

TAX CHAT - Updates



Monthly Newsletter from SSJCO

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September 2021

For Private Circulation only

Date: 20th September, 2021

Dear Madam / Sir,
Namaste!

We hope you and your family are doing well during these uncertain times.

The long awaited extension of due dates for income tax compliance has been announced. Although I am never in favour of any extension of due dates of compliance, its fine, may be it was the need of the day. We are not here to sit on the judgement of the authorities and debate/opine whether the decision was right or wrong, whether the number of days extension is sufficient, over given, etc. We need to ensure that within the given extended time frame, we comply with the required tax compliances. There is only one thing which also needs to be considered at macro level. The extension of compliance has been granted under the Income Tax Law but for corporates, extension for finalization of accounts, audit and holding AGM has not been granted (as yet) under the Companies Act. Similarly, under the Maharashtra Public Trust Act, the due date for e-filing of audited accounts of the Charity Trust with the office of Charity Commissioner continues to be 30th September, 2021. Let all the dates under various laws be synchronized and if extension is required to be granted, it should be granted across, under all the interconnected laws. Once the accounts are finalized and audited of the corporate assesseees and charitable trusts, there is no need for extension for filing return of income upto 15th February, 2022.

Be it so, lets do our duty sincerely along with enjoying the festival days of Navratri and Deepawali!

As in earlier months, in this September 2021 edition of Tax Chat, we are attempting to summarize the updates along with other important circulars / notifications/ instructions issued in this month. Rishabh has contributed his article titled as "Should Small Cap Mutual Funds be a part of your Portfolio" in this edition.

Vighna harta Shree Ganesh is going back to his home from Pandals and Streets but he is always there with all of us, within us.

Trust you will find the same useful.

Happy Reading!

With Regards,

Team - S S Jhunjunwala & Co

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Circulars, Notifications and Others:

(Compiled by: Ms Sonakshi Jhunjunwala)

1. **CBDT notifies Rule for computing taxable interest on PF contributions exceeding threshold limits: Notification No. 95 of 2021, dated 31st August, 2021:**

The Finance Act, 2021 has amended Section 10(11) and Section 10(12) to provide that exemption shall not be available for the interest income accrued during the previous year on the recognized and statutory provident fund in the account of the person to the extent it relates to the contribution made by the employees in excess of Rs. 2,50,000 in the previous year. However, if such person has contributed to a fund in which there is no contribution by the employer, a limit of Rs. 2,50,000 shall be increased to Rs. 5,00,000. The amount of such interest income shall be computed as per the prescribed rules.

The CBDT has notified Rule 9D to calculate the taxable portion of interest pertaining to the contribution made to a statutory or a recognized provident fund in excess of the threshold limit of Rs. 2.5 lakh or 5 lakhs as the case may be. It provides that separate accounts within the provident fund account shall

be maintained during the previous year 2021-22 and onwards for the taxable and non-taxable contribution made by the person.

2. CBDT notifies 'Board for Advance Rulings' effective from 1st September, 2021: Notification No. 96 of 2021 & Notification No. 97 of 2021, dated 1st September, 2021:

The Finance Act, 2021 had amended the relevant provisions of the Income-tax Act to provide that the Authority for Advance Rulings (AAR) shall cease to operate with effect from such date, as may be notified by the Central Government in the Official Gazette.

Further, The Finance Act 2021 has also inserted a new Section 245-OB to empower the Central Government to constitute one or more Board for Advance Rulings for giving advance rulings on and after the notified date. Every such Board shall consist of two members, each being an officer not below the rank of Chief Commissioner.

The CBDT has notified that AAR shall cease to operate with effect from September 01, 2021. Further, the board has also constituted the Boards for Advance Rulings, having its headquarters at Delhi and Mumbai, to give advance rulings under Chapter XIX-B of the Act on or after 1st September, 2021

3. CBDT notifies Form 12BBA to be submitted by senior citizens wishing to claim benefit of Sec. 194P: Notification No. 99 of 2021, dated 2nd September, 2021:

The CBDT has notified the Income-tax (26th Amendment) Rules, 2021. The amendment Rule has inserted a new Rule 26D, amended Rule 31, Rule 31A, and several forms of the Income-tax Rules, 1962.

As per the new Rule 26D, the senior citizen, who is required to claim the benefit of section 194P, shall furnish a declaration in Form No. 12BBA in paper form to the specified bank. On furnishing the declaration, the specified bank will compute the total income of such senior citizens for the relevant assessment year after giving effect to the deduction allowable under Chapter VI-A and rebate allowable under section 87A. The specified bank will deduct income-tax on total income so computed on the basis of the rates in force.

The effect to the deduction allowable under Chapter VI-A shall be given based on the evidence furnished by the specified senior citizen during the previous

year. The specified bank is required to properly maintain the declaration and the evidence furnished by the senior citizen and shall be made available the same to PCCIT or CCIT as and when required.

