Commercial Practical Issues and Challenges for Machinery Purchase

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Disclaimer

- This presentation intends to give a overall ideas, issues and challenges for Procurement of Machinery based on the present facts and knowledge and should not be construed as professional advise for any specific situation.
- Care has been taken to ensure the correctness of all the information. However, the viewers should be its own due diligence on the subject matter.


MODIFICATIONS
INCOMETAX
LETTEROFCREDIT
SPARES
LOADING
PRICE
EQUIPMENT
CONTRACTS
ITC
DISPATCH
COMMISSIONING
ACCOUNTING
MACHINERY
AGREEMENTS
NPV
LOGISTICS
TAX
LEASE
GST
IMPORTS
BUYBACK
PROCUREMENT
IRR
AMC
TENDERS
COSTSAVING
INCOTERMS
TECHNOLOGY
EPCG
CUSTOMSDUTY
INSURANCE
EVALUATION
VENDOR
REPAIR
WARRANTY
FINANCING
PAYMENTTERMS

Internal Considerations

- Budget for the machinery. Whether Financing (Equity/Internal Accrual or Debt) is available for the procurement of new machinery.
- Whether mandatory/administrative purchase (statutory requirement like safety, pollution control) or Business/Cost Saving Requirement
- Financial computation like IRR, NPV, MIRR, Payback period, Cost Benefits Analysis needs to be done, apart from non-financial considerations.
- Purchase philosophy of the management – Tenders, Quotations, Pre-approved vendors
- Vendors short-listing and selection, presentations, technical specifications
- Lead time from proposal to purchase orders
- Spares philosophy, AMC philosophy

Driving factors for Technology Selection

1. Maturity of Technology
2. Commercial success
3. Quality of product
4. Environmental considerations
5. Process flexibility
6. Capital Cost
7. Cost of production
8. Construction time
9. Competitiveness
10. Sustainability
11. Infrastructure/Utility requirement

Driving factors for Vendor Selection

1. Creditability
2. Experience in Product/Product line
3. Customer Services/After Sales Services
4. Qualified Technicians/Employees
5. Financial stability
6. Factory Set-up/Facility
7. Existing Relationship
8. Supply to Group Companies/Industries in same locality
9. Maintainability of spares parts
10. Ethics and Integrity

Driving factors for Model Selection

1. Long term performance of new model
2. Technology issues of new model
3. Qualified Services Provider for new model
4. Eco-system for the new model (like new operating system)
5. Spares part availability of old model in later years
6. AMC cost/Service handling for the old model

Driving factors for Leasing or Buying a machinery

Some machineries (motor vehicle, Photocopier) can be considered to be taken on lease instead of procurement.

1. Replacement during repair (for easily available assets)
2. Decision to replace spare parts/repair – Lease Owner is more conscious of such necessity of the repair
3. Cost Effectiveness for repair (Authorized Service Centre or private repair centre)
4. Prevention of misuse (of use of equipment, fuel consumption, repair charges)
5. Control of the Asset – Dependability of the Service Vendor
6. Decision to replace the assets, obtaining competitive price for disposal.

However, GST issues may be tricky for asset taken on lease (To be considered as supply of Goods or supply of Services).

Specification and scope exclusion

- Machinery should be in fully operating condition
- Some critical parts/software/spares/installation/training/operating manual/design/civil works/electrical works
- Scope of the buyer should be understood correctly
- Utilities to be provided for installation
- Issues relating to transportation, loading, unloading, insurance to be understood

Clause in Agreements

- Completion Date, Force Majeure
- Liquidated damages or Price Reduction – 0.5% per week or part thereof to maximum of 10% (Issues in accounting for liquidated damages, GST on liquidated damages, reduction of machinery price). Difference in approach in Government and private organization for liquidated damage deduction.
- Incentive for early completion.
- Taxes and Duties – Changes in Taxes and Duties – BOCW Cess
- Repeat Order
- Quantity variation clause: Single/Double Random length of pipes, 10% tolerance for bulk cables.

