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"Tax reforms to improve flow of funds to start-ups"

DPIIT secretary **Ramesh Abhishek** on the Union budget

IN BRIEF

Automatic PAN with Aadhaar

NEW DELHI: The taxman will "suo motu" allot a fresh PAN to a person who files I-T returns with only Aadhaar as part of a new arrangement to link the two databases, the CBDT chief said after the budget proposed that only the biometric ID is enough for tax purposes. The PAN is "certainly not dead" and the recent budget announcement of interchangeability of the two databases is an "additional facility" to ensure their linkage, Central Board of Direct Taxes (CBDT) chairman Pramod Chandra Mody said. PTI

Videocon insolvency

NEW DELHI: The National Company Law Appellate Tribunal (NCLAT) has directed the Mumbai bench of the NCLT to pass an order over the insolvency plea against 15 Videocon group companies within the next three weeks. PTI

Calcutta Port

CALCUTTA: Calcutta Port Trust has resumed container handling at its Khidderpore Dock (KPD) after nearly 10 years with the first vessel arriving here from Tamil Nadu's Kattupalli, a senior port official said on Sunday. PTI

Stolen phones

NEW DELHI: The government will launch a technology solution next month to enable detection of lost or stolen mobile phones that are operating in the country, an official said. The tracking system would make the detection of stolen mobile phones possible even if the SIM card is removed or unique code IMEI number is changed, the official revealed. PTI

Amazon move

NEW DELHI: Amazon India is adding two new specialised warehouses in Patna and Guwahati and expanding the capacity of its existing specialised fulfilment centres (FCs) in cities such as Delhi and Mumbai, a move that will enable the e-commerce major further speed up its delivery capabilities. PTI

DRL strategy

HYDERABAD: Maintaining that pricing pressure will continue in the US market, Dr Reddy's Laboratories has said the company plans to launch several value-added products this fiscal to offset the persisting problem. PTI

BOTTOM LINERS

"Since we claim to be forward thinkers, why should I have to consent to a background check."

Direct tax to cover for GST slack

OUR SPECIAL CORRESPONDENT

New Delhi: The Modi government has acknowledged that it won't be able to sort out the glitches and gremlins in the goods and service tax system this year — a major reason why it budgeted for a lowball increase in indirect taxes.

"Accrual of the full benefit of GST reforms and revenues is expected to take some more time and, therefore, the stabilisation phase is expected to continue in 2019-20 too," the government said in its medium-term fiscal policy-cum-policy strategy statement that forms part of the budget documents.

GST collections faltered in June, tumbling below the Rs 1-lakh-crore threshold that many experts believe is an acceptable level to signify the success of the tax reform at the current pace of economic growth.

Tax collections under GST in June fell to Rs 99,936 crore — way below the revenues of Rs 1,06,577 crore in March, Rs 1,13,865 crore in April and Rs 1,00,289 crore in May.

The tax reform that professed to bind the country into a pan-India common market — with the popular tagline, One Nation, One Tax — was introduced in July 2017. The Centre and the states had agreed to set a two-year transition period till June 30 this year to stabilise GST.

One of the main reasons why the new tax system hasn't stabilised yet is the fact that the GST Council — the hothouse of representatives from the Centre and the states that is often riven by disagreements over rates and procedural issues — has struggled to strike the right chords with its concertina of rates, sparking all the discordance within the system and the rising resentment among taxpayers.

"The full benefits of GST reforms should start accruing from FY 2020-21 and completely stabilise thereafter to ensure a sustainable fiscal path," says the document.

Rate clamour

Industry has been clamouring for a reduction in the rates of GST.

Of the 1,350 items covered by GST, the items are largely clustered around the 18 per cent rate which is applied to 632 items, or 46.8 per cent of the goods.

The government has argued that only 29 items — or 2.2 per cent of all goods — are covered by the luxury and sin goods rate of 28 per cent.