The procedure to submit Form no. 12BBA by the specified bank to PCCIT to CCIT shall be specified by the Pr. DGIT (Systems) or DGIT (Systems) as and when required.

The Board vide Notification No. 98 of 2021, dated 2nd September, 2021, has notified “specified Bank” to mean a banking company which is a scheduled bank and has been appointed as agents of Reserve Bank of India under section 45 of the Reserve Bank of India Act, 1934.

Besides this, the Income-tax (26th Amendment) Rules, 2021 has also amended certain rules and forms. Rule 31 of the Income-tax Rules, 1962 has been amended to provide that certificate of deduction of TDS shall be given to senior citizens in Form no. 16 in respect of tax deducted on pension/interest income of specified senior citizen under section 194P. Form no. 16 has also been amended to incorporate necessary changes. Part B (Annexure-II) of the certificate in Form 16 has been notified which shall be issued by the specified bank to a senior citizen.

Rule 31A has also been amended to provide that quarterly statement of tax deducted under section 194P shall be deposited in Form no. 24Q. Form no. 24Q has also been amended to incorporate necessary changes. Annexure III to Form no. 24Q has been notified to furnish details of pension and interest income paid or credited during the financial year and net tax payable under section 194P.

Further, the amendment rule has also amended Form 26QB, Form 26QC, and Form 26QD to incorporate changes pertaining to Section 206AB. Section 206AB is a special provision that provides for a higher rate for TDS for the non-filers of income-tax returns.

4. Cases not created on ITBA due to technical bugs or not having PAN to be excluded from Faceless Assessment: CBDT: Order F No. 187/3/2020-ITA-I, dated 6th September, 2021:

The Taxation and Other Laws (Relaxation and Amendment of certain provisions), Act, 2020, has inserted a new Section 144B to incorporate the Faceless Assessment Scheme, 2019 in the Income-tax Act.

CBDT vide Order F. No. 187/3/2020-ITA-I, dated 31st August, 2020, directed that all the Assessment Orders shall be passed by the National Faceless Assessment Centre under Section 144B of the Act except as under:-

(a) Assessment orders in cases assigned to Central Charges;

(b) Assessment orders in cases assigned to International Tax Charges.

Now, CBDT has further excluded Assessment Orders in cases where pendency could not be created on ITBA because of technical reasons or cases not having a PAN, as the case may be, from the ambit of Faceless assessment.

5. CBDT notifies procedure for handling assessment if case is transferred by NFAC to Jurisdictional AO: Notification F. No. 225/97/2021/ITA-II, dated 6th September, 2021:

Section 144B(8) empowers the Principal Chief Commissioner or the Principal Director General in charge of the National Faceless Assessment Centre (NFAC) to transfer the case to the Assessing Officer (AO) having jurisdiction over such case, with the prior approval of the CBDT. Similarly, Clause 5(2) of the Faceless Penalty Scheme, 2021, has empowered the Principal Chief Commissioner or the Principal Director General, in charge of the National Faceless Penalty Centre, to transfer penalty proceedings to the income-tax authority or the National Faceless Assessment Centre having jurisdiction over the assessee or any other person, in whose case the penalty proceedings are initiated, with the prior approval of the CBDT.

Now, the CBDT has prescribed the following procedure for handling of assessment by Jurisdictional AO in respect of such transferred cases:

(a) All processes in transferred cases may be conducted electronically to the extent technically feasible, except in those cases where the assessee does not have an e-filing account/registered e-mail to communicate electronically with Jurisdictional AO. For cases without digital footprint, the Jurisdictional AO shall endeavour to get the e-filing account of the assessee registered and then electronically conduct the proceedings;

(b) The request for personal hearings shall generally be allowed to assessee with the approval of Range Head, mainly after assessee has filed written submission to the show cause notice. The personal hearing may be allowed to assessee preferably through Video Conference. If Video Conference is not

technically feasible, personal hearings may be conducted in a designated area in Income Tax Offices. The hearing proceedings may be recorded;

(c) Use of Faceless processes such as Verification Unit for online verification, Technical Unit for Technical inputs, etc. may also be considered for the non-faceless regime to the extent technically feasible;

(d) To have consistency with the unit concept in a faceless regime, the Range Head may compulsorily be involved in the finalization of assessment of such cases transferred to Jurisdictional AO, for which the provisions of Section 144A may suitably be invoked. In penalties, the approval of Range Head is already embedded in Section 274(2), over a specific monetary ceiling of 'penalty imposable'. The same may be adhered to.

It is also clarified that in respect of such transferred cases, Jurisdictional AO shall consider the proceedings conducted so far under the faceless regime and proceed further as per the provisions of the Act and broad contours of modalities as indicated above.

