Short Takes

Apr-Dec Fiscal Deficit Hits 112.4% of FY19 Budget Target

NEW DELHI Fiscal deficit touched 112.4% of the full-year budget target of ₹6.24 lakh crore at the end of December on account of lower revenue collections, government data showed on Monday. The fiscal deficit stood at ₹7.01 lakh crore during April-December of the current financial year. At the end of December 2017, the deficit was 113.6% of the Budget Estimate (BE). The government has budgeted to cut fiscal deficit to 3.3% of GDP or ₹6.24 lakh crore in 2018-19, from 3.53% in the previous financial year. In the interim budget for 2019-20, the fiscal deficit was revised upwards to 3.4% of GDP or over ₹6.34 lakh crore.

FDI Declined 11% On-year in April-Sept '18 to $22.66 b

NEW DELHI: Foreign direct investment (FDI) in India declined 11% year-on-year to $22.66 billion during April-September in the current financial year, according to commerce and industry ministry data. In the first half of the previous fiscal, India had received $25.35 billion in FDI. Singapore was the largest source of FDI, accounting for $8.62 billion inflow, followed by Mauritius at $3.88 billion, the Netherlands at $2.31 billion, Japan at $ 1.88 billion, the US at $970 million and the UK at $845 million. Services led the sectors in FDI inflow, receiving $4.91 billion.

'15% Growth in FY20 Direct Tax Collections Realistic'

NEW DELHI The finance ministry has set a "realistic target" of 15% growth indirect tax collection at ₹13.80 lakh crore for next year, which is lower than 20%increase estimated in the current fiscal, revenue secretary Ajay Bhushan Pandey said Monday. The interim budget 2019-20 estimated to collect ₹13.80 lakh crore from direct taxes compared to ₹12 lakh crore in the current fiscal, a growth of 15%. "For three successive years, if you had a good revenue growth, then at some time you have to make a realistic estimate because any increase that you do is on a much higher base," he said.

Exports Likely to Surpass FY14 Peak of $314 billion

HYDERABAD Exports in the current fiscal year are expected to surpass the earlier peak of $314 billion in 2013-14, a senior official said Monday. "This year, we are very confident that we will go past our earlier peak... of FY14. We will go past that peak quite comfortably," commerce secretary Anup Wadhawan said. The achievement comes against the backdrop of a challenging global environment, he said.

₹90,000-CRORE DISINVESTMENT TARGET FOR FY20

SBI, Other Performing PSBs may See Stake Sale

Govt keen to meet 25% shareholding rule for state banks doing well

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New Delhi: The government plans to sell stakes in better-performing state-run banks, including the State Bank of India, as part of its ₹90,000 crore disinvestment programme for FY20.

The divestment announced in the interim budget will include share sales in the better-performing banks, where the government's stake has risen in recent years, said a finance ministry official, adding that SBI, the country's largest lender, is one of those on the radar.

"We have three-four banks which have performed well. If they are able to sustain that momentum, we can look at such stake sales by the end of the second quarter of the next financial year," the official said. The government would also like to meet the 25% public shareholding norm for performing lenders.

The government holds more than 75% stake in five banks, including Central Bank of India, Corporation Bank and Allahabad Bank.

In a post-interim budget interaction last week, Department of Investment and Public Asset Management (DIPAM) secretary Atanu Chakraborty told **ET** that the government was open to the idea of selling its stake in public sector banks, but observed that the lenders did not have a great last year and hence they had not examined such proposals in detail.

"Let them get a bit of a start," he had said, adding that such stake sales had not been ruled out.

"Wherever the government is invested and wants to vacate that space for private investment and retail investment to come in, there is no reason why it should be ruled out," he said.

Chakraborty has said that the ₹90,000-crore disinvestment target is achievable. Ten companies have been lined up for initial public offerings and four more are in the pipeline.

The finance ministry official said the government would eventually also like to exit from IDBI Bank. "So that is there as well and once the bank is profitable, in a year maybe, we can look at that," the official said. The government holds a 52% stake in the lender.

SBI has already initiated steps for a ₹20,000-crore share sale through qualified institutional placement, following which the government's stake will fall from the existing 58.53%.

SHAREHOLDING NORM

The govt holds more than 75% in 5 banks, including Central Bank of India, Corporation Bank and Allahabad Bank

Govt Plans Working Group to Resolve Angel Tax Tangle

DPIIT panel to offer suggestions in the next 4-5 days

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New Delhi: The government will set up a panel that will seek to resolve the issues that have arisen from the so-called angel tax, said Department for Promotion of Industry and Internal Trade (DPIIT) secretary Ramesh Abhishek.

"We have got a number of suggestions," Abhishek said on Monday. "We will form a small working group and try to come out with some suggestions and solutions in the next four-five days."

The Central Bureau of Direct Taxes (CBDT) has already said no coercive action will be taken. Officials are being advised not to enforce recovery till appeals are decided, said CBDT member Akhilesh Ranjan, adding that a definition for startups would help in carving out an exemption for them in the law.

Separately, DPIIT wants Section 56(2) of the Income Tax Act, which enables imposition of the levy on angel investments in startups, to be scrapped, said a senior government official who didn't want to be named. "We are asking the finance ministry to remove this clause as it is wrong. We are in discussions with them to devise a mechanism to do so," he said.

Under Section 56(2), when a closely held company issues shares at a price more than its fair market value, the difference is taxed as income from other sources. This section, touted as an anti-abuse measure, was introduced by the then finance minister Pranab Mukherjee in 2012. It came to be dubbed the angel tax due to its impact on such investments in startups.