Total Cost of Ownership

- The total capital and operating cost should be considered before deciding to purchase.
- For same output and quality, the cost of running can be considered including consumables, power. Options for AMC should be looked into. Spares quotations/spares purchases.
- For different useful life, Equivalent Annual Value should be considered.
- For different output/quality, the Net Present Value should be considered.

Equivalent Annual Value

- Machinery "A" costs Rs. 10 lakhs and has 9 years of useful life. Machinery "B" costs Rs. 7 lakhs and has 6 years useful life. All other parameters is same. Which machinery is better? Discount rate (Interest rate) is 12%
- Use PMT formula in Excel
- Divide the Amount by Annuity Factor

$$Annuity\ PV\ Factor = \frac{1-(1+r)^{-n}}{r}$$

$$r = rate\ per\ period$$
$$n = number\ of\ periods$$

Warranty /Guarantee

- Example for Defect liability period: 2 year from supply or 1 year from installation whichever is early
- Warranty - Which items warranty is not covered or limited warranty or conditional warranty
- Guaranteed power consumption, chemicals consumptions, life of membrane.
- Guaranteed output quantity and quality

Price Comparison

- When quotations are obtained, the quotations should be for the same specifications/conditions
- Landed cost, spares, installation, software, in "working conditions", so that the prices quoted can be compared.
- Conditions for "Price Loading" should be pre-defined and informed to bidders.
- Cost of spares for back-up purposes is not used for comparison.

Example Loading on Purchase Price

Particulars	Amount of loading
Custom Clearance Charges	0.15% of CFR Named Destination Port
Port Handling Charges	3% of FOB value
Inland Transportation Charges	2% of CFR Named Destination Port
Inspection Charges	2% of FOT value (Foreign Location)
Delay in Supply	As per LD Condition
LD for only part portion	As per LD Condition, to the max of 1/2 the max LD percentage
PBG less than 10% or lesser value	12% interest pa for differential amount
PBG for lesser value	12% interest pa for differential amount
Payment Terms	12% interest pa for differential amount
Higher Power Consumption	Life of plant x discount rate x excess quantity x rate for power – to max of 10%
Consultant quote in Forex	2% of quoted rate

Example Loading on Purchase Price

Particulars	Amount of loading
Stage Wise payment	12% interest pa
Drawing approval	80% of contractual delivery period
Sub-ordering of raw material	75% of contractual delivery period
Receipt of raw material	50% of contractual delivery period
Against dispatch	% amount requested against dispatch for one month

Other factors which determine the cost

- Bulk purchase/ Bulk transportation
- Purchase from manufacturer Vs purchase from dealer (Sometimes, dealer can get rebate from manufacturer, and pass on).
- Monthly production plan by manufacturer. (Set-up time for manufacturers)
- Economic Batch Quantity for manufacturer
- Lead time to procure raw material (Example: Cheaper imports with long lead time vs expensive local material with shorter lead time).

Machinery purchase from Foreign Source

- Meeting External specs (like BIS) and internal specs (like your electrical configuration)
- Installation and training issues
- Spares and after sales services
- Pre-dispatch inspection/survey
- The above depends on the reputation of the vendor, Vendor Marketing and after sales office in India, regular supply to reputed Indian Companies.

Imports of Machinery

- BIS approval for certain products
- Prior Environmental Clearance for certain equipment.
- Dangerous goods regulations - Packing/Declarations
- Related Party Purchase – SVB (Special Valuation Branch) under customs and Transfer Pricing Norms under Income Tax
- Ensure all proper documents including packing list is obtained from the vendor. Invoices, Packing List, Bill of Lading etc should be scrutinized before submitting to Customs authorities .