6. CBDT prescribes manner for authenticating electronic records under EVC for faceless assessment: Notification No. 101 of 2021, dated 6th September, 2021:

Section 144B provides that all the communications between the NFAC and assessee or his authorized representative or any other person shall be done exclusively by electronic mode. Further, all internal communication between the NFAC, RFAC and various units shall be done electronically.



The assessee or any other person shall authenticate the electronic records by affixing his digital signature, if he is required to furnish his return of income under digital signature, and by affixing his digital signature or under electronic verification code in any other case. The CBDT was empowered to prescribe how such authentication is to be made under an electronic verification code. In

exercise of such power CBDT has inserted a new Rule 14C to prescribe such manner.

Rule 14C provides that where an assessee or any other person submits an electronic record by logging into his registered account in the designated portal of the Income-tax Department, it shall be deemed that the electronic record has been authenticated under electronic verification code.

7. Section 252 of the Income Tax Act, 1961: Appellate Tribunal: Appointment of President: Notification F. No. A-12023(1)/15/2016 - ADMN.III (LA), dated 6th September, 2021:

In exercise of the powers conferred by section 252 of the Income-tax Act, 1961 (43 of 1961), the Central Government is pleased to appoint Shri G. S. Pannu, Vice-President of the Income-tax Appellate Tribunal, as President of the Tribunal in officiating capacity with effect from the forenoon of 6th September, 2021, till the regular President is appointed or until further orders, whichever is earlier.

8. CBDT extends benefit of authenticating electronic records under EVC to persons required to do so by digital signature: Press Release, dated 7th September, 2021:

In order to ease the process of authentication of electronic records under the Faceless Assessment Regime, the CBDT vide Notification No. 101 of 2021, dated 6th September 2021 has inserted a new Rule 14C to the Income-tax Rules, 1962.

Rule 14C provides that electronic records submitted through the registered account of the taxpayers in the Income-tax Department's portal shall be deemed to have been authenticated by the taxpayer by electronic verification code (EVC) for the purpose of section 144B(7)(i)(b).

However, this simplified process of authentication is not available to those persons who are mandatorily required to authenticate the electronic records by digital signature. To provide benefits to those persons, the CBDT has decided to extend the simplified process of authentication of EVC to these persons also.

Thus, the persons who are mandatorily required to authenticate electronic records by digital signature shall be deemed to have authenticated the electronic records when they submit the record through their registered

account in the Income-tax Department's portal. The legislative amendments in this regard shall be proposed in due course.

9. Taxpayers eligible to file application before SetCom as on 31st January, 2021 can file it before Interim Board by 30th September, 2021: CBDT: Press Release, dated 7th September, 2021:

The Finance Act, 2021 has discontinued the Income-tax Settlement Commission ('ITSC'). The ITSC ceased to operate on or after 1st February, 2021. In order to dispose of pending cases, the Govt. has constituted Interim Board for Settlement vide Notification No. 91 of 2021, dated 10th August, 2021. The taxpayers have been given the option to withdraw their application within the specified time and intimate the Assessing Officer (AO) about such withdrawal.

The Board has received several representations wherein it was stated that taxpayers were in advanced stages of filing their application before ITSC as on 1st February, 2021. Further, the High Courts have also granted interim relief to taxpayers and directed revenue to accept their settlement application even after 1st February, 2021. This has resulted in uncertainty and protracted litigation.

In order to provide relief to the taxpayers who were eligible to file application as on 31st January, 2021, but could not file the same due to cessation of ITSC vide Finance Act, 2021, the CBDT has been decided that applications for settlement can be filed by 30th September, 2021 before the Interim Board on subject to fulfillment of following conditions:

- a) The assessee was eligible to file an application for settlement on 31st January, 2021 for the assessment years for which the application is sought to be filed; and
- b) All the relevant assessment proceedings of the assessee are pending as on the date of filing the application for settlement.

It has been clarified by the board that the taxpayers who have filed such applications shall not have the option to withdraw such applications as per the provisions of section 245M. Further, the taxpayers, who have already filed an application for settlement as per the direction of the various High Courts, shall not be required to file such application again.

The legislative amendments in this regard shall be proposed in due course.

10. CBDT issues Press Release over resolution of portal glitches, ensures smooth filing experience: Press Release dated 8th September, 2021:

CBDT issued Press Release stating that the Ministry of Finance has been regularly monitoring the resolution of portal related issues with Infosys Ltd. and ensures smooth filing experience to taxpayers and a number of technical issues are being progressively addressed with a positive trend reflected in the statistics of the various filings on the portal.

