# 300,000 companies under tax scanner for money laundering

## The firms were struck off by the RoC for not filing their statutory returns

SHRIMI CHOUDHARY
New Delhi, 28 March

The Central Board of Direct Taxes (CBDT) has directed income-tax (I-T) officials to verify bank transactions of companies struck off from the records of the Registrar of Companies (RoC), specifically during demonetisation.

The move will bring 300,000 companies struck off by the RoC for not filing their statutory returns under the tax scanner.

On Thursday, the CBDT issued a directive to senior I-T officials, asking them to examine possible misuse of such companies for money laundering activities. "The board desires that the tax authorities verify deposits/withdrawals from bank accounts of such companies during the process of striking down and just before that, especially during demonetisation," the CBDT office said.

Further, it said in cases of detection of unusual transactions and beneficiaries, appropriate action may be taken, according to the provisions of the I-T Act. Accordingly, the tax department will seek restoration of such struck-off companies by filing an appeal before the National Company Law Tribunal (NCLT).

The I-T department suspects that many of these companies abused their corporate structure by creating multi-layering during demonetisation for cash deposits. The I-T probe also reveals that many individuals had used these firms for siphoning money or converting undisclosed cash into legitimate money after the currency purge.

The apex body wants this exercise of verification to be completed in a time-bound manner and positive cases be brought to the notice of the board. "If such transactions are detected in a particular company, we should bring it to the notice of the RoC within one month, so that objections may be filed against the proposal to strike off a company," the CBDT had added.

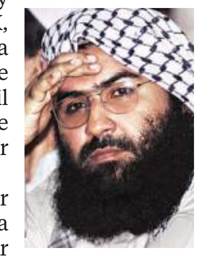
Sources say that the department suspects ₹100 billion has been laundered through such firms during the note-ban period. The official data says that 35,000 companies deposited and withdrew cash worth over ₹170 billion after the note ban, through about 60,000 bank accounts. It was noticed that the accounts that had negligible balance on November 8, 2016, have seen significant cash deposits and withdrawal during this period.

Last year, the tax department had filed a petition before the NCLT for restoration of registration in as many as 50,000 such companies. The board also asked the Ministry of Corporate Affairs to not oppose the restoration application in the tribunal, as such a move would refrain them from launching tax recovery proceedings against these firms. Directors of these companies have been prohibited from holding directorships in any other company.

## AROUND THE WORLD

### US moves resolution in UNSC to blacklist Azhar

Stepping up the international pressure to designate Jaish-e-Mohammed chief Masood Azhar as a global terrorist, the US, supported by France and the UK, has directly moved a draft resolution in the UN Security Council to blacklist the Pakistan-based terror group's chief.



Two weeks after China put a hold on a proposal to list Azhar under the 1267 Al Qaeda Sanctions Committee of the Council, the US on Wednesday circulated the draft resolution to the powerful 15-nation Council to blacklist the leader of the terror group and subject him to a travel ban, an assets freeze and an arms embargo.

Reacting to Washington's move, Chinese Foreign Ministry spokesman Geng Shuang in Beijing said: "This is not in line with resolution of the issue through dialogue and negotiations. This has reduced the authority of the Committee as a main anti-terrorism body of the UNSC and this is not conducive to the solidarity and only complicates the issue". **PTI**

### No terror camps on 22 locations shared by India, says Pakistan

Pakistan on Thursday said it has examined 22 "pin locations" shared by India but found no terror camps and claimed that there are no links to nail 54 people detained in connection with the Pulwama terror attack as it shared the "preliminary findings" with New Delhi.

Pakistan is willing to allow visits, on request, to these locations, the Foreign Office said. "While 54 detained individuals are being investigated, no details linking them to Pulwama have been found so far," it said. **PTI**

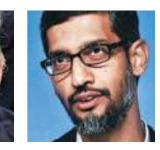
### UK govt plans third Brexit deal vote today

Britain's government said it intended to hold a third parliamentary vote on Prime Minister Theresa May's Brexit deal on Friday but was awaiting the go-ahead from House of Commons speaker.

"We recognise that any motion brought forward tomorrow will need to be compliant with the speaker's ruling and that discussion is ongoing," Andrea Leadsom, who represents the government in parliament, told MPs.

