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INCOME TAX

DOMESTIC TAXATION

GENERAL

CLARIFICATION FOR SUB-CLAUSE (III) OF CLAUSE (F) OF RULE 6DD

Under the provisions of sub-section (3) of Section 40A of the I.T. Act, 1961, disallowance of expenditure is made in the computation of income in a case where a payment or aggregate of payments exceeding twenty thousand rupees is made to a person in a day, otherwise than by an account payee cheque drawn on a bank or an account payee bank draft. However certain exceptional circumstances are prescribed under rule 6DD of the Income-tax Rules, 1962 which does not attract the aforesaid disallowance. One of such exceptions, inter-alia, refer to payment made to the producer for the purchase of 'fish or fish products' under sub-clause (iii) of clause (e) of rule 6DD.

The following clarifications, vide circular no. 10/2008, are being issued for proper implementation of rule 6DD of the Income-tax Rules, 1962 after receiving representations from various seafood exporters.

- The expression 'fish or fish products' used in rule 6DD(e)(iii) would include 'other marine products such as shrimp, prawn, cuttlefish, squid, crab, lobster etc.'.
- The 'producers' of 'fish or fish products' for the purpose of rule 6DD(e) of I.T. Rules, 1962 would include, besides the fishermen, any headman of fishermen, who sorts the catch of fish brought by fishermen from the sea, at the sea shore itself and then sells the fish or fish products to traders, exporters etc.

It is further clarified that the above exception will not be available on the payment for the purchase of fish or fish products from a person who is not proved to be a 'producer' of these goods and is only a trader, broker or any other middleman, by whatever name called.

NEW RULE 5 F AND NEW FOR NO 3CF-III

Section 35 (1) deals with allowability of certain expenditure incurred on scientific research. Clause (ii) of section 35 (1) deals with deductibility of amount paid to a scientific research association. For eligibility of scientific research association, such association has to obtain approval from the Income Tax Authority.
In exercise of the powers conferred by section 295 read with clause (iia) of sub-section (1) of section 35 of the Income-tax Act, 1961 (43 of 1961), the Central Board of Direct Taxes ('CBDT') has, vide notification no 107/2008, has inserted Rule 5 F in the Income-tax Rules, 1962.

The said Rule 5F shall deal with prescribed authority, guidelines, form, manner and conditions for approval under clause (iia) of sub-section (1) of section 35.

The CBDT has also introduced Form No 3CF-III which is the Application form for approval under clause (iia) of sub-section (1) of section 35 of the Income-tax Act, 1961 in the case of company.

CBDT TO REOPEN CASES ON GROUP INVESTMENTS

As per the news paper reports, it appears that the Central Board of Direct Taxes (CBDT) has asked its field formations to reopen all cases in which companies have invested in subsidiaries or group companies and claimed deduction on expenses like interest outgo on funds they borrowed for such investments.

Tax department officials said Chief Commissioners had been asked to look into cases dating back to 1997, when section 14A was inserted into the Income Tax Act.

As you would know, Section 14A provides that no deduction will be allowed for expenditure incurred in relation to income that does not form part of total income. Dividend income is exempt from tax and enjoys a different tax treatment under the head of investments in company balance sheets.

It is felt that in many cases, the Companies had claimed deductions on interest it paid on grounds that it had borrowed funds and invested in group companies or subsidiaries. The interest outgo was deducted from other income these companies earned.

The reopening of the cases with retrospective effect will be carried out in pursuance to the provisions of section 150 of the Income Tax Act.

The move follows a judgment by the Mumbai Income Tax Tribunal in late October that disallowed any expenditure that does not form part of the taxable income, which are primarily expenses towards dividend income, in the cases of Daga Capital Management, Maxopp Investments and Cheminvest Ltd. The judgment is based on section 14A of the Income Tax Act.

The Tribunal was of the view that assessee got tax exemption on dividend income and also claimed deduction of expenses incurred towards such investment from the taxable income. This, it said, is against the basic principle of taxation.

The department has also advised the income tax tribunals to return pending appeals on such cases to rework the taxable income component.

To reopen cases with retrospective effect, the tax authorities are reworking the taxable income and segregating the expenses towards taxable and non-taxable or dividend income based on the formula prescribed under Section 8D. This formula was inserted in the Finance Act, 2008, and is applicable retrospectively from 1962. This move will impact all the companies that propose to make investments in its group companies to maintain control besides making general investment in mutual funds, shares, debentures or securities.