11. CBDT Extends due date for filing of Income Tax Returns and various Reports of Audit for the A.Y. 2021-22: Press Release dated 9th September, 2021 and Circular No. 17 of 2021 dated 9th September, 2021:

The CBDT in exercise of powers us 119 of the Income Tax Act, 1961 provides relaxation in following compliances:

Sr. No	Particulars	Original due date	Extended due date as per Circular No. 9 of 2021 dated 20 th May, 2021	Now further extended due date as per Circular No. 17 of 2021 dated 9 th September, 2021
1	Furnishing of Return of Income - non audit cases	31 st July, 2021	30 th September, 2021	31 st December, 2021
2	Furnishing of Report of Audit	30 th September, 2021	31 st October, 2021	15 th January, 2022
3	Furnishing of Report of Accountant - transfer pricing report u/s 92E of the Act	31 st October, 2021	30 th November, 2021	31 st January, 2022
4	Furnishing of Return of Income - audit cases	31 st October, 2021	30 th November, 2021	15 th February, 2022
5	Furnishing of Return of Income - audit cases	30 th November, 2021	31 st December, 2021	28 th February, 2022
6	Furnishing of belated / revised Return of Income	31 st December, 2021	31 st January, 2022	31 st March, 2022

Clarification:

- 1) Interest u/s 234A of the Act will continue where the self-assessment tax liability exceeds Rs. 1,00,000/-.

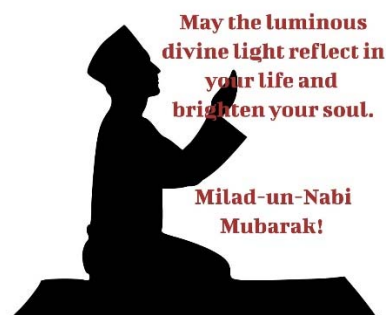
For this purposes, in case of an Individual Taxpayer, the tax resident of India, the tax paid by him as self-assessment tax, before the original due date will be deemed to be the advance tax.

- 2) For the immediate compliances under Companies Acts, 2013 and Maharashtra Public Trust Act, 1950, the extension has not yet been allowed and the details are as under:

Sr. No	Particulars	Due Date
1	Due date for holding AGM by Companies by Financial Year 2020-21	30 th September, 2021
2	E-filing of Audited Statement of Accounts of a Charitable Trusts with the office of the Charity Commissioner	30 th September, 2021

12. CBDT issues clarification vis-a-vis carry forward of losses in case of PSU disinvestments: Press Release dated 10th September, 2021:

Further to the amendment made by Finance Act 2021 to Section 72A of the Income-tax Act, (accumulated loss and the unabsorbed depreciation of the amalgamating company shall be deemed to be the loss of the amalgamated company, for the previous year in which the amalgamation was effected). CBDT now clarifies that Section 79 of the Income-tax Act, 1961 will not apply



to an 'erstwhile public sector company' which has so become as a result of strategic disinvestment. CBDT further clarified that loss incurred in any previous year prior to, and including, the previous year of strategic

disinvestment shall be carried forward and set off by the erstwhile public sector company. Necessary legislative amendments to be proposed in due course.

13. Government notifies several tax concessions to facilitate proposed divestment of Air India: Five Notifications dated 10th September, 2021:

Further to its stated intent to divest Air India, Government has notified several tax concessions for such a strategic divestment, including concessions *vis-a-vis* TDS, Sec. 56(2)(x), Sec. 194Q, Sec. 206C, Sec. 194-IA & Sec. 47 of Income Tax Act, 1961. Accordingly, 5 Notifications have been issued on 10th September, 2021, one Notification in respect of one section as mentioned above.

Notification for section 47 - The transfer of capital asset under plan approved by Central Government from Air India Limited (PAN: AACCN6194P), being transferor public sector company, to Air India Assets Holding Limited (PAN: AAQCA4703M), being transferee public sector company shall not be a taxable transfer u/s. 47(viiaf).

Notification for section 194-IA - No deduction of tax shall be made under section 194-IA of the said Act on any payment made to the Air India Limited (PAN: AACCN6194P) for transfer of immovable property to Air India Assets Holding Limited (PAN: AAQCA4703M) under a plan approved by the Central Government.

Notification for section 56(2)(x): In the Income-tax Rules, 1962, in rule 11UAC, after clause (3), the following clause shall be inserted, namely: – “(4) any movable property, being equity shares, of the public sector company, received by a person from the Central Government or any State Government under strategic disinvestment. Thus provisions of section 56(2)(x) will not apply to such transactions.

Notification for section 194Q: Air India Assets Holding Limited (PAN: AAQCA4703M) shall not be considered as ‘buyer’ for the purpose of sub-section (1) of section 194Q of the said Act in case of transfer of goods by Air India Limited (PAN: AACCN6194P) to it under a plan approved by the Central Government.

Notification for section 206C(1H): Air India Limited (PAN: AACCN6194P) shall not be considered as ‘seller’ for the purposes of sub-section (1H) of section 206C of the said Act in relation to transfer of goods by it to Air India Assets

Holding Limited (PAN: AAQCA4703M) under a plan approved by the Central Government.