Imports of Machinery (contd)

- Drawing of machinery is treated as goods and to be included in the value of machinery purchased for Custom Duty valuation.
- The Exchange Gain or Loss on unpaid foreign currency liability for purchase of Machinery should be adjusted in the block of assets for Income tax deprecation purpose.
- CIF Value of Imported Machinery should be disclosed in Company's Annual Financials Statements.
- Similarly, for CIF Value of Imported Components and Spare parts should also be shown separately.

Challenges for import of Second Hand Equipment

- Tail end marine insurance (ITC (B) or ITC (C) coverage unless pre-dispatch survey.)
- Pre-dispatch survey with photo for insurance purpose - Recommended
- Customs Valuations issues – Certificate from Chartered Engineer – Value to be computed as per Customs Norms based on depreciation of original purchase price – useful life of equipment
- Environmental hazards for import of Second Hand Equipment. Old batteries etc
- Effectiveness and efficiency of such equipment. Eg. Switch of equipment by the seller.

Dispatch of Machinery

- Machinery can be tested prior to dispatch either
  - By in-house engineer/group company engineers
  - Third party certification agency.
- Proper packing may be insisted. Damages due to bad packing is not covered by Marine Insurance. Proper labelling is also required for insurance.
- Transport by IBA (Indian Bank Association) approved Transporter can be insisted.
- Check whether there is an insurance declaration requirement for intimation of dispatch.
- Dispatch instruction can be given separately (with instruction for dispatch of documents).
- Prior approval before dispatch to ensure site is ready, charge for storages, demurrage should be examined.

Pre-commissioning Activities

- Whether the site of installation is fully ready to receive the machinery including civil works, electrical works (with proper voltage etc), earthing, utilities, piping, etc
- Whether proper tools including erection spares is available for installation?
- Whether the requisite crane or material handling equipment is available? The capacity of the crane is at the shortest arm without extending. Hence, higher capacity crane is required for unloading. Further, the crane should have proper test certificate for its fitness. Qualified Crane operator should handle the crane
- There should be erection insurance policy in place. Alternatively, the insurance for erection should be covered in the Industrial All Risk Policy as an add-on.
- Pre-commissioning meeting should be held with all concerned for proper co-ordination. Key responsibility should be assigned.

Pre-commissioning Activities (Contd)

- The proper system on hand over should developed between the Engineering Department and the User Department.
- Internal Owner of the Machinery should identified
- Training for the concern user department should be given
- Training for maintenance should be given to the Engineering/Maintenance Department.
- Proper Check List should be prepared for initial start-up, regular operation, start-up after shut down. (Higher Power load requirement on start up should be analyzed).

Post-Commissioning Activities

- Initial performance of the machinery should be monitored.
- There should be initial bottlenecks and start-up issues.
- Initial workmanship fault should be rectified.
- The machinery should be added to the list of preventive maintenance schedule.
- Machinery should be added to Property Insurance
- Spares list and consumable (like oil) should be identified and purchased on need basis
- Fixed Asset Numbering should be done and machinery should be tagged
- Machinery should be capitalized and entered in Fixed Asset Register.
- Certificate should be obtained from Engineer for useful life, residual value and asset value.

Construction Models for installation of machinery

There are various models for during a machinery or series of machinery installed. We shall compare two of these models for the pro and cons		
Particulars	**Self Constructed Machinery**	**Third Party Designed and constructed machinery**
Meaning	The Entity drives the full process of designing (either in-house or by third party) the machinery and get the machinery constructed by appointing individual vendors based on its specification/directions	The third party is given the specification or the output required with the constraints
Cost	This initial set up cost would be much cheaper	The premium should be paid for the responsibility taken by the third party
Defect Liability	Mainly on self. Vendor is responsible for the specification and not for the output.	Design Defect or Product Defect would be on the vendor. However, based on agreement, the guarantee on lability can be fixed