The nil rate covers 158 items, the 5 per cent bracket includes 296 items and the 12 per cent rate is applied to 235 manufactured goods. The government claims that most items of basic needs are in the nil bracket, while most items of mass consumption are taxed at 5 per cent. But that hasn't stopped the pressure to reduce the rates on several goods.

"The GST rates have been reduced significantly, where relief of about Rs 92,000 crore per year has been given," finance minister Nirmala Sitharaman claimed in her budget speech — and this could be read as a statement that the Centre sees very little possibility for further cuts given the shaky flow of indirect tax revenues.

Filing challenge

The bigger challenge will be to sort out the mess over the frequency of filing returns.

"We are further simplifying the GST processes. A simplified single monthly return is being rolled out. Taxpayers having annual turnover of less than Rs 5 crore shall file quarterly returns... A fully automated GST refund module shall be implemented. Multiple tax ledgers for a taxpayer shall be replaced by one," Sitharaman added.

In the new system, the supplier will be allowed to upload the invoices continuously anytime during the month and the recipient will also be able to continuously view the uploaded invoice, says the fiscal policy document.

The new return system will be implemented in phases from October 2019 and latest by January, 2020. And that explains why it will take so much longer to stabilise revenue flows under the GST regime.

Rocky revenues

The rocky nature of GST revenue flow means that the government has had to depend on the more durable flow of direct taxes – personal and corporate taxes – to fund its coffers. This is expected to continue over the next two years.

"Direct taxes are expected to show a growth rate of 13.4 per cent and 14 per cent compared with the previous year in 2020-21and 2021-22, respectively. The growth rate in indirect taxes is expected to be 7.3 per cent and 10.3 per cent in 2020-21 and 2021-22, respectively. Among the indirect taxes, the growth rate of GST and customs is expected to remain roughly at the rate of growth of the economy and hence show a buoyancy of 1," says the document.

The upshot of this is that the "eight-year average buoyancy of corporation tax for the years 2020-21 and 2021-22 is 1.00 and 1.03, respectively, and of personal income tax is 1.36 for both years," says the document.

The estimates are based on the assumptions that there is no change in the tax rate or slabs or any of the tax provisions in Income Tax Act, 1961.

Direct taxes have shown high buoyancy in the last few years and have been consistently growing at a higher growth rate than that of the nominal GDP. This has led to an increase in direct tax collections. It has gone up from 5.7 per cent of GDP in 2010-11 to 5.9 per cent of GDP in 2017-18. This buoyancy is expected to continue and the direct tax-GDP ratio is expected to reach 6.6 per cent of GDP in 2021-22.

In contrast, indirect taxes have grown from 4.5 per cent of GDP in 2010-11 to 5.3 per cent of GDP in 2017-18.

INCOME TAX RELIEF A LONG WAY OFF

The GST collections	TOTAL in Rs lakh cr	AVG/month in Rs cr
2017-18 (Aug-March)	7.41	89,885
2018-19	11.77	98,083
2019-20 (Apr-June)	3.14	1,04,696

"Accrual of the full benefit of GST revenues is expected to take some more time and, stabilisation phase is expected to continue in 2019-20 too"

Medium Term Fiscal Policy Document

- **DIRECT TAX** expected to grow 13.4% in 2020-21 and 14% in 2021-22
- **INDIRECT TAX** expected to grow 7.3% in 2020-21 and 10.3% in 2021-22

Recap to help weak banks

OUR SPECIAL CORRESPONDENT

Mumbai: Hopes have brightened for banks that continue to remain under the RBI's prompt corrective action (PCA) framework.

Union finance minister Nirmala Sitharaman's Rs 70,000-crore bank recapitalisation announcement could see them come out of the mechanism, which places lending and other restrictions.

The five lenders under PCA are: United Bank of India (UBI), Uco Bank, Central Bank of India, Indian Overseas Bank and IDBI Bank, Most of these banks had expressed optimism to exit the framework in this fiscal itself.