14. CBDT prescribes income-tax authority for serving notice u/s 142(1)(i): Notification No. 109/2021/F. No. 370142/27/2021-TPL (Part I)], dated 13th September, 2021:

CBDT inserts Rule 12F to prescribe that official "not below the rank of Income-tax Officer" shall be the authorized income-tax authority under second proviso to Section 142(1)(i).

Section 142 of the Income-tax Act contains provision requiring the assessee to conduct an inquiry before assessment. Section 142(1)(i) empowers the Assessing Officer to issue a notice to an assessee, who has not submitted a return of income, asking for submission of return.

The government is following a conscious policy of making all the processes faceless and digital by eliminating person to person interface between the taxpayer and the Income-tax Officer. Accordingly, the Finance Act 2021 added a new second Proviso to empower the prescribed Income-tax authority to centralize the issue of notice under the said clause. Therefore, to enable centralized issuance of notices in an automated manner, the prescribed Income-tax authority would now be empowered to issue a notice under Section 142(1) requiring a person to furnish his return of income.

Now, the Central Board of Direct Taxes (CBDT) has prescribed that the income-tax authority under the second proviso to section 142(1)(i) shall be an income-tax authority not below the rank of Income-tax Officer who has been authorized by the board to act as such authority to serve notice to assessee.

15. BRICS Tax Heads meet under India's Revenue Secretary's Chairmanship, discuss strategies to overcome COVID-19 challenges in digital era: Press Release dated 15th September, 2021:

BRICS Heads of Tax Authorities and Experts on Tax Matters met virtually under the chairmanship of Shri Tarun Bajaj, Revenue Secretary. The meet focus on redefining business processes of tax administration amidst challenges posed by COVID-19 in the digital era. They discussed challenges faced by them in the digital era, coupled with outbreak of COVID-19 pandemic and shared its experience and strategies devised to overcome such challenges. They exchanged opinions and views on the existing commitment to the principles of

mutual respect, consolidation and continuity as stated in the XIII BRICS Summit held at New Delhi and Declaration issued on 9th September, 2021.

16. OECD releases Model Manual on Exchange of Information prepared by Global Forum, World Bank Group & African Development Bank: Dated 16th September, 2021:

OECD released a new version of Manual on Exchange of Information (EOI) jointly prepared by Global Forum on Transparency and Exchange of Information for Tax Purposes along with World Bank Group and African Development Bank. New edition covers broader range of exchange of information tools tailored to address specific needs of various jurisdictions. It also provides checklists and various templates to smoothen the communication.

The manual is developed to provide a detailed guide to assist jurisdictions, irrespective of their stage of implementation of EOI, to put in place the necessary processes and procedures or to improve existing ones to ensure effective EOI.

Its coverage spread over three chapters:

- (i) Introduction
- (ii) Competent Authority and EOI Units and
- (iii) Tax auditors,

It is envisaged that this structure will assist the jurisdictions in developing their own approach.

17. CBDT extends timelines for penalty, Benami law proceedings & PAN-Aadhaar linkage Notification No. 113 of 2021, dated 17th September, 2021:

To address the hardships being faced by various stakeholders, the Central Government has extended the due dates of a few compliances. The Government has extended the following due dates:

- (a) The time limit for intimating the Aadhaar number to the Income-tax Department for linking PAN with the Aadhaar has been extended from 30th September, 2021 to 31st March, 2022.

(b) The due date for the completion of penalty proceedings has also been extended from 30th September, 2021 to 31st March, 2022. The extension has been given in those cases where the due date falls between 20th March, 2020 to 30th March, 2022.

(c) The time limit for issuing notice and passing the order by the Adjudicating Authority under the Prohibition of Benami Property Transactions Act, 1988 has also been extended from 30th September, 2021 to 31st March, 2022.

18. No Sec. 194A TDS on interest paid to resident of Scheduled Tribes areas specified u/s 10(26): Notification No. 110 of 2021, dated 17th September, 2021:

The Central Government has relaxed the provisions of tax deducted at source (TDS) under Section 194A on payment made to members of Scheduled Tribe residing in the specified area.

The Govt. has notified that no deduction of tax shall be made under section 194A on the payment in the nature of interest, other than interest on securities, made by a Scheduled Bank located in a specified area, to a member of Scheduled Tribe residing in any specified area, as referred to in section 10(26). However, the exemption is available subject to the fulfillment of the following conditions:

- 1) The Scheduled Bank satisfies itself that the receiver is a member of Scheduled Tribe residing in any specified area, and the payment is accruing or arising to, during the previous year relevant for the assessment year in which the payment is made. The bank is also required to obtain necessary documentary evidence in support of the same;
- 2) The Scheduled Bank reports the interest payment in the statements of deduction of tax as referred to in section 200(3); and
- 3) The payment made or aggregate of payments made during the previous year does not exceed Rs. 20 lakh.

