No tax cut for software firms, miners: FM

PRESS TRUST OF INDIA
New Delhi, 5 December

Parliament on Thursday approved the Taxation Laws (Amendment) Bill, 2019, that replaces an ordinance promulgated to cut the base corporation tax rate, with Finance Minister Nirmala Sitharaman stating that mining companies, software developers, and book printers will not be eligible for the lower 15 per cent rate available for new manufacturing companies.

The Lok Sabha had this week passed the Bill and the Upper House passed it on Thursday without making any changes.

Replying to a debate on the legislation, Sitharaman said a negative list of activities that do not constitute manufacturing had been created and would not be eligible for the lower 15 per cent tax rate for manufacturing firms that are set up after October 1 and begin operations by 2023. The negative list includes the development of computer software in any form or in any media, mining, conversion of marble blocks or similar items into slabs, bottling of gas into cylinder, the printing of books or production of a cinematograph film.

She had on September 20 announced lowering of the base corporate tax rate to 22 per cent from 30 per cent for companies that do not seek exemptions, and reduced the rate for new manufacturing firms to 15 per cent from 25 per cent. Including surcharges and cesses (levies to raise funds for specific purposes), the effective corporate tax rate will drop by nearly 10 percentage points to 25.2 per cent for corporates in general and 17.01 per cent for new manufacturing companies.

The tax cut followed other measures by the government to prop up the slowing GDP growth.

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Nirmala Sitharaman
Finance Minister

These include efforts to reduce red tape and boost FDI, and plans to consolidate the state-owned banks.

Sitharaman said the reduction in corporate tax was done to make India an attractive destination for firms looking to invest outside of the US and China following their trade tensions. A lower rate of 15 per cent was offered for new manufacturing units to draw new investment, thus reviving economic activity and creating jobs, she said.

Sitharaman also promised to continue the rollout of reforms to boost the economy. GDP growth rate in Q2 slowed to a six-year low of 4.5 per cent on a slump in manufacturing and drop in consumer demand.

After demands by MPs for reducing personal income tax to provide more money in the hands of people, thereby boosting consumption, she listed out the rebates and reliefs offered during the previous five years of the Modi government but did not commit to further cuts.

She also countered the narrative of a slowdown in private consumption, saying the share of consumption in GDP rose from 56.2 per cent during 2009-2014 to 59 per cent in the first five years of the Modi government. "In the first half of 2019-20 fiscal, it was 58.5 per cent, still higher than during UPA-II," she said.

Justifying the rollback of higher surcharge on foreign portfolio investors that was introduced in her maiden Budget, she said fringe benefits tax and banking transaction tax was introduced in 2005 but rolled back in 2009 and 2008 respectively.

FM rejects elitist barb

Finance Minister Nirmala Sitharaman on Thursday cited her government's efforts to control onion prices as also its schemes such as free cooking gas to poor women and financial inclusion programme of Jan Dhan Yojana to say the Modi regime was not pompous.

During the debate in the Rajya Sabha on the Taxation Laws (Amendment) Bill, 2019, she was attacked by the Opposition for being 'elitist' and not sympathetic to woes of common man who faced the brunt of spike in onion prices during recent months. She said only her comment of not coming from a family that doesn't have much to do with onion was taken out from her reply in the Lok Sabha but not her 20-minute articulation of steps taken to tackle the surge in prices.

"Criticism of the economy is welcome... this government is continuously responding and steps are being taken. You may like it or you may not like it. You may think it is adequate or inadequate, I am quite willing to buy that. But not an allegation that this government is elitist. Was (free LPG connection scheme) Ujjaala for elitist? Jan Dhan Yojna is it for elitist? PM Awas Yojana is it for elitist? So Ayushman Bharat is that for elitist?" she asked.

BI-MONTHLY MONETARY POLICY REVIEW

Client exposure norms for UCBs to be tightened

ABHIJIT LELE
Mumbai, 5 December

The Reserve Bank of India (RBI) said on Thursday it would revise regulatory guidelines to make urban co-operative banks (UCBs) with assets of ₹500 crore and above to report information on large credits.

The move comes in the wake of an alleged fraud at Punjab and Maharashtra Co-operative (PMC) Bank involving a large real estate firm.

The RBI, in its developmental and regulatory policies, said it would amend the guidelines for UCBs to reduce concentration risk in exposures, priority sector lending and strengthen their role in promoting financial inclusion.

State Bank of India Chairman Rajnish Kumar said the regulatory steps for the primary (urban) co-operative banks would facilitate increased public confidence in these institutions.

These measures are expected to strengthen the resilience and sustainability of UCBs and protect the interest of depositors. It will give appropriate time frame to comply with the revised norms and will issue a draft circular proposing the above changes, the central bank said.