The move comes at a time when tax collections have been impacted by the slowdown.

CASE LAWS

1. Santosh Narain Kapoor vs DCIT (Luckhnow Tribunal)

Penalty: Concealment of income - Voluntary surrender of income

The assessee was a partner in M/s R.P. Fragrances, which was engaged in the business of perfumes and derived income from the partnership firm and other sources. For the Assessment Year 2000-01, the assessee filed the return on 30th Nov., 2000 declaring an income of Rs. 5,94,641. The said return was processed under s. 143(1) of the IT Act, 1961 on 17th Sept., 2001. The assessee had some credits in his account of various amounts received through bank drafts. On seeking confirmation by the Income Tax Department from the payers, the payers had not come up for confirmation.

To buy peace, to avoid litigation and to cooperate with the Department, the assessee had surrendered the sum suo moto as income in good faith as no penalty/prosecution proceedings be initiated against/humble request in the true spirit. The assessee requested in writing to the assessing officer. The AO had treated these surrendered receipts as unexplained cash credits. In addition, the assessee surrendered Rs. 50,000 deposited in cash with Annapurna Preservation as unexplained deposit. In penalty order, the AO mentioned that a bogus gift racket had been detected by the Director of IT (Inv.), Kanpur, involving amounting of over Rs. 40 crores. Being scared by the investigation, the assessee chose to surrender the amount of unexplained receipts and deposits. AO, therefore, held that the assessee was liable for penalty under s. 271(l)(c) of the IT Act inasmuch as he has concealed the particulars of income and furnished wrong statement. Taking into consideration the entire facts of the case, the AO imposed minimum penalty @ 100 per cent.

On appeal, the CIT(A) confirmed the penalty

Decision of Tribunal:

In the instant case, there is no discussion in the assessment order or penalty order that the assessee had concealed the particulars of income and furnished wrong statement with malafide intention to evade tax or the explanation given by the assessee was not bonafide or false. The Tribunal therefore held that it was not a fit case for imposition of penalty, because the concealment of income and furnishing wrong statement were not found to be established from the material on record and there was no material on record to prove that the assessee had concealed his income and furnished wrong statement. As a result the Tribunal directed the department to cancel the penalty

2. Acit vs Bhaumik Colour Pvt. Ltd. (ITAT Mumbai)

Deemed Dividend

The assessee ("BCPL") is a company engaged in the business of manufacture of pencil-paints. BCPL had taken an interest bearing loan from Umesh Penciles Pvt Ltd ("UPPL"). The AO had observed that though BCPL is not shareholder of UPPL, both the companies had common shareholder i.e. Narmadaben Nandlal Trust ("NNT"). The Trust was holding 20 per cent shares (i.e. substantial) in BCPL and 10 per cent in UPPL. According to BCPL, the shares were hold by Trust in the name of three trustees for and on behalf of the trust and there were five beneficiaries of the trust. None of the

trustee was beneficiary of the trust. To invoke the provision of the section 2 (22) (e), the primary condition was that NNT must be, both, a registered shareholder and also a beneficial shareholder. The assessee contended that section 2 (22) (e) could not be invoked in the case of the assessee, since the trustee hold the shares on behalf of the trust and they were not beneficial owners of the shares. The AO however was not satisfied with the contention of the assessee. He therefore, taxed the loan amount in the hands of BCPL as deemed dividend.

CIT (A) deleted the addition made by AO giving the reason that NNT was not beneficial shareholders of the shares in BCPL and UPPL and therefore, the provisions of section 2 (22) (e) could not be applied.

The revenue approached the Tribunal by preferring an appeal against the decision of CIT (A).

Decision of Special Bench:

Deemed dividend can be assessed in the hands of a person who is a shareholder of the lender company. Deemed dividend can not be taxed in the hands of a person other than a shareholder.

If a person is a registered shareholder but not the beneficial shareholder then the provisions section 2 (22) (e) will not apply. Similarly, if a person is a beneficial shareholder but not the registered shareholder then also the provisions section 2 (22) (e) will not apply.