The commerce and industry ministry has told the finance ministry that the tax is a major impediment to the flow of investments into startups.

Before abolishing the section, startups will need to be defined, Ranjan said.

"We don't want startups to be in the ambit of this section," he said. "But to do that, we will have to define startups in the law. What is a startup? If we can define that, it will become easy."

DPIIT wants Sec 56(2) of I-T Act enabling imposition of angel tax to be scrapped

A survey by community social media platform LocalCircles and the Indian Private Equity & Venture Capital Association (IVCA) on Monday showed that over 2,000 startups that received funding from investors – angel financiers, private equity and venture capital funds – have received angel tax notices. That's about 73% of the 2,883 respondents.

"Notices are different from assessments," pointed out Ranjan. "Tax demand notices are lesser in number."

At least 100 startups and software product maker lobby group iSPIRT had recently written to the Prime Minister's Office seeking abolition of Section 56(2).

Last month, the government had given startups and their investors a breather. They could seek exception from it by making an application via the department, then called the Department of Industrial Policy and Promotion.

TOEING GLOBAL TREND The aim is to lower tariffs, promote efficient plants and withstand periodical aberrations that benefit a few plants

CERC Pushes for 100% Power Sale in Spot Market

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New Delhi: India proposes to move to the global practice of selling entire power generation through spot market to lower tariffs, promote efficient plants and withstand periodical aberrations that benefit a few plants. It is also expected to ensure that power plants with low tariffs do not get into 'stressed assets' category in future even without power purchase contracts with states.

However, Association of Power Producers director general Ashok Khurana said the operational and settlement issues have to be looked into for implementation.

The proposal put forth by sectoral regulator and followed in Europe and many parts of the US is expected to result in savings of crores of rupees to the state-owned electricity distribution companies. An exercise by the Central Electricity Regulatory Commission (CERC) showed that the mechanism could have last year resulted in savings of nearly ₹6,000 crore to distribution companies of five states. If implemented, pan-India the savings are expected to be higher.

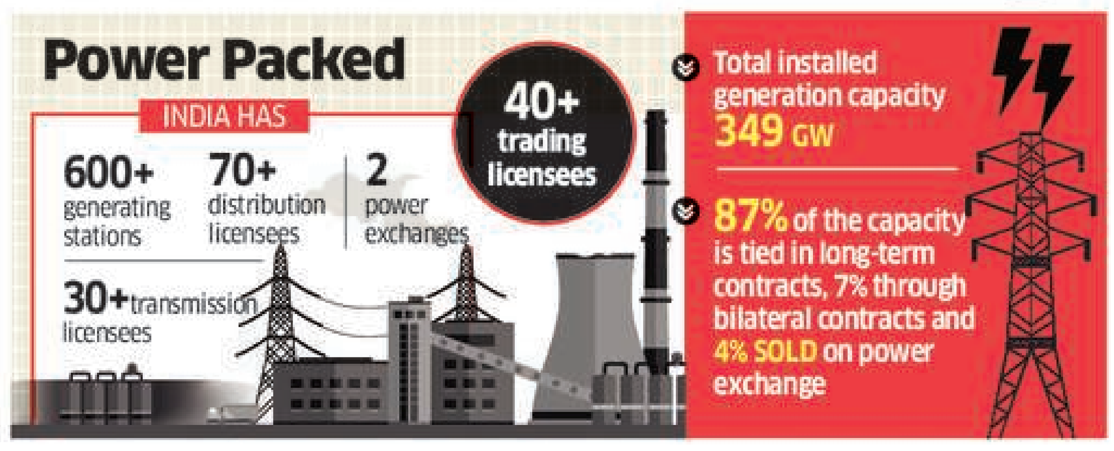
CERC has begun consultations on the proposal on market-based economic dispatch of electricity. The mechanism proposes to pool all electricity generated in the country, including from projects which have signed power supply pacts with discoms. The buyers and sellers will place their bids for required quantities and a settlement price will be discovered, as per the normal practice on power exchanges.

Of the pooled capacity, economical power stations will get to sell their produce ensuring their optimum utilisation. The costly plants, which have power purchase agreements (PPAs), get fixed costs from distribution companies, as is the practice even today when discoms back-down from purchasing the contracted amount of electricity.

CERC chairperson P K Pujari said the commission last week issued suo motu order for pilot run of the scheme by letting the grid operator POSOCO pool electricity from all projects for which tariffs are regulated. The pilot run will start from April for six months after the required software upgradation.

CERC joint chief SK Chatterjee said the proposed mechanism is a game changer as it seeks to bring about a paradigm shift in the way demand is met and supply dispatched, with the larger objective of reducing overall system costs. This can also address the stressed asset issue to an extent as the cheaper ones out of the lot can get dispatch even without a formal PPA, he said.

"The way contracts are structured today, we have some costly generation which is operating and some low cost generation that remains unutilised because discoms operate in silos. If we pool all electricity together, we can break this silo or wall. Then the dispatch will happen based on merit and low-cost electricity will get consumed fully, reducing part of the costly power generation," he said.



Periodic aberrations on power exchanges are also likely to disappear once larger capacity is traded, Pujari said. "Slight increase in demand than supply causes impact on exchanges. Once the share of power grows and competition picks up, impact of such aberrations will not be there," he said. Aggressive bids by discoms in western and southern region led the prices on India Energy Exchange (IEX) peak to 10-year high of ₹18 per unit last October.

The approach, however, is not without challenges. While adequate transmission capacity is an enabler, it may face resistance from some states and costlier plants. "The concept of market-based economic dispatch is very good. It would provide most competitive price to consumer. However, I have doubts regarding success of its implementation," said Khurana.