Compliance Challenges before India Inc in 2020
written by Priyanka Barik | March 4, 2020

As India steps into a new decade, it seems still unclear about the current economic downfall. However, certain changes and reforms might give us a somewhat long perspective to understand what we have in our hands in the coming year. As we have witnessed, the formal sector of the nation comprising of both government and corporate (“India Inc’s”) witnessed a slumping growth and the inflation has shot up, still, the debate remains narrowly focused on whether the reforms or amendments brought in will help the India Inc to make its game go strong or is it just all an effort in vain. This article focuses on two specific reforms namely, tax reforms on e-invoicing, corporate governance reforms by actually distinguishing the roles of Managing Directors and Chairman and the key compliance challenges before corporate India in 2020. However, to rectify the current situation and give the economy a push, the current government has come forward with certain reforms and amendments. There is a never-ending list of compliance requirements, which will ensure the corporate houses are indeed on their toes throughout the year.

The game-changing mechanism of e-invoicing under GST

India faced a weak response in 2019 on tax fronts, as there was a slow growth in the economy about 4.8 percent, after a sharp drop of 6.8 percent in 2018. Hence, Budget 2020 was crucial in view of the juxta positioning of contrasting viewpoints on the current economic scenario. The highlight of the recent economic survey points out the fact that due to the volume of business transactions every day and plethora of non-standardized formats used for generating invoices, e-invoicing in India will be a big and crucial move. The e-invoices can be interpreted uniformly with the help of machines and will make the cumbersome work a little easy. It is noteworthy that e-way bills have changed the way businesses are conducted in India. In January 2020, various tax reforms were introduced to taxpayers. E-invoicing helps in reporting the transactions on a prompt ground and it also facilitates to have access to such information in common and standardized readable format across all offices and branches. Its primary objective is to prohibit frequent incidents of tax frauds and to give access to the easy flow of data on returns & e-way bills. It is widely believed that e-invoice means that it is not getting generated from a central tax department portal, however, the practical practice of invoice generation allows the seller to print the physical invoice with the company's name and official logos on it along with other information so required. Under the recent e-invoice system, the seller will have to upload all the necessary details about the transactions and get an invoice from the Invoice Registrar Portal, which is regulated and operated by the government. After the validation of the same, it will generate a unique Invoice Registration Number (IRN) along with a QR code. Post this, the seller and buyer can have access to a digitally signed copy of the invoice. Further, such data will be auto-generated in the returns and e-way bills. This is a great step taken by the government, as after the implementation of such electronic invoicing for business to business transactions, it will be very helpful to track the tax evasions in India.

Segregation of the roles of chairperson and Managing Director

The corporate world is very well recognized for its power tussle. There have been various instances where we have witnessed clashes among the management of a company. The primary objective of corporate governance has always been to curb such a struggle between the management and stakeholders of the company. The Uday Kotak committee suggested some recommendations on corporate governance. One such important recommendation was accepted by the Securities and Exchange Board of India ("SEBI") related to the separation of roles of Chairperson and Managing Director ("MD").

Earlier, the role was bestowed upon one single individual. Moreover, the segregation will prevent the concentration of powers in the hands of one individual as the leader of the board should not necessarily be the leader of the management. This will not only enhance the decision-making process but will also provide a better-balanced structure of supervision and management.

It is important at this juncture to focus on the practicality of this separation of the role and the repercussion of the same on the companies. The arguments for having two separate roles emanated chiefly from the United Kingdom, which embraces this idea. This is a valid argument that the chairman is responsible for setting up the board's agenda and to encourage debate and involvement at board meetings whereas MD is overall responsible to manage the affairs of the company, so in

instances
where the chairman and MD are one, it becomes hard for the board to criticize the MD or to express any independent opinions. Therefore, separating two roles
essentially puts a check on the MD's power and also it can be persuasive because it gives the board a structural base to act independently in making business decisions. Furthermore, it prevents creating any kind of confusion about accountability and moreover, anything that makes the compliance in corporate governance easy is welcomed by India Inc with open arms.
However,
Security market regulator SEBI has issued a notification in the official gazette that the Listing Obligations and Disclosure Requirements[1] ("LODR") has been amended dated 10th January 2020, now, it will come in effect from April 1, 2022, wherein it states that the top 500 listed companies will ensure that the chairperson of the board shall be a non-executive director and should not be related to the Managing Director, and
there should be proper segregation of roles of chairperson and managing director in these companies. While there was no specific reason given for postponing the compliance date by two years but the extension is definitely a sigh of relief for most of the companies as they can use this time frame to plan the transition smoothly without affecting the business.

Conclusion

Tackling compliance challenges is the need of the hour for the corporations in India and this year there have been few more addition to the list as well. The recent instances of white-collar crimes, frauds have attracted the attention towards the major compliance challenges faced by Indian Inc. Therefore, these instances kind of put pressure on the current government to ensure that there should not be any financial irregularities and hence, such changes and amendments are a great step taken to stabilize the economic scenario of the country.

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[1] https://www.sebi.gov.in/legal/regulations/jan-2020/securities-and-exchange-board-of-india-listing-obligations-and-disclosure-requirements-regulations-2015-last-amended-on-january-10-2020-_37269.html

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