Construction Models for installation of machinery

Particulars	Self Constructed Machinery	Third Party Designed and constructed machinery
Post commission cost	Would be on higher side (would compensate lower initial cost). Down time would be also on the higher side.	Would be borne by third party for any design or manufacturing defect during the defect liability period.
Repair and maintenance cost	Shall be on higher side	Generally, should be on lower side and all expense in defect liability period (except normal wear and tear) is borne by vendor
Delay in the commissioning	Entity is responsible. Limited damage can be claimed from contractor.	Third party is responsible unless the entity has failed to deliver its commitment. Reasonable damages on contract value can be claimed as per the agreement.
Flexibility in modification while constructing	More flexible	Limited flexibility

Transportation of ODC/OWC

- Normal Marine Insurance do not cover ODC/OWC. Special Cover to be taken. For marine insurance taken up to port of destination, ensure that ODC is not lying in the port for more than 60 days. (Extension can be obtained).
- Specialized logistic company is available for transportation.
- Route Survey should be undertaken. Time and Speed restriction for transport.
- Approval from NH/Railways/Electrical departments to be obtained in advance.
- Incoterms becomes very important for risk transfer. High risk in loading and unloading.
- Pre-dispatch inspection/survey (mandatory insurance condition).
- While generating the E-Way bill, the ODC option should be selected, so that transportation time limit is increased.
- Additional premium for waiver of subrogation can be obtained.

Incoterms

- Understand the Incoterms, Place of Delivery, Year of Incoterm
- CIF Mangalore Port (Incoterm 2020)
- It covers the Risk, Cost and Obligations
- FOB and CIF has the same risk, but different cost and obligation
- Under CIF, the insurance cover gets over when the goods reaches the port. The Inland Marine would start when the goods are picked up. Hence, there is a gap in the insurance cover. Usually, Marine insurance covers loading and unloading.
- Loading and unloading obligations are defined in each of the 11 incoterms.

Insurance

- The type of coverage ITC(A), ITC(B) or ITC(C)
- Deductible to be understood. Required to storage below the docks should be seen.
- The existing Marine Insurance may not cover machinery. Further, ODC/OWC needs a special cover
- Project has special insurance. Erection All Risk Insurance (or Contractors All Risk Insurance). Delay in Start up can be availed along with Advance Loss of Profit.
- Special Cover is available for Design defect or Manufacturing Defects. Consultants can avail Professional Indemnity Cover as well.
- New Machinery should be covered in Property Insurance or add-on (omission to insure additions, alterations or extensions clause) can be taken. If a critical machinery is purchased, the same should be included in list of Machinery Break down insurance.

Insurance claims

- For damages, mention in the copy of LR (drivers copy) and get driver's acknowledgement in your copy of LR and notify the insurance company/broker and lodge a claim against the transporter. Obtain Brake report/FIR for accident. Take photos of damages.
- Time limit to intimate damage not apparent from appearance. Packing should be persevered.
- Keep in the same condition till surveyor comes and verifies.
- Notify the brokers or insurance company immediately.
- Obtain Surveyor report.

Payments Terms

- Trust between buyer and seller – one time purchase – credibility
- Maintaining adequate cash flow to suppliers.
- Mobilization Advance/Mobilization fees – Against Bank Guarantee
- Payments against various milestones like design submission, material purchase, dispatch, receipts, installation, commissioning, trail run, final run
- Retention money or Bank Guarantee Security Deposit
- Challenges to payments to Micro and Small Registered Vendors – Limit of 45 days. (45 days limit is not applicable to Medium Registered Vendors).
- In case of deferred payments beyond one year, the cost of machinery needs to be discounted for purchase of capitalization for entity following Ind-AS/IFRS.

Payment

- Proper documents should ensured before making payment including
- Original Invoice, Packing List, Agreement, Purchase Order
- Goods Receipt Note (in good condition)
- Certification on satisfactory running of the machinery as per the specification /design/ there is no damage or claims
- Certification for receipt on "As Build Drawing", technical manual, operating manual etc
- Certification that all parts including mandatory spares etc are received.
- Clearance from HR Department for labour compliance.
- Any other documentation as per Agreement/Purchase Order.