3. Plastiblends India Limited Vs Addl CIT (Mumbai High Court)

Depreciation, whether mandatory for Chapter VI-A

The assessee is a company who was engaged in the business of manufacture of masterbatches and compounds since assessment year 1994-95. For manufacturing purposes, it has its manufacturing units at Daman. The income derived from these undertakings was qualified for deductions under section 80IA of the Income Tax Act. For assessment years 1995-96 and 1996-97, the assessee did no claim deduction for depreciation in respect of the assets at the aforesaid undertakings at Daman.
The assessee had filed its return declaring total income of Rs Nil under the Act after claiming deduction under section 80 IA. While computing profits and gains from business, the assessee did not claim any depreciation under section 32 of the Act in respect of the assets of the said undertakings.

Consequent thereto, the income which qualified for deduction under section 80IA of the Act was also worked out on the basis that depreciation had not been claimed as a deduction.
The department initiated reassessment proceedings for this year and passed an order determining the total income after considering the depreciation for 80 IA working. The AO, thereby, reduced the written down value of the block of assets to be carried forward to the subsequent year. Consequent thereto, he also reduced the claim for deduction under section 80IA of the Act in respect of said undertakings by reducing the income by depreciation amount of the eligible undertakings.

The issue referred to the Full bench for pronouncement

Whether for the purpose of availing deduction under Chapter VI-A of the Income Tax Act, the gross total income is required to be computed by deducting allowable depreciation even though the assessee had disclaimed the same for the purpose of regular assessment.

REGULATIONS GOVERNING INVESTMENTS

COMPANIES CAN LAUNCH INITIAL PUBLIC OFFER (IPO) WHITHIN ONE YEAR FROM SEBI APPROVAL

Securities and Exchange Board (SEBI) recently granted greater flexibility to corporates for it's fund-raising plans, and also outlined measures to prevent the kind of panic redemptions that brought the mutual fund industry to its knees in October, 2008.

SEBI approved a proposal to extend the validity of an initial public offering (IPO) approval from three months to one year, following requests from issuers. Under the earlier rule, companies would have had to launch its IPOs within three months of securing SEBI's approval. Failure to complete the offering for any reason would have meant approaching the regulator for a fresh approval.

The new rule could come as a relief for many corporates, who were forced to defer its IPOs even though it had obtained SEBI approval. Under the new rule, these companies can go public within one year of receiving the SEBI's approval. However, SEBI has also stipulated that companies will have to update the document with fresh numbers and any other material changes whenever required.

MF INVESTMENTS NORMS FOR PUBLIC SECTOR MAY BE EASED BY GOVERNMENT TO BOOST UP INDIAN ECONOMY

In a bid to boost the deteriorating sentiment in the stock markets, the Centre is considering to relax the restrictions on mutual fund investments by profitable central Public Sector Undertakings.

While Navratna and Miniratna PSUs can invest upto 30% of their available surplus funds in schemes of mutual funds regulated by the Securities Exchange Board of India (SEBI), as allowed by the Government last July 2007, the Cabinet Committee on Economic Affairs (CCEA) is mulling a proposal to allow all profitable PSUs to park a part of their surpluses with mutual funds.

As per the latest Public Enterprises Survey, central PSUs had a cash and bank balance of Rs 203,260 crore on March 31, 2007.

Presently, the PSUs' boards decide where these surplus funds are deployed though the Government issues guidelines for it from time to time. In April this year, the Centre had issued instructions to PSUs asking them to park at least 60% of their available surplus funds with public sector banks.

The guidelines, procedures and management control systems for mutual fund investments would be set by the PSUs' board of directors in consultation with the administrative ministry in charge of the PSU, as per a proposal before the CCEA.

PRIVATE PROVIDENT FUND (PF) AND SUPER ANNUATION FUNDS' EQUITY RETURNS SET TO BE TAX FREE

According to the finance ministry, returns earned by private provident funds and superannuation funds from its investments in shares of companies will not attract income tax as the Government plans to give such investments tax-free status.

The finance ministry, which has allowed the entities to channelise up to 15% of its corpus in equities, is now set to amend the income-tax rules to facilitate this. The tax-free status would allow more of retirement savings to flow into shares, which over a long period earn higher returns those other assets.

Private sector companies having more than a certain minimum number of employees can seek permission to manage the retirement savings of its employees instead of giving the corpus to the Employees' Provident Fund Organization, a Government entity.

