OECD seeks revamp of tax on tech firms

Floats consultation paper, seeks comments by Nov 12

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New Delhi, 9 October

The 21-page proposal aims at fair taxation of digital firms — digital or own profitable brands — from apparels to cars

The Organisation of Economic Co-operation and Development (OECD) has proposed an overhaul in the taxation system for multinational companies. This move could force entities, including digital giants Google, Netflix, Facebook, and Amazon, to shell out taxes in countries where they do not have physical presence.

The consultation paper floated by the 36-member bloc will also affect India's right to tax these companies. While the Central Board of Direct Taxes has lauded the general intent, it has also expressed reservations over certain provisions. The final agreement is expected by 2020.

The 21-page proposal was put out on Wednesday, aiming at fair taxation of digital firms — whether digital or own profitable brands — from apparels to cars.

If a consensus is arrived at, it will provide taxing rights to countries and jurisdictions where these MNCs have their markets.

"In a digital age, allocation of taxing rights can no longer be exclusively circumscribed by reference to physical presence. The current rules, dating back to the 1920s, are no longer sufficient to ensure fair allocation of taxing rights in an increasingly globalised world," OECD said in the paper.

OECD made a unified approach and suggested the creation of a new nexus rule (largely dependent on sales) that would not depend on physical presence in the user/market jurisdiction.

Further, the new system has gone beyond the arm's length principle for allocation of profits, by using formulae-based apportionment.

A CBDT official said India supports the global bloc's plan but differs from the unified approach to allocating profits

The unified approach seeks to deliver greater tax certainty for both taxpayers and administrators, by suggesting a three-tier profit allocation mechanism.

A CBDT official said that India supports the global bloc's plan but differs from the unified approach to allocating profits. India, which is party to the discussion, will raise its reservations in the next meeting, scheduled for December.

"Though this is only a consultation document by the secretariat and does not give out recommendations, it gives some direction as to where this complex issue is headed. OECD needs to quickly form a consensus, as countries are increasingly adopting unilateral measures that are typically on gross sales. India's draft report on profit attribution gives weight to sales, and users as a factor for profit attribution," said Amit Maheshwari, partner at Ashok Maheshwary & Associates LLP. OECD's consultation paper Unified Approach under Pillar 1 says it advances international negotiations for fair taxation of digital companies. It lays emphasis on re-allocation of profits and corresponding taxing rights to countries and jurisdictions where MNCs have their markets.

Pillar 1 comprises the "user participation", "marketing intangibles", and "significant economic presence" proposals. The policy note stated that these proposals would entail solutions beyond the arm's length principle. Pillar Two pertains to the remaining 'base erosion and profit shifting' issues.

An OECD release says the document brings together the common elements of "competing proposals".

It adds that it will ensure that MNCs conducting significant business in places where they do not have a physical presence, be taxed in such jurisdictions.

The proposals need to be agreed upon by January. Stakeholders have been asked to furnish comments by November 12.

Depositors feel the pinch of SBI move

ANUP ROY AND ABHIJIT LELE
Mumbai, 9 October

With State Bank of India (SBI) lowering savings bank rate to 3.25 per cent, and the latest print of inflation at 3.2 per cent, depositors keeping their money in savings bank account are technically not seeing their money grow.

Inflation is expected to rise from here, and according to the Reserve Bank of India's (RBI's) estimates, the consumer price-based index (CPI) could be between 3.5 per cent and 3.7 per cent in the second half of fiscal 2019-20.

That would mean that the money in savings accounts would earn a negative return unless the bank restores its savings bank rate by then, which is unlikely.

In a small way, this is negative real interest rate, but the savings account holders are used to this.

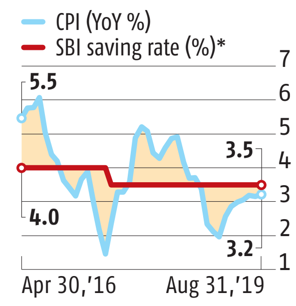
Even in September last year, savings account holders were earning negative real interest rates. The CPI inflation in September was at 3.7 per cent, whereas SBI's savings account rate was at 3.5 per cent. "People keep money in savings account for liquidity and not for returns," said a senior banker.

Broadly, negative real interest rate is calculated after deducting inflation from the policy rate. Considering that policy rate is now at 5.15 per cent, the real interest rate of the economy is still positive at 1.95 per cent.