Note:

1. Section 10(26) has list down following areas as 'Specified Area':

(a) Any area specified in Part I or Part II of the Table appended to paragraph 20 of the Sixth Schedule to the Constitution;

(b) The States of Arunachal Pradesh, Manipur, Mizoram, Nagaland and Tripura;

(c) The areas covered by notification no. TAD/R/35/50/109, dated the 23-02-1951, issued by the Governor of Assam under the proviso to paragraph 20(3) as it stood immediately before the commencement of the North-Eastern Areas (Reorganization) Act, 1971; or

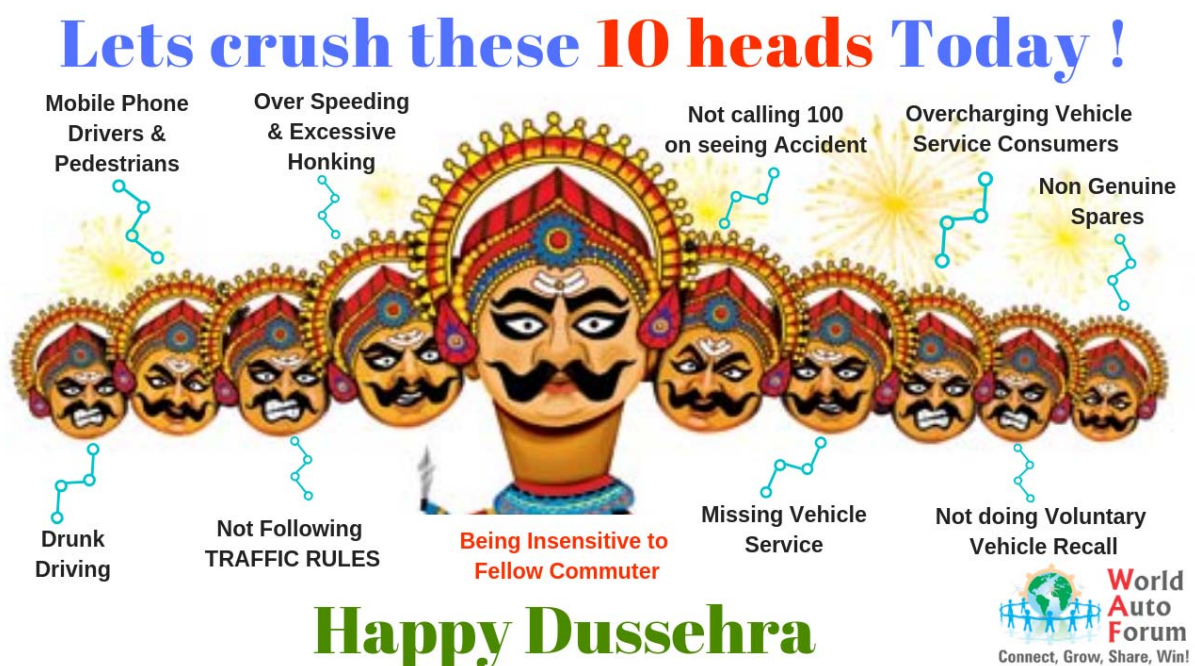
(d) The Ladakh region of the State of Jammu and Kashmir.

2. 'Scheduled bank' shall have the same meaning as assigned to it in clause (e) of section 2 of the Reserve Bank of India Act, 1934.

19. Cyprus to introduce transfer pricing legislation: June 2021:

New legislation on transfer pricing was submitted to the Cyprus parliament in June with an aim to comply with action points 8-10 of the OECD base erosion profit shifting (BEPS) plan.

The proposed legislation defines the persons obliged to maintain documentation files and report related party transactions, describes the type of information that should be maintained and reported, and creates the ability to apply for an advance pricing arrangement (APA). It also outlines the penalties for failing to submit the relevant information or submitting incomplete or late information.



ARTICLE:

Should Small Cap Mutual Funds be a part of your Portfolio

(by CA Rishabh Adukia)

Small-cap stocks are the stocks of publicly traded companies that have a market capitalization of less than Rs. 5,000 crore. Such companies are more volatile and vulnerable to losses during downtime in the market, as they are young and seek to expand aggressively. In a small-cap fund, the fund manager invests a **minimum of 65 percent of the portfolio in small-cap stocks**. Having said so, small-cap funds are suitable for those who are willing to take high risks and also know when to exit the market which is easier said than done.

New companies that are available at a lower price, small-cap funds usually invest in such companies, as they may be undervalued. As these funds focus on newer concepts and invest in companies that focus on disruptive technologies, they could attain a competitive advantage over rivals acquiring significant market share.