The finance minister's announcement could now quicken the process with analysts expecting capital infusion to help some of them to increase their provisions and bring down their net NPA ratio which is a key criteria for banks under NPA. It remains to be seen if the Centre injects capital in IDBI Bank, which is now controlled by the Life Insurance Corporation (LIC). The government is the second largest shareholder having a little over 46 per cent for the period ended March 31, 2019.

"Although the allocation to individual banks is yet to be seen, this could be used towards balance sheet clean-up and improving provision coverage in the weaker set of banks," analysts at Kotak Institutional Equities said in a note.

Analysts said the recap support exceeded their expectations: already PSU banks had been recapitalised by a whopping Rs 3.19 lakh crore, of which Rs 2.5 lakh was done by the Centre. They were expecting the finance minister to announce a capital infusion of around Rs 40,000 crore.

Among the PCA lenders, the Calcutta-based UBI and Uco had earlier announced their plans to bring down their net non-performing assets below the PCA threshold of 6 per cent in this year. The UBI had earlier indicated that it is looking to bring down its gross non-performing assets to 8-9 per cent and net non-performing assets to 3-4 per cent by the end of this fiscal.

NPAs of the UBI were 8.67 per cent for the January-March quarter compared with 12.08 per cent in the preceding three months and 16.49 per cent in the period ended March 31, 2018.

Similarly, Uco Bank has seen its net NPA decline to 9.72 per cent as of March 31, 2019 from 12.48 per cent in the third quarter ended December 31, 2018 and 13.10 per cent in the preceding year.

In Indian Overseas Bank, the percentage of net NPA came down to 10.81 per cent in the fourth quarter last year from 13.56 per cent in the third quarter.

The RBI had earlier placed 12 banks under PCA.

SOME MAY COME OUT OF PCA

- Selected banks to increase provisions and bring down net NPA ratio
- Calcutta-based UBI and Uco possible beneficiaries; Others to gain include Indian Overseas and Central Bank

Capital infusion by Centre
(Figures in Rs crore)

2017-18 (Budget)	80,000
2018-19 (Budget)	65,000
2018-19 (Revised)	1,06,000
2019-20 (Budget)	70,000

Nirmala to meet RBI board today

ROAD AHEAD: Sitharaman

New Delhi: Finance minister Nirmala Sitharaman is scheduled to address the post-budget meeting of the RBI's central board on Monday and highlight the key points of the budget, including the fiscal consolidation road map.

The government has lowered the fiscal deficit target to 3.3 per cent of GDP as it is expecting net additional revenue of Rs 6,000 crore over the interim budget estimates.

The government in the interim budget in February had projected a fiscal deficit of 3.4 per cent of the GDP for the current fiscal.

The Centre also came out with a road map to reduce the fiscal deficit — the gap between total expenditure and revenue — to 3 per cent of the gross domestic product (GDP) by 2020-21, and eliminate the primary deficit.

Primary deficit refers to the deficit left after subtracting interest payments from the fiscal deficit.

The finance minister would also apprise the board of various other announcements made in the budget to spur growth by touching almost all sectors of the economy with the objective of achieving a $5-trillion economy by 2024-25, said an official.

The budget announced further opening up of aviation, insurance and media sectors to foreign investment while throwing a lifeline to the struggling shadow banks (NBFCs) to boost investment and lending in the economy.

It has also proposed measures to improve the access of NBFCs to funding by providing a limited backstop for the purchase of their assets.

The government will provide a partial guarantee to state banks for the acquisition of up to Rs 1 lakh crore of highly-rated assets from non-bank finance companies.

The Reserve Bank of India has been made regulator of housing finance firms as well, replacing the National Housing Bank.

With regard to surplus transfer from the RBI, the budget envisages Rs 90,000 crore as dividend from the central bank in the current fiscal.

This will be 32 per cent higher from the previous fiscal, when the central bank paid Rs 68,000 crore to the government, including Rs 28,000 crore as interim dividend.