Withholding Tax on Payment

- Depending on the wording of the Agreement, TDS may be applicable on the payment based on interpretation. (a. Supply of equipment, b. Supply and installation of equipment, c. Design of equipment X amount, Supply of equipment – X amount and installation of Equipment – X Amount). GST charged on Invoice may be different based on Independent Supply or Composite Supply or Mixed Supply. TDS on Advance payment.
- In rare case, withholding tax order (Income Tax - TDS) may be applicable for Import of Machinery
- Seller may collect Tax (TCS) of Income Tax in Invoice, if invoice value is more than Rs. 50 lakhs.
- For payment of any consultant/service provider, it may attract withholding tax (TDS), various declarations from service provider (PE declaration, Tax Residency Certificate issued by tax authorities) and Certificate from an local CA (Form 15CA) may be required to process the payment.

Letter of credit

- Letter of credit – Credit Sanction – Board/Shareholders approval for credit limits – Company Law Process – Bank Financing process – 110% Margin Money (Fixed Deposit). Letter of Credit charges
- Margin money for letter of credit – Interest on Margin money – taxability of interest – reduction from machinery value.
- With confirming/without confirming.
- Compliance of
  a. Conditions – Last day of shipment, port of dispatch
  b. Documentations – Certain information in certain documents
  c. No of documents – 3 fold of weighing slip (ie. 3 set of packing list)

Letter of credit

- Letter of credit – based on documents
- Discrepancy Charges – USD 100 per discrepancy is charged by Foreign banks
- Waiver of discrepancy
- Charges for LC Amendments
- Non-fulfillment of conditions – makes the open credit
- Checklist for filling letter of credit and cross check with supplier
- Handling 10% payment outside Letter of Credit (for Retention).

Payment for imports (FEMA)

- Bill of Entry should be submitted to bank for making payments for import of machinery. If another Indian Vendor makes sales for an imported goods, the Bill of Entry should be submitted to the Indian Vendor for him to make the foreign remittance. Normal Credit period is 6 months but for Capitals Goods (as per Foreign Trade Policy), it is 3 years.
- For advance payment for machinery, declaration is taken by banks that the Bill of Entry shall be submitted to Banks with in 3 months of Import.
- Bank may obtain credit report of vendor before releasing high value advance.

Duty Benefits for Machinery

- Project Imports – Concessional Custom Duty rate of 5% (0% Custom Duty for certain Machinery. However, IGST is payable). Only selected ports handled Project Imports. Project should be pre-registered with concerned authority. Chapter 98.01 benefits of Custom Tariff Act. Bank Guarantee to Customs and Time limit for completion.
- Specific Custom Duty exemptions
- Export Promotion Capital Goods Scheme – DGFT
- 100% EOU/SEZ scheme /Bonded Warehouse
- Free Trade Agreement Benefits
- High Seas Sales can be explored to get the Custom Duty exemption, if the seller is an Indian Vendor and goods are imported by him
- Appoint CHA who has handled such activities earlier to smoothen the process.

Export Promotion Capital Goods Scheme

- EPCG Scheme get exemption/concessional Custom Duty
- Export of goods (FOB) should be 6 times the duty saved
- Fulfilling Export Obligation is important (selecting the right Shipping Bill and submission of the Shipping Bill)
- Even Service Providers can import Capital Goods (Five Star Hotel can import car to earn Forex)
- Catalyst can be imported 3 times
- Lots more facility is available.