Small-cap funds invest in stocks of companies that have short boom and bust cycles. Hence, these funds are only suitable for aggressive investors who knows when to enter and exit their holdings. Experts say this is the only instance when investors might have to time the markets to maximise their returns. In recent times, small cap funds have gained a lot of attention from investors given that last one year returns of these funds have been substantially higher than large and mid-cap funds. **In this article, we evaluate if there is merit to have small cap funds in a portfolio.**



1. At a portfolio level, assuming an investor follows an allocation of around 50% Equity Mutual Funds, 30% Structured Products and 20% Debt Mutual Funds, for an average 3 year holding period with a monthly shift from 2001 – 2021, the return and risk parameters would look as below:

With 10% small cap within Equity Funds					
Average Returns	*Standard Deviation	Skewness Above Average	Skewness Below Average	Worst Abs. loss	Value of 10 crs in 10 years
14.64%	7.28%	47%	53%	-3.93%	39.21

Without small cap within Equity Funds					
Average Returns	*Standard Deviation	Skewness Above Average	Skewness Below Average	Worst Abs. loss	Value of 10 crs in 10 years
14.61%	7.20%	47%	53%	-1.06%	39.10

Source : Anand Rathi Research

* Standard Deviation is calculated for a 3 year rolling return with a monthly shift from Jan' 2001 - July' 2021.

As can be seen above, having a 10% small cap exposure within equity funds would mean:

- Similar returns when compared to a portfolio with no small cap.
- Slightly higher standard deviation compared to a portfolio with no small cap.
- High downside risk (worst absolute loss) compared to a portfolio with no small cap.

Therefore, there is no merit to have small cap at a portfolio level.

2. Secondly, a comparison of small cap funds to other category of funds for various holding periods between 2011 - 2021, on return and risk parameters looks as below:

Return Comparison

Rolling Return	Large Cap average	Mid Cap Average	Small Cap Average	Flexi cap Average	Focused Average
1 Year	12.85%	17.15%	18.01%	13.87%	13.66%
3 Year	12.98%	16.85%	16.32%	14.02%	13.61%
5 Year	12.80%	17.01%	16.88%	13.92%	13.51%

Key Observations:

- Small caps companies because of a low base have a potential to grow at higher return resulting in better performance of small cap funds compared to most other categories.
- However, as can be seen above, this works for midcap companies as well. Over a 3 year and 5 year holding period, the average return of midcap funds is slightly better than small cap funds.

Risk Comparison

Holding Period	Risk Parameters	Large Cap average	Mid Cap Average	Small Cap Average	Flexi cap Average	Focused Average
1 Year	Worst Loss	-25.38%	-28.47%	-33.97%	-27.75%	-24.74%
	Standard Deviation	18.01%	27.22%	32.29%	20.91%	21.07%
3 Year	Worst Loss	-3.68%	-6.36%	-12.19%	-3.68%	-4.34%
	Standard Deviation	6.46%	11.69%	12.82%	7.96%	7.68%
5 Year	Worst Loss	-0.56%	-1.46%	-3.79%	-1.52%	-0.71%
	Standard Deviation	4.28%	7.29%	8.16%	5.24%	5.07%

* Standard Deviation is calculated for a 1 year, 3 year and 5 year rolling return with a monthly shift from Jan' 2011 - July' 2021

Key Observations:

- Small cap funds have a higher downside risk (worst loss) compared to other categories across all holding periods
- The standard deviation of small cap funds is the highest and are almost double of large cap funds.

Efficiency Ratio Comparison

Return per unit of Risk	Large Cap average	Mid Cap Average	Small Cap Average	Flexi cap Average	Focused Average
1 Year	0.71	0.63	0.56	0.67	0.65
3 Year	2.07	1.48	1.27	1.83	1.88
5 Year	2.99	2.39	2.07	2.73	2.76

Source : Anand Rathi Research

Key Observation:

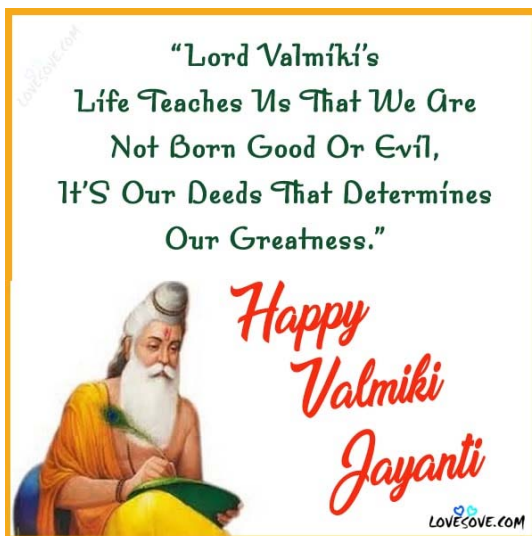
- The efficiency (Return per unit of risk) of small cap is the least across all holding periods indicating that the return delivered by small cap funds is not commensurate to the risk taken by these funds.