The RBI has created a central repository of information on large credits (CRILC) of scheduled commercial banks and financial institutions to strengthen offsite supervision and early recognition of financial distress.

It will bring UCBs with assets of ₹500 crore and above under the CRILC framework to build a similar database of large credits extended by UCBs. Detailed instructions in this regard will be issued by December 31.

Satish Marathe, director on RBI board and a cooperative bank expert, said UCBs did not have information about the exposure the commercial banks have to their client (big ticket borrower). The move to limit single and group exposure is apt, as exposures are more compared to their appetite, Marathe said.

To fortify urban banks against cybersecurity risks, the RBI will prescribe a framework based on factors such as digital depth and interconnectedness with the payments systems and digital products offered.

The framework will mandate implementation of progressively stronger security measures, strengthening the cybersecurity incident reporting mechanism and setting up of security operations centre.

Report on PMC likely this month

A forensic audit is underway at Punjab and Maharashtra Co-operative (PMC) Bank and the final report is expected by the end of December, said RBI Governor Shaktikanta Das. Simultaneously, PMC Bank, with the help of professional valuers, is assessing the realisable value of assets that have been mortgaged by companies, which have availed of loans and other assets identified by the economic offences wing of the Mumbai Police and the Enforcement Directorate (ED).

We have also put in place a coordination mechanism among players involved — the bank administrator, ED, Economic Offences Wing, RBI — to monitor the situation regularly and take steps for monetisation of these assets. A call will be taken on further course of action once the RBI gets the report and a number (the realisable amount that can be obtained from the mortgaged securities). ABHIJIT LELE

RBI raises P2P lending cap fivefold to ₹50 lakh

NIDHI RAI
Mumbai, 5 December

The Reserve Bank of India (RBI) on Thursday raised aggregate exposure of a lender to borrowers across non-banking financial company (NBFC) peer-to-peer (P2P) platforms by fivefold at ₹50 lakh.

The move is aimed at giving an impetus to lending platforms.

"A review of the functioning of lending platforms and lending limit was carried out and it has been decided that in order to give the next push to the lending platforms, the aggregate exposure of a lender to all borrowers at any point of time, across all P2P platforms, shall be subject to a cap of ₹50 lakh," the RBI said.

The cap on exposure of a single borrower, however, remains at ₹50,000 across such platforms.

Market players have welcomed the decision, saying it will give much-required fillip to the segment. Bhavin Patel, co-founder and chief executive officer of LenDenClub, said: "Now, P2P lending stands equal against other investment options such as mutual fund, fixed deposit, bonds, and portfolio management service."

Abhishek Gandhi, co-founder and chief financial officer of RupeeCircle, said the move reflected the RBI's trust in P2P lending to resolve the problem for existing credit gap in the market. The announcement should definitely attract more investors towards P2P platforms."

"Also, we expect the existing investors on our platform to scale up investments. More high-networth individuals would now look at P2P lending as an investment option, which is a very positive sign for the industry," said Gandhi.

The central bank also did away with the requirement of escrow accounts operated by a bank trustee for transfer of funds. "This will help provide more flexibility in operations," it said.

Gadkari rues hurdles faced in road projects

PRESS TRUST OF INDIA
New Delhi, 5 December

Union Minister Nitin Gadkari expressed regret in the Lok Sabha on Thursday over hurdles like land acquisition and environment clearance faced by various road projects, saying the country must have a positive approach towards development.

Gadkari also asked all MPs to remain aware about road projects in their respective constituencies and help in resolving problems coming on the way of constructing roads and bridges.

"Everyone says 'stop the work'. No one says 'do the work'. The country has to have a positive approach and attitude towards development projects," he said during the Question Hour.

Describing the process of acquiring land and environment clearance as the major hurdles, the Union road transport and highways minister said environment and development have to go together.

"I am pro-environment. But environment and development have to go side by side," he said. The minister said the government of India had approved Bharatmala Pariyojana Phase-I in October 2017 with an aggregate length of about 34,800 km (including 10,000 km residual NHDP stretches) at an estimated outlay of ₹5,35,000 crore for development of various road projects.

Week on, no portfolio allocation to ministers

PRESS TRUST OF INDIA
Mumbai, 5 December

A week after the formation of the Maha Vikas Agadhi government in Maharashtra, portfolios to ministers who were sworn-in along with Chief Minister Uddhav Thackeray were yet to be allocated, prompting the opposition BJP to slam the ruling coalition for the delay.

BJP leader Ashish Shelar on Thursday criticised the MVA government led by Thackeray for failing to allocate portfolios to half a dozen ministers who took oath a week ago.

However, two of the new ministers said portfolios will be allocated in a day or two.