"A motion will be tabled just as soon as possible and obviously by later today," Leadsom said on Thursday. **PTI/AFP**

### Trump meets Pichai, says Google committed to US military



Donald Trump has said Google CEO Sunder Pichai assured him that the tech giant is "totally committed" to the US military and not the Chinese army as the President met him at the White House, days after he accused the California-based company of not supporting American interests. Trump, who has been at loggerheads with several big companies, earlier this month said, "Google is helping China and their military, but not the US". **PTI**

### FB charged with racial discrimination in targeted ads

The US Department of Housing and Urban Development (HUD) charged Facebook on Thursday with violating the Fair Housing Act, alleging that the firm's targeted advertising discriminated on the basis of race and colour. HUD said in its civil charge that Facebook also restricted who could see housing-related ads based on national origin, religion, familial status, sex and disability. **REUTERS**

# Irdai's nod to new life insurance regulations

SUBRATA PANDA
Mumbai, 28 March

The Insurance Regulatory and Development Authority of India (Irdai) on Thursday gave the go-ahead for the new regulations for life insurance products. It also gave the first level approval, or R1, to Indiabulls Integrated general insurance business in its board meeting.

The insurance regulator had released the draft regulations for linked and non-linked life insurance policies in October 2018. It had earlier formed a committee to review product regulations in the life insurance sector. Based on its recommendations the draft regulations were released, which were approved on Thursday.

The new regulations will allow the insurers to charge an extra premium from policyholders who wish to buy riders with unit-linked insurance plans. Currently, insurers deduct units from ULIPs in case a policyholder buys riders with it.

Moreover, the new regulations are going to do away with the minimum capital guarantee norms that bind the life insurers to invest heavily in debt to offer fixed returns to the policyholders. It will also allow partial withdrawal in case of linked pension plans in situations of critical illness, permanent disability because of an accident, or any other major health issue wherein the insured needs to withdraw some amount for survival. Also, the new regulations are going to make it easier for policyholders to buy an annuity at the end of a pension product's policy terms as they will have the option to buy it from an insurer of their choice. Earlier, they had to buy an annuity product from the same insurer.

Other changes that would come into effect because of the new regulations are minimum death benefit would be seven times for regular premium products and 1.25 times for single premium products for all age groups.

# PFC concludes REC buyout

SHREYA JAI
New Delhi, 28 March

State-owned Power Finance Corporation (PFC) concluded the acquisition of Rural Electrification Corporation (REC) on Thursday by paying ₹14,500 crore to the central government.

PFC has acquired the Centre's 52.63 per cent equity stake in REC along with management control. In December 2018, the Cabinet Committee for Economic Affairs approved the deal.

PFC has financed the deal with internal accruals and by raising term loans. "Around 70 per cent of the payment made is through the cash inflows from the business and the balance 30 per cent is through debt," said Rajeev Sharma, chairman & managing director, PFC.

The acquisition has made PFC the second largest government-owned financial player in the country, based on market capitalisation — second only to State Bank of India.

PFC borrowed around ₹88,000 crore at competitive rates during the current fiscal year (FY19). Of this, 50 per cent was through term loans availed from banks, mostly at MCLR rates, Sharma said. This includes ₹5,500-crore term loans for maintaining its tier-II capital after the acquisition.

Quashing concerns regarding its financial strength after the acquisition, PFC executives said the company had 19 per cent capital adequacy in the third quarter of FY19 (Q3FY19).

# Bandhan to soon comply with 40% promoter stake rule: Ghosh

NAMRATA ACHARYA & ANUP ROY
Kolkata, 28 March

Bandhan Bank will soon finalise the long-pending plan to reduce its promoters' stake to 40 per cent as required by the Reserve Bank of India (RBI). C S Ghosh, managing director and chief executive, said an Offer for Sale was among the measures being considered.

In January, it announced the merger of Gruh Finance with itself, which reduced the promoters' stake to about 61 per cent, from the earlier 82.3 per cent. The RBI says promoter stake in the new private banks is not to exceed 40 per cent.

"We have a plan...We will shortly close it," said Ghosh, while ruling out the possibility of any further acquisition to reduce the stake.


**The bank is expecting to give a big push to the affordable housing sector after completion of its merger**

The stock exchange data shows that HDFC Ltd on Thursday sold ₹300 crore, or about 1.6 per cent in Gruh. "We sold a small quantity of shares to interested investors. We don't intend to sell any further shares at least for a month," said an HDFC spokesperson.

Buying shares in Gruh now means buying future shares in Bandhan. And it makes sense for the investors to buy in Gruh now as the shares offer an arbitrage opportunity of about 7.5-8 per cent vis-à-vis Bandhan share prices now, said an analyst.