The Central Board of Direct Taxes (CBDT) is likely to carry out necessary changes in the income-tax rules to allow private provident funds and superannuation funds to allow their equity investments tax-free status.

The Department of Economic Affairs (DEA) under the finance ministry had notified new norms for private provident fund trusts in August this year, permitting them to invest up to 15% of their corpus in the stock market instead of the earlier 5%. The new investment pattern comes into effect from April 1, 2009. The department of economic affairs has now written to the CBDT asking it to carry out amendments in its income-tax rules.

Income-tax rule 67 prescribes an investment pattern for private provident funds and superannuation funds which is to be followed to avail tax benefits: income earned on investments that fall outside the pattern prescribed is liable to tax. Therefore, in absence of the tax-free status, even though a higher allocation for equities is allowed, the returns would have been subject to tax.

The move to allow tax benefit for equity investments by private provident funds and superannuation funds would facilitate more retirement savings to flow into the stock market and help it deepen further.

SECURITY EXCHANGE BOARD OF INDIA (SEBI)

The Security Exchange Board of India announced master circular ISD/AML/CIR-1/2008 on Anti Money Laundering and Combating Financing of Terrorism (CFT) - Obligations of Intermediaries under Prevention of Money Laundering Act, 2002 and Rules Framed there-under.

This Master circular is being issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992, and Rule 7 of Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of the Banking Companies, Financial Institutions and Intermediaries) Rules, 2005 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

All the registered intermediaries are directed to ensure compliance with the requirements contained in this Master Circular on an immediate basis. Stock exchanges and depositories are also directed to bring the contents of this circular to the attention of their member brokers/ depository participants and verify compliance during inspections.

This Master circular consolidates all the requirements/obligations issued with regard to AML/CFT till December 15, 2008. This Circular is being issued to all the intermediaries. The circular shall also apply to their branches and subsidiaries located abroad.

GOVERNMENT WILL COMEUP WITH AN ECONOMIC STIMULUS PART II

As earlier briefed by us about financial package of Rs. 30,700 crores (appx US $ 7 billion), as per news paper report, the Government is likely to announce II package to boost the deteriorating sentiment in the economic markets and is signaling that while major industry concerns are being addressed, the forthcoming financial fillip will not be followed by another for a while.

The above discussed stimulus-II is still in the works and may take another week of fine-tuning before it is rolled out with Government keen on ensuring that key issues are taken into account and it is not required to come out with another installment soon after.

Measures under consideration essentially deal with "credit mechanisms" by making more funds available and encouraging banks to chip in by way of lowering lending rates. Here, the view gaining ground is that sectors like real estate may not get tax breaks but be given swifter access to funds. The Government expects the sector to cut back a bit on margins as well.

For export-driven sectors, the stimulus could hold more duty relief and it is being felt that with increased competitiveness, exporters might keep their heads above water. It is felt that given India's share of global trade; it could hold its own. Just next door, Bangladesh exports had registered a rise.

While some sectors have not passed on the benefits of the first part of the stimulus package, it is being argued that industry would need to take a few hard decisions as well. In a survivor of the fittest scenario, various sectors needed to assess where holding on to margins or not responding to the Government's initiatives helped their overall profitability. Excise collections had fallen, so had indirect tax returns, but these were decisions that the Government knowingly undertook and various sectors needed to see how to be competitive and win consumer confidence.

Despite internal security and relations with Pakistan dominating public discourse, the PM has remained quite focused on the economy and has been taking due note of projections on the global economy, with assessments indicating that India's growth trajectory faces stiff hurdles for at least another year with EU and US economies remaining hamstrung. OECD projections show negative growth till the third quarter of 2009.

ACCOUNTS & AUDIT

CHARTERED ACCOUNTANTS TO BE BARRED FROM NON-AUDIT WORK OF COMPANIES

To enhance the credibility to company accounts, the Government will prevent chartered accountants (CAs) from offering consultancy and advisory services to the companies which appoint them for auditing their accounts.

The statutory auditors, who inspect the financial accounts of a company, will be restricted from providing its corporate clients services such as, investment management, actuarial services and investment banking.

The proposal forms part of the Companies Bill 2008, which is pending before the Lok Sabha for its approval. The move is expected to guide in greater independence in the audit function and infuse greater confidence in the minds of investors on the credibility of financial statements. At present, the statutory auditors are barred from providing accounting and internal audit services for their clients, but are allowed to deliver consultancy and advisory services.