GST on purchase of machinery

- If the output is taxable, Input Tax Credit (ITC) on GST can be availed. (Both for Imported and Local Purchase). However, depreciation cannot be claimed on the GST portion
- If the output is exempted, ITC cannot be availed.
- If output is both taxable and exempted, full ITC can be availed and proportional credit ($1/60^{th}$) along with interest should be reversed every month for 60 months.
- For common office equipment for both taxable and exempted, the above shall apply. (Note: Interest on Deposit can not be considered for as exempted turnover for purpose of reversal, MIES shall be considered as Taxable turnover)

Input Tax Credit on Capital Expenditure

- ITC on Motor Vehicle is blocked unless
  - Used for transportation of goods or passenger
  - More than 13 seater or use for further supply
- ITC on building/civil works is blocked. ITC on repair of building is allowed
- ITC on telecommunication tower and pipes outside the factory is blocked

GST on sale of machinery

- The GST on sale of machinery should be charged on higher of
  - A. Sale Value
  - B. Purchase value as reduced by 5% per quarter or part thereof (Taxable value would be higher than Invoice Value, in such cases)
- The buyer can claim the higher ITC, if any.
- 5% would be means 20% per year. Life of machinery is 5 years
- For sale of component or part of machinery would attract normal GST rate
- Attention should be given to raise invoice and charge GST on buyback by vendor
- Special provision of GST for sale of motor vehicle on which ITC is not claimed.

Sales under FTP/Customs Law

- Machinery imported (after paying Customs Duty) can be re-exported and Duty Drawback on the Custom Duty paid can be obtained on the Depreciated Value of Goods.
- Machinery under Bond and in SEZ, can be de-bonded after paying Customs Duty on the Depreciated Value. (Difference rate for Computers and Other Capital Goods).

Accounting Issues

- The cost of Assets should be the cost to bring to present location and condition. Hence, all direct cost including freight, insurance, installation etc can be capitalized. In certain case, indirect cost can be capitalized. Certain cases, interest on borrowed capital can be capitalized if the machinery takes more than 1 year to be ready.
- Certificate should be obtained from Engineer for useful life, residual value and asset value. Each few years, fresh certificate should be obtained for balance useful life and residual value.
- Depreciation can be charged from the date on which the asset is "ready for its intended use" over its estimated useful life after considering some salvage value. Company Law has provided guidelines to determine useful life and salvage value.
- For assets taken more than 1 year to construct, the Interest cost (and certain case, the exchange loss, can be capitalized) under Accounting Standard but not as per ICDS.
- In case of deferred payments beyond one year, the cost of machinery needs to be discounted for purchase of capitalization for entity following Ind-AS/IFRS.

Component Accounting

- If a Component of an assets (which exceeds the threshold limits)
  - Exceeds a threshold limit
  - Is significant portion of the main assets apart from other component
  - Has significant different useful life from other component
- Limits can be fixed by management.
- It can/should be capitalized separately and have a different rate of depreciation

Modification (when to capitalized)

- All modification cannot be capitalised
- The modification can be capitalized, when it significantly
  - enhance the useful life of the machinery
  - lower the cost of production
  - improves the quality of the product
  - Increase the capacity of production

Accounting for Spares

- If the Spares or stand-by equipment, meets the definition of PPE (useful life is more than 12 months), then the Spares would be consider as PPE
- In other cases, the Spares would be considered as Inventory.
- "Stores and Spares" and "Loose Tools" should be classified Inventory classified separately.

Accounting Issues of Leasing of Machinery

- There are various guidelines for leasing of Assets under accounting and income tax
- These guidelines are continuously being updated
- Some Accounting Rules states that the lease should be classified as Operating and Financing Lease.
- Recently, Rules (Latest Ind-AS), has a concept of Right to Use to be amortized. Certain Service Contract would be treated as Lease.
- Accounting ratio changes based on these rules.