This was the highest receipt from the Reserve Bank in a single financial year, exceeding the Rs 65,896 crore received in 2015-16 and Rs 40,659 crore in 2017-18. The RBI follows the July-June financial year and usually distributes the dividend in August after annual accounts are finalised. PTI

GoAir expands overseas

Mumbai: Budget carrier GoAir on Sunday announced the launch of flight services on seven new international routes, including Bangkok, Dubai and Kuwait, as part of its overseas expansion plans, starting July 19.

The services on the new routes are subject to regulatory approval, GoAir said in a release on Sunday.

GoAir will be starting seven international routes with daily flights to Abu Dhabi, Dubai, Muscat and Bangkok from cities such as Mumbai, New Delhi and Kannur, the airline said

The seven new routes are new "markets" for GoAir, whereas the other routes are already on the airline's network albeit from different domestic cities, the airline added.

GoAir already flies to Abu Dhabi and Muscat from Kannur and to Phuket and Maldives from Bangalore, Delhi and Mumbai. The services to Maldives are, however, currently on hold, it added.

"These planned launches will strengthen GoAir's presence in West Asian and Southeast Asian countries. The network expansion is in sync with our vision to expand out footprint in strategic markets and to grow our business profitably," said Jeh Wadia, managing director and acting chief executive officer, GoAir.

Air France

Air France-KLM will increase its passenger-carrying capacity between India and Europe by more than 25 per cent from this winter even as profitability remains one of the biggest challenges for its flights on this route, a senior executive of the airline said.

"One of the major challenges in India is the route profitability. Our flights are doing well. But the economical performance is always a bit of a concern," Welmer Blom, senior vice-president (Middle East, Gulf and India), Air France-KLM, said. PTI

WHAT'S NEW

- Services to seven international routes
- Destinations include Bangkok, Dubai and Kuwait
- Services to start from July 19
- Flights will be from cities such as Mumbai, New Delhi, Kannur

Deutsche to lay off 18000

Frankfurt: Deutsche Bank plans to cut 18,000 jobs in a sweeping, 7.4 billion euro overhaul designed to turn around Germany's struggling flagship lender.

The plan represents a major retreat from trading by Deutsche Bank, which for years had tried to compete as a major force on Wall Street.

The bank will scrap its global equities business and scale back its investment bank. It expects a 2.8 billion euro ($3.1 billion) net loss in the second quarter as a result of restructuring charges.

Beyond the expected cutbacks to equities, Deutsche said it would also axe some of its fixed income operations, an area traditionally regarded as one of the bank's strengths.

It will create a new unit to wind-down unwanted assets, with a value of 74 billion euros of risk-weighted assets.

Chief executive officer Christian Sewing flagged an extensive restructuring in May when he promised shareholders "tough cutbacks" to the investment bank. The pledge came after Deutsche failed to agree a merger with rival Commerzbank .

The overhaul, one of several over the past few years, signals that Deutsche is coming to terms with its failure to keep pace with Wall Street's big hitters such as JP Morgan Chase and Goldman Sachs.

Last week, the head of Deutsche's investment bank Garth Ritchie stepped down, marking a sign of the unit's waning influence. Reuters

Maruti cuts output by 16% in June

New Delhi: Maruti Suzuki India (MSI), the country's largest car maker, has cut vehicle production for the fifth consecutive month in June, according to a regulatory filing.

The auto major said it slashed total vehicle production, including Super Carry LCV, by 15.6 per cent last month to 1,11,917 units compared with 1,32,616 units in the year-ago month.

Total passenger vehicle production stood at 1,09,641 units last month, down 16.34 per cent from 1,31,068 units in June 2018.

The auto major cut production of mini segment vehicles, including models such as the Alto, by 48.2 per cent to 15,087 units last month against 29,131 units in the year-ago period.

Similarly, it slashed production of compact segment cars like the WagonR, Swift and Dzire by 1.46 per cent to 66,436 units in June from 67,426 units earlier.