Under the guidelines proposed in the new legislation, statutory auditors will also be prohibited from providing services like design and implementation of financial information system, investment advisory, rendering of outsourced financial work and management services.

The initiative assumes significance in the wake of a slowdown in the economy where companies may hire consultancy services from their statutory auditors who may turn a blind eye to discrepancies in financial statements.

The move may come as a major damper for many practicing chartered accountants who have been providing audit as well as consultancy services for their clients.

COMPANIES TO BE ASKED TO DECLARE BALANCE SHEET EVERY QUARTER

To enhance the disclosure norms and present investors with quality information on solvency of companies, the finance ministry and the Securities and Exchange Board of India (SEBI) are considering a proposal to make it mandatory for

companies to declare its balance sheets every quarter. At present, companies are required to share its balance sheets with investors and the capital markets regulator SEBI only once a year. What has prompted the Government and the regulator to move quickly on this aspect is the current economic slowdown and its impact on the profitability of companies.

At present, companies share only their Profit and Loss account statements every quarter. The Profit and Loss account does not reflect the debt liability of the company, which a balance sheet does. The motive behind the declaration of the quarterly balance sheet is that the investors must know about the solvency of the companies too and not just the profit and loss account. Account receivables and payables are reflected in the balance sheet, which reflect any default of payments by customers. On the payables side, it will reflect whether the company has enough liquidity to pay back suppliers. Moreover, many companies show their foreign exchange losses only in the balance sheet, which makes such a disclosure even more essential to adjudge the health of the company.

The move is being made to maintain more transparency in the market. The capital markets regulator SEBI had mandated quarterly disclosures of profit and loss data of listed companies in the early 1990s. A direct impact of this was that insider trading had come down significantly.

India has been lagging behind on disclosure norms compared to practices in the international market. Quarterly balance sheet disclosures are already necessitated in leading markets such as the US, the UK, Singapore and Australia.

FASB INCREASES DISLOSURE REQUIREMENTS

The Financial Accounting Standards Board (FASB) has issued new standards that increase the disclosure requirements that public companies need to make about their financial asset transfers and variable-interest entities.

FASB Staff Position FAS 140-4 and FIN 46(R)-8. "Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities," goes into effect for reporting periods, both interim and annual, that end after Dec. 15, 2008. The purpose of the new standards is to quickly improve disclosures by public entities and enterprises until pending amendments to two other FASB standards are finalized and approved by the board.

The FSP amends Statement 140 to require public entities to provide additional disclosures about transferors' continuing involvements with transferred financial assets. It also amends Interpretation 46(R) to require public enterprises, including sponsors that have a variable interest in a variable-interest entity, to provide additional disclosures about their involvement with variable-interest entities.

The FSP also requires disclosures by a public enterprise that is a sponsor of a qualifying special-purpose entity that holds a variable interest in the qualifying SPE but was not the transferor of financial assets to the qualifying SPE, and a service of a qualifying SPE that holds a significant variable interest in the qualifying SPE but was not the transferor of financial assets to the qualifying SPE.

ICAI: REVISED STANDARDS ON AUDITING

Recently the Institute of Chartered Accountants of India (ICAI) has issued following two revised standards on auditing:

1. Standard on Auditing (SA) 250 (Revised), "Consideration of Laws and Regulations in an Audit of Financial Statements" and

2. Revised Standard an Auditing (SA) 260, "Communication with Those Charged with Governance"

STANDARD ON AUDITING (SA) 250 "CONSIDERATION OF LAWS AND REGULATIONS IN AN AUDIT OF FINANCIAL STATEMENTS":

This Standard on Auditing (SA) deals with the auditor's responsibility to consider laws and regulations when performing an audit of financial statements. This SA does not apply to other assurance engagements in which the auditor is specifically engaged to test and report separately on compliance with specific laws or regulations.

The requirements in this SA are designed to assist the auditor in identifying material misstatement of the financial statements due to non-compliance with laws and regulations. However, the auditor is not responsible for preventing non compliance and cannot be expected to detect non-compliance with all laws and regulations.

Effective Date:

This SA is effective for audits of financial statements for periods beginning on or after April 1, 2009.