Income Tax Issues

- Depreciation cannot be claimed on GST credit
- Depreciation as per Books of Accounts, is different from Depreciation as per Income Tax.
- Income Tax follow block of asset concept (except for Power Generation, transmission and Distribution company where SLM is followed). Rate of deprecation is 15% for machinery. For the machinery is used for less than 180 days, 50% is allowed to be depreciated.
- Hence, for use of machinery for 1 day, 7.5% depreciation can be claimed.
- Additional Depreciation of 20% is available for New Plant and Machinery (not second hand – imported or local is not allowed) used for manufacturing in the first year of purchase.
- For internal purpose, it is better to have separate block for pollution control, research and development, industrial safety devices, for computing MSME eligible limits.
- For cash expenditure in excess of Rs. 10,000/- (including freight for transport of machinery) is not allowed depreciation purpose.

Income Tax Issues

- Sale of machinery shall be reduced from the block to the extent of the amount received.
- Sale of scrap may attract TCS (Tax collection at Source)
- Difference in Depreciation as per Books and Income Tax, may arise in Deferred Tax Liability/Assets.
- For computation of MAT (minimum alternative tax) for companies, Deprecation as per Books and not Income Tax is considered. (However, for LLP for AMT, deprecation as per Income Tax is considered).
- Some restriction on Deprecation of second hand machinery, if the intention is to claim higher depreciation.
- The Exchange Gain or Loss on unpaid foreign currency liability for purchase of Machinery should be adjusted in the block of assets for deprecation purpose.

Issues in Buy Back of machinery by vendor

- Internal Policy for buy back/sales/disposal
- Whether buy back amount is reasonable. Getting quotes after offering for buy back
- Whether Vendor is disposing the buy back equipment in a environmental responsible manner
- Generally, the buy back of assets is missed to be accounted.
- Charging GST on Buy Back.
- Removing the Gross Value from Assets Register/Depreciation Schedule
- Removing the buy back amount (net of GST) from the Income Tax Block of Asset

Financing of Machinery

- Banks offer loans for Capital Expenditure. Further, reimbursement of Capital expenditure is allowed up to one year.
- For import of machinery, Buyers Credit can be availed for a period of 3 years (Roll over – every 6 months – Bank may insist on Forward Contract – which is not required – as there is no long term hedging option).
- Hire purchase financing/sale cum lease back options with Banks/NBFC
- External Commercial borrowing may be explored for purchase of machinery.
- Stamp Duty for Secured/unsecured loans. Registration of Charge for secured loans.
- Option to avail additional Working Capital Loan instead of Fixed Asset Loan
- Restriction of Power of Board to borrow for Capital Nature beyond paid up capital and free reserves. For Company in Pre-operation stage, all expense may be classified as Capital Nature.

Exchange Fluctuation – Accounting and taxation

- The exchange gain or loss to be taken to profit and loss account (or project development expenditure account). Exchange loss can be capitalized as interest (Similar conditions like interest).
- For Income Tax, exchange gain or loss to be adjusted for Assets value, even if loan is taken in foreign currency for purchase of machinery.

Consideration for Year end Purchase

- Lapse of Budget for purchase of Capital Goods.
- Claim additional depreciation and reduce Income Tax Payment.
- Check the eligibility for MSME registration or continuation of MSME scheme. Limits of Investment in Plant and Machinery.
- Any deadlines to avail benefits under Income Tax.
- Change in the GST rates (especially whether Input Tax Credit is not available).
- No additional GST credit benefits unless huge year end invoicing. (Credit on machinery purchase can be set off against output GST).
- Any Loan related deadlines to purchase the Capital Goods.

Machinery sent for Repair

- For machinery sent for repair, a Delivery Challan and E-Way Bill (others can be selected) should be selected. (Similar process should be followed for return of machinery). Additional Procedure for Bonded Area (including SEZ).
- The Delivery Challans should be serially numbered and have details like Invoice. The Delivery Challans details should be mentioned in GSTR 1 –Table 13
- Check whether the insurance cover is available for such transit (Used Machinery).
- Goods can be sent for repair (or some process) outside India, the Custom Duty shall be payable only on fair value of repair and both ways of freight & insurance.

Thank you

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