In September 2018, the central bank had directed a halt to any rise in Ghosh's salary and also withdrew the bank's right to open new branches on its own. This was a penalty for not having cut the stake, despite having got three years from the date it began operations to do so. The deadline ended on August 23. The bank has since got RBI permission to open 25 more branches. It opened two on Wednesday and one on Thursday; two more will be opened this week.

Ghosh said RBI approval had come for the Gruh merger and an okay was still to come from the Securities and Exchange Board of India (Sebi). It has also sought clearance from the Competition Commission of India. After Sebi's approval, it will approach the National Company Law Tribunal.

The bank is also expecting to give a big push to the affordable housing sector after completion of its merger, Ghosh said.

## Catholic Syrian hires Axis to start listing process

Catholic Syrian Bank (CSB) says it has started the process to list itself on the stock exchanges, as required by the Reserve Bank of India. This is a sequel to Canada-based Fairfax India Holdings, run by Prem Watsa, having taken majority control of CSB.

That was the first stake sale of an Indian bank to a foreign non-banking entity since the RBI changed the rules in this regard in May 2017. Fairfax was allowed to buy 51 per cent of the equity, for ₹1,200 crore; a condition was that the bank list itself before September. CSB says it has enough capital for the next three years and is looking at either a direct listing or through an IPO of equity. The latter could involve sale of both new and existing shares. C V R Rajendran, the bank's managing director said they had hired Axis Capital as advisor to manage the listing.

**T E NARASIMHAN**

# Norms for e-way bills relaxed

INDIVJAL DHASMANA
New Delhi, 28 March


**The government has allowed the validity of e-way bills to be extended when goods are in transit**

The government on Thursday relaxed the norms for e-way bills. Rules regarding validity have been changed, while a facility has been provided for auto-calculating the route distance.

Under the goods and services tax (GST) regime, an e-way bill has to be generated if goods worth over ₹50,000 are transported.

Currently, an e-way bill is valid for up to 24 hours for a distance of 100 km, depending on the size of the vehicle. However, if the vehicle does not cover 100 km within 24 hours, another bill has to be generated. For every 100 km travelled, the bill is valid for one additional day.

This has created problems. For instance, if a truck gets stuck in traffic or breaks down and is unable to cover 100 km, another bill is required to be generated. Now, the government has enabled extension of the validity when goods are in transit.

Harpreet Singh, partner indirect taxes at KPMG, said, "This would definitely provide respite from additional compliance of cancelling the e-way bill and issuing it afresh."

Similarly, the government has enabled auto calculation of route distance based on pincodes of points of origination and destination. However, users can enter the actual distance, based on the movement, but it can only be 10 per cent more than the displayed distance.

Singh said "auto calculation of the actual distance between supplier and recipient based on PIN codes shows the right use of technology to assist in compliance".

Also, composition dealers will not be allowed to generate bills for inter-state movement. These dealers are the ones which pay lower and flat GST rates but are not allowed to take input tax credit. But, the composition scheme is not there for inter-state movement of goods.

These dealers will also not be allowed to enter any of the taxes under Central GST or State GST intra-state transactions.

The government is also considering stopping generation of multiple e-way bills on one invoice number. This is being done to curb tax evasion, sources said.

# 'Schemes like PM Kisan, NYAY should better be left to states'

**Y V REDDY**, former RBI governor and chairman of the 14th finance commission, tells **Ishan Bakshi** & **Indivjal Dhasmana** that the N K Singh Committee's recommendations have put more burden on the states for fiscal consolidation than the requirements while the main problem lies with the Centre. Reddy was in Delhi to launch his book *Indian Fiscal Federalism* that he co-authored with G R Reddy, advisor (finance) to the Telangana government. Edited excerpts:

**Q&A**

**The N K Singh panel talked about FRBM Act amendments. You also talked about public debt in your book. It seems if you are to reduce debt-GDP ratio, the burden falls squarely on the Centre. That would require massive adjustments. Do you think it is possible to reduce the ratio in five years?**

If you see the path suggested by the N K Singh panel, it is unequal. While the problem is significantly with the Centre, the states have been asked to do more fiscal consolidation than they need to. That is somewhat asymmetrical.

**How do you see PM Kisan and NYAY in this context? Do you think these are feasible? How will these impact the Centre's fiscal consolidation?**

Fiscal risk is more if these schemes are at the Centre, because it does not have hard budget constraints. The Centre already has fiscal problems. States have hard budget constraints. States have to account these schemes within budget limits prescribed by the Centre.