Production of utility vehicles witnessed a decline of 5.26 per cent to 17,074 units against 18,023 units in June last year.

The company said production of vans declined 27.87 per cent to 8,501 units last month from 11,787 units in June 2018.

The car market leader had cut total production by over 18 per cent in May.

Similarly, it had slashed production by around 10 per cent across its factories in April.

In March, the company had reported a production cut of 20.9 per cent, while in February the company had reduced production by over 8 per cent to 1,48,959 units from 1,62,524 units produced in the year-ago month.

Auto manufacturers have been facing muted sales for quite some . The slowdown has forced companies to adjust their production schedules to market demand.

Auto makers such as Mahindra & Mahindra (M&M) and Tata Motors have also announced adjusting production to tapering market demand to cut down inventories.

In May, overall passenger vehicle sales in India witnessed the steepest decline in nearly 18 years, dropping over 20 per cent amid continued weakness in retail offtake. PTI

TOUGH TIMES

% fall in Maruti's production

February 2019	8
March	20.9
April	10
May	18
June	15.6

Infrastructure key to $5-trillion goal

GUEST COLUMN
Sameer Narang

Finance minister Nirmala Sitharaman presented her first budget outlining the vision for achieving a $5 trillion economy by 2024-25, driven by investments. The push for investments will be from the infrastructure sector, in particular road, railways, airports and inland waterways, through higher government and private investments.

For financing the infrastructure sector, Credit Guarantee Enhancement Corporation will be set-up in 2019-20. Affordable housing, too, will benefit under Pradhan Mantri Awaas Yojana (PMAY) and tax incentives.

"Make in India", too, got a boost with the likely rationalisation of labour laws into four codes.

For MSMEs, the finance minister has raised the ceiling of 25 per cent tax rate to a revenue of Rs 400 crore (Rs 250 earlier) and introduced a platform to discount bills. This should ease the liquidity for MSMEs.

For incentivising domestic production, custom duties have been increased selectively. In line with the ambition of a cleaner and greener India, customs duties on E-vehicles have been reduced and tax deduction on interest paid on such loans has been introduced.

The minister also outlined the need to bring in a new education policy. For the real estate sector, a model tenancy law will be circulated to the states.

In order to kickstart growth, the finance minister has allocated Rs 70,000 crore to recapitalise Public Sector Banks (PSBs), which will boost credit delivery in the economy. For increasing liquidity to NBFCs, the government will provide one-time partial credit guarantee to PSBs for first loss up to 10 per cent. Given the inter-connectedness between NBFCs, HFCs and banks, HFCs will now be under the supervision of the Reserve Bank of India.

On the revenue front, the finance minister's revenue assumptions are quite realistic. Given the difference between actual tax collections in 2018-19 and interim budget estimates, markets were worried about fiscal slippage in the year.

Tax revenues are now estimated at Rs 24.6 lakh crore in 2019-20 compared with Rs 25.5 lakh crore in the interim budget. Income tax and GST collection target for 2019-20 has been pared down, in line with GST collections in the first two months of the year. At the same time, revenue from customs and excise duties has been revised upwards on the back of higher custom duties and excise duty/ cess on petrol and diesel (Rs 2/litre).

While the Centre's tax revenue target for 2019-20 has been reduced by Rs 55,500 crore (from the interim budget), the non-tax revenue target has been revised upwards by Rs 40,500 crore as the government now expects a higher income from dividends, railways and the 5G auction.

Disinvestments receipts are now expected at Rs 1.05 lakh crore in 2019-20 compared with an earlier target of Rs 80,000 crore since the government has decided to reduce the shareholding in non-financial undertakings to less than 51 per cent on a case-by-case basis.

On the expenditure side, the budget has more or less retained the estimates of the interim budget. The agriculture sector has got the maximum boost followed by health and education.

● Sameer Narang is chief economist of Bank of Baroda