But the savings rate's fall has a different and serious connotation for savings as a whole in the country and also for senior citizen dependent on interest earnings. At the same time, lower lending rates, essential to give a boost to growth, won't be possible if deposit rates are not low.

According to a senior SBI executive, interest rates on liabilities (deposits) have come down substantially. "It would create a challenge for banks. This is because depositors may prefer to move part of their money to avenues such as small savings schemes of the government that offer relatively higher returns," the SBI executive said. This, in turn, would mean that banks may face liquidity issue.

THE TRAJECTORY



*SB Deposit accounts with balances upto ₹1 lakh
Source: MOSPI/SBI

Banks, for a very long time, did not want to lower their deposit rates, citing high small savings rate. However, now the lenders are facing pressure to pass on the policy rate transmission. The RBI, since February, has lowered policy repo rate by 135 basis points, and have now mandated banks to link all fresh rupee loans to repo for a faster transmission. Banks, on their part, want the deposit rates to be linked to repo, too, to manage their asset-liability profile. Since they are not able to do it, the banks are now lowering their deposit rates.

Meanwhile, the argument of small savings rates is not entirely acceptable to the RBI. In a recent interview with *Business Standard,* RBI Governor Shaktikanta Das said small savings are a different class of instruments, and used for very different purposes than plain vanilla bank deposits.

"Small savings rates do play a role. But, it also needs to be seen from two different angles: one that they are a fiscal support, which the government is giving to certain needy sections. Rates are higher in the senior citizen scheme, or in public provident fund. We must also consider that the overall share of small savings schemes in total deposits is very low. Therefore, it should not play a major role as an impediment to rate cuts," Das had said.

SBI cuts deposit, lending rates starting today

The country's largest lender, State Bank of India (SBI), will cut its marginal cost of funds-based lending rate (MCLR) by 10 basis points (bps) across tenors from Thursday. Short-term retail and bulk deposits for a year to less than two years will be 10 and 30 bps lower, respectively. Savings bank deposits up to ₹1 lakh will be 25 bps less from November 1, at 3.25 per cent. The latter rate is now linked to changes in the Reserve Bank of India's (RBI's) repo rate. The one-year MCLR would come down to 8.05 per cent on Thursday, from 8.15 per cent. This is the sixth such cut in a row this financial year, SBI said.

For pricing of retail (home) loans and those to small and medium enterprises, the bank has from October 1 started using an external benchmark (RBI's repo). RBI reduced its repo rate (at which it lends to banks) by 25 bps to 5.15 per cent in October's monetary policy review.

ABHIJIT LELE

No special liquidity facility for NBFCs: RBI

NIDHI RAI
Mumbai, 9 October

Extending a special liquidity facility to non-banking financial companies (NBFCs) is not being considered, said the Reserve Bank of India (RBI).

In a teleconference with researchers and analysts, N S Vishwanathan, deputy governor at the central bank, said: "The RBI's position is that there is adequate liquidity in the system and it is for the lenders to take a view on which borrower to give money to."

He was responding to an observation on there being an extreme lack of confidence in financial markets to lend to entities with a credit rating below 'AAA'. And, that the liquidity problems faced by such entities could create further stress on the financial system, impede monetary transmission and affect growth.

The NBFC issue started after Infrastructure Leasing and Financial Services defaulted on a loan last year. The fallout impacted other major NBFCs, like Dewan Housing Finance which defaulted in July and then Reliance Capital. Last month, Altico Capital was added to the list of defaulters.

In May, RBI issued draft guidelines on a liquidity risk management framework for NBFCs and core investment companies (CICs). It is still in consultation with stakeholders on further action in this regard.

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To a question on RBI's plans regarding changes in the annual review process of banks or NBFCs, and if such changes would impact the ongoing annual review of financial year 2019, M K Jain, another deputy governor, said: "RBI has decided to revamp its regulatory and supervisory structure, and is creating a specialised cadre. Offsite supervision, as well as the analytical vertical, is being strengthened. For NBFC supervision, we have also strengthened all the core pillars — onsite supervision, offsite, market intelligence and the statutory auditor angle."

On steps to ensure stability of the financial system and on solvency at some housing finance companies, he said: "RBI makes periodic assessment of risk and vulnerability of the financial system to shocks emanating from both domestic and external adverse developments, and takes mitigating steps to enhance its resilience. Such assessments are published twice a year in the financial stability report. The vulnerability arising out of interconnectedness between banks and non-banking financial institutions forms part of the assessment."