenty thousand rupees**, no deduction shall be allowed in respect of such expenditure.*

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Provided further that in the case of payment made for plying, hiring or leasing goods carriages, the provisions of sub-sections (3) and (3A) shall have effect as if for the words "twenty thousand rupees", the words "thirty-five thousand rupees" had been substituted.

Core points

- a) Normal cases = max Rs. 20000 by cash (it is "exceeds" Rs. 20000) , so pure 20000 or lower is allowed, and "Rs.20001" is not allowed.
- b) Payment to Transporter cases = max Rs. 35000 by cash , so 35000 or lower is allowed, and "Rs.35,001" onwards is not allowed.
- c) Some other exceptions exist , as per Rule 6DD

Using Credit Card to pay the Gift shop for Diwali Gifts / Sweets ?

Today most of the shopkeepers / sweet shops have credit card swipe facility. So you can use that, it is cash less, and you can pay on the spot. ((you will also get some 1% to 5% discount in form of "reward points".))

Fringe Benefit Tax ?

There is no FBT (Fringe benefit tax) in this year .

It was scrapped two years ago.

Sales Tax ?

Pay the sales tax on the commodity purchased, as per relevant laws.

It is a deductible expense as the base expense. (there is no "input vat" credit, but it is a valid part of your business expenditure).

Where to book this expense ?

We advise that it is not necessary to book these expenses into “Diwali exp” only. The reason is that people actually spend on these days due to custom / peer pressure and traditions. So, we suggest that,

- If actual purpose of “gifting” is better relations with customer or vendor, or liaison with outside bodies → book into “business promotion” .
- If actual purpose of “gifting” is better relations with staff → book into “staff welfare” .
- If it is “Pooja exp, for pandit ji, flower decoration etc” – that can be put in diwali expenses

For queries, suggestions and feedback , you can e-mail us at : FSIA office

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