Also, these schemes require local understanding. Do you consider a farmer in Nagaland same as one in Madhya Pradesh or Kerala. The whole information is with the states. Administration has to be done by the states. Naturally, the responsibility has to be with the states. So, both in terms of comparative advantage as well as fiscal risks, these should be with the states. As Central schemes, these are less logical and more fiscally risky. I am not making any judgement on whether these schemes are good or bad.

**But there have been farmer suicides in some states... Even then do you think the Centre should not intervene?**

The Centre can ask states as to why are they not intervening. If there are suicides and there is an alarming situation, don't you think the people will decide the fate of that state? There is an elected assembly. There is the Constitution. It is not that all states are failing in all the subjects. The Centre can encourage or discourage the states from doing a particular scheme. But the Centre should not substitute the states in the schemes which are state subjects.

**Recently RBI governor Shaktikanta Das suggested that the finance commission should be made a permanent body. What is your view?**

This matter was examined by the Sarkaria commission, which said commissions should not be made permanent. Others also examined the issue. The 14th finance commission had also recommended that there should be two separate institutions. A finance commission, which should be (set up) once in five years, and another a continuous body like planning commission, which will take care of non-finance commission transfers. Predominant opinions so far have been against making finance commission a permanent body.

**What is your view on shifting the population reference to 2011 from 1971 as mentioned by the 15th finance commission?**

The 14th finance commission had mentioned clearly that each commission has to take into account the population for the period for which the award is. You cannot take an outdated population and say I will treat that as the basis for accessing the needs of tomorrow. Using 2011 as the reference is better than using 1971. But ideally, one should ask the registrar general of census to provide population estimates for 2022.

**The 14th finance commission increased states' share in the divisible tax pool to 42 per cent from 32 per cent. But a recent study suggests that for some states, the burden to fund centrally-sponsored schemes exceeds an increase in tax revenue sharing...**

First of all, 32 per cent and 42 per cent is not comparable. There has been some move on the design of centrally-sponsored schemes and some on cesses and surcharges. The net result is that aggregate transfers from the Centre to states, as a percentage of gross tax revenues of the Centre, remain same or marginally lower. So, it's not true if you say the Centre is having a crunch in terms of resources. It has a crunch in terms of discretion.

**Over the years, the share of cesses and surcharges in the Centre's gross tax revenue has surged. Some argue this subverts the spirit of cooperative federalism. What are your views?**

Cesses and surcharges levied on subjects, which are essentially on the state list, is certainly an erosion of the states' fiscal space. Ideally, there should be a national consensus on cess and surcharge. In fact, the Comptroller and Auditor General of India has raised questions over the utilisation of cess funds.

**Some fear that the terms of reference of the 15th finance commission suggest a move towards greater centralisation...**

That's what the complaint of the chief ministers is and we should be able to explain to them.

**There is also a reference to populist schemes....**

The full analysis is there in the book. The most important thing is that is it good to have conditional grants? Do chief ministers have confidence that they work? The problem with grants from the finance commission is it comes once in five years. There is no continuity. Second, it comes and goes. In between, it is administered by the Union government. Much depends on how it is administered. Also the effectiveness of grants is circumspect.

**On NITI Aayog you seem to be expressing concern over how it has conducted its business?**

It's not so. A chapter on NITI Aayog has been virtually taken from its annual reports.

"IF YOU SEE THE PATH SUGGESTED BY THE N K SINGH PANEL, IT IS UNEQUAL. WHILE THE PROBLEM IS SIGNIFICANTLY WITH THE CENTRE, THE STATES HAVE BEEN ASKED TO DO MORE FISCAL CONSOLIDATION THAN THEY NEED TO. THAT IS SOMEWHAT ASYMMETRICAL"

**Y V REDDY**, Former RBI governor

ILLUSTRATION: AJAYA MOHANTY

## N K Singh bats for keeping a check on govt's borrowings

N K Singh, who headed a panel for suggesting fiscal consolidation road map, reiterated the need to constitute a fiscal council to keep a check on the Centre's fiscal consolidation.

Singh, who heads the Fifteenth Finance Commission, said the panel to review Fiscal Responsibility and Budget Management (FRBM) Act had recommended the fiscal road map for the Centre and states.

"However, rules of the game should be the same for both. For state government liabilities, Article 293 (3) provides a constitutional check over borrowings. But there are no such restrictions on the Centre," he said during a panel discussion at the launch of Y V Reddy's book. **INDIVJAL DHASMANA**