STANDARD ON AUDITING (SA) 260, "COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE":

This Standard on Auditing (SA) deals with the auditor's responsibility to communicate with those charged with governance in relation to an audit of financial statements. Although this SA applies irrespective of an entity's governance structure or size, particular considerations apply where all of those charged with governance are involved in managing an entity, and for listed entities. This SA does not establish requirements regarding the auditor', communication with an entity's management or owners unless they are also charged with a governance role.

This SA has been drafted in terms of an audit of financial statements, but may also be applicable, adapted as necessary in the circumstances, to audits of other historical financial information when those charged with governance have a responsibility to oversee the preparation and presentation of the other historical financial information.

Recognizing the importance of effective two way communication during an audit of financial statements, this SA provides an overarching framework for the auditor's communication with those charged with governance, and identifies some specific matters to be communicated with them. Additional matters to be communicated, which complement the requirements of this SA, are identified in other SAs. Further matters, not required by this or other SAs, may be required to be communicated by laws or regulations, by agreement with the entity, or by additional requirements applicable to the engagement. Nothing in, his SA precludes the auditor from communicating any other matters to those charged with governance.

Effective Date:

This SA is effective for audits of financial statements for periods beginning on or after April 1, 2009.

SUBSTITUTION OF 23B FORM UNDER COMPANIES ACT, 1956

The Ministry of Company Affairs has recently substituted Form 23B. Form 23B [Information by Auditor to Registrar] is for submission of desired information by the Statutory Auditors of the company with the Ministry of Company Affairs in electronic form. The new form shall be in force with effect from 11th January, 2009.

PARLIAMENT PASSED LIMITED LIABILITY PARTNERSHIP (LLP) BILL, 2008

Parliament has passed the Limited Liability Partnership (LLP) Bill 2008. On the occasion Minister for Corporate Affairs expressed the hope that the first ever LLP in the country would be registered by the first day of the new Financial Year i.e. 1.4.2009. The LLP Rules have already been placed on the website of the MCA. The registration of LLPs will be a paperless affair as it will be covered under MCA-21 e-governance program of the Ministry.

LLP is a new corporate form that enables professional expertise and entrepreneurial initiative to combine, organize and operate in an innovative and efficient manner. The Limited Liability Partnership format is an alternative corporate business vehicle that provides the benefits of limited liability of a company but allows its members the flexibility of organizing their internal management on the basis of a mutually arrived agreement, as is the case in a partnership firm. This format would be quite useful for small and medium enterprises in general and for the enterprises in services sector in particular. Internationally, LLPs are the preferred vehicle of business particularly for service industry or for activities involving professionals.

As proposed in the Bill, LLP shall be a body corporate and a legal entity separate from its partners. It will have perpetual succession. While the LLP will be a separate legal entity, liable to the full extent of its assets, the liability of the partners would be limited to their agreed contribution in the LLP. Further, no partner would be liable on account of the independent or unauthorized actions of other partners, thus allowing individual partners to be shielded from joint liability created by another partner’s wrongful business decisions or misconduct.

The salient features of the LLP Bill, 2008 are as under:-

- The LLP will be an alternative corporate business vehicle that would give the benefits of limited liability but would allow its members the flexibility of organizing their internal structure as a partnership based on an agreement.

- The proposed Bill does not restrict the benefit of LLP structure to certain classes of professionals only and would be available for use by any enterprise which fulfills the requirements of the Act.

- While the LLP will be a separate legal entity, liable to the full extent of its assets, the liability of the partners would be limited to their agreed contribution in the LLP. Further, no partner would be liable on account of the independent or un-authorized actions of other partners, thus allowing individual partners to be shielded from joint liability created by another partner's wrongful business decisions or misconduct.

- LLP shall be a body corporate and a legal entity separate from its partners. It will have perpetual succession. Indian Partnership Act, 1932 shall not be applicable to LLPs and there shall not be any upper limit on number of partners in an LLP unlike a ordinary partnership firm where the maximum number of partners can not exceed 20.

- An LLP shall be under obligation to maintain annual accounts reflecting true and fair view of its state of affairs. Since tax matters of all entities in India are addressed in the Income Tax Act, 1961, the taxation of LLPs shall be addressed in that Act.

- Provisions have been made in the Bill for corporate actions like mergers, amalgamations etc.

- While enabling provisions in respect of winding up and dissolutions of LLPs have been made in the Bill, detailed provisions in this regard would be provided by way of rules under the Act.

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