Conclusion:

As can be seen in above return and risk analysis, one may be better off investing in midcaps than small cap mutual funds. However, small cap investing is relatively more fund manager dependent and only if a good fund manager can be identified with consistent track record, one can consider a small cap allocation with an understanding of the higher volatility attached to it.

(The author Rishabh Adukia is a Chartered Accountant and qualified professional advising on wealth management to individuals, millennial's, emerging HNIs including others and can be reached on adukia.rishabh@gmail.com)

Ek Ram Bhakt - Ek Shyam Bhakt (20th October, 2021)



Action Points under Income Tax Act, 1961

For the Month of October 2021:

7 th October	TDS Payment for September 2021
15 th October	Quarterly TCS Return for the Quarter ended on 30 th September, 2021
31 st October	Quarterly TDS Return for the Quarter ended on 30 th September, 2021

....STORY TO REMEMBER....

Unheard Short Stories of Bapu:

Story 1:

The night was very dark and Mohan was frightened. He had always been afraid of ghosts. Whenever he was alone in the dark, he was afraid that a ghost lurking in some dark corner would suddenly spring on him. And tonight it was so dark that one could barely see one's own hand. Mohan had to go from one room to another.

As he stepped out of the room, his feet seemed to turn to lead and his heart began to beat like a drum. Rambha, their old maidservant was standing by the door.

"What's the matter, son?" she asked with a laugh.

"I am frightened, Dai," Mohan answered.

"Frightened, child! Frightened of what?"

"See how dark it is! I'm afraid of ghosts!" Mohan whispered in a terrified voice.

Rambha patted his head affectionately and said, "Whoever heard of anyone being afraid of dark! Listen to me: Think of Rama and no ghost will dare come near you. No one will touch a hair of your head. Rama will protect you."

Rambha's words gave Mohan courage. Repeating the name of Rama, he left the room. And from that day, Mohan was never lonely or afraid. He believed that as long as Rama was with him, he was safe from the danger.

This faith gave Gandhiji strength throughout his life, and even when he died the name of Rama was on his lips.

Story 2:

Soon after Gandhi's return from South Africa, a meeting of the Congress was held in Bombay. Kaka Saheb Kalelkar went there to help.

One day Kaka Saheb found Gandhiji anxiously searching around his desk.

"What's the matter? What are you looking for?" Kaka Saheb asked.

"I've lost my pencil," Gandhiji answered. "It was only so big."

Kaka Saheb was upset to see Gandhiji wasting time and worrying about a little pencil. He took out his pencil and offered it to him.

"No, no, I want my own little pencil," Gandhiji insisted like a stubborn child.

"Well, use it for the time being," said Kaka Saheb. "I'll find your pencil later. Don't waste time looking for it now."

"You don't understand. That little pencil is very precious to me," Gandhiji insisted.

"Natesan's little son gave it to me in Madras. He gave it with so much love and affection. I cannot bear to lose it."

Kaka Saheb didn't argue any more. He joined Gandhiji in the search.

At last they found it - a tiny piece, barely two inches long. But Gandhiji was delighted to get it back. To him it was no ordinary pencil. It was the token of a child's love and to Gandhiji a child's love was very precious.

Story 3:

Children loved visiting Gandhi. A little boy who was there one day, was greatly distressed to see the way Gandhiji was dressed. Such a great man yet he doesn't even wear a shirt, he wondered.

"Why don't you wear a kurta, Gandhi?" the little boy couldn't help asking finally.

"Where's the money, son?" Gandhi asked gently. "I am very poor. I can't afford a kurta."

The boy's heart was filled with pity.

"My mother sews well", he said. "She makes all my clothes. I'll ask her to sew a Kurta for you."

"How many Kurtas can your mother make?" Gandhiji asked.

"How many do you need?" asked the boy. "One, two, three.... she'll make as many as you want."

Gandhi thought for a moment. Then he said, "But I am not alone, son. It wouldn't be right for me to be the only one to wear a kurta."

"How many Kurtas do you need?" the boy persisted. "I'll ask my mother to make as many as you want. Just tell me how many you need."

"I have a very large family, son. I have forty crore brothers and sisters," Gandhiji explained.

"Till every one of them has a kurta, how can I wear one? Tell me, can your mother make kurtas for all of them?"

At this question the boy became very thoughtful. Forty crore brothers and sisters! Gandhiji was right.

Till every one of them had a kurta to wear how could he wear one himself? After all the whole nation was Gandhi's family, and he was the head of that family. He was their friend, their companion. What use would one kurta be to him?"

This Tax Chat is prepared only for information of our clients and colleagues in the office. In this Tax Chat an attempt has been made to summarize various changes / development in Direct Tax Law during previous months.

The information is of a general nature and is not intended to address specific facts and circumstances. Specific guidance may be obtained before acting on the same.

If you need full text of circular, notification, press release, etc., we will be happy to provide the same on hearing from you. We have compiled the information from Taxmann and Taxsutra websites and mails.

Compiled by:

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