FINANCE SECRETARY SAYS GOVT TRYING TO MAKE FINANCIAL SYSTEM STRONG

# 'LIC IPO timing, size to be decided ... will be completed over next one year'

SUNNY VERMA & SANDEEP SINGH
NEW DELHI, FEBRUARY 2

"We are moving strategically and are are creating institutions where we are putting money upfront and others can also come in"

RAJIV KUMAR, FINANCE SECRETARY

STATING THAT while the listing of Life Insurance Corporation (LIC) would be a long process involving legislative changes, Finance Secretary Rajiv Kumar said the government would be able to complete it over the next one year.

"The timing and size of issue will be decided later and to come out with its issue, changes in regulation and Act would be required and even Sebi approval will be required. We should be able to complete it over the next one year," said Kumar. He added it won't be part of the Finance Bill as it is not a money bill and will come later. The government will have to first amend the LIC Act of 1956 before taking the Corporation public.

The Budget has taken measures to boost liquidity in the economy and raise funding for micro, small and medium enterprises (MSMEs), Kumar said. These steps including galvanising investment in the infrastructure sector, invoice financing and facility of subordinate debt for MSMEs, clear direction on selling government stake in IDBI Bank and legislation on credit default Swaps.

Justifying the government's decision to go for an only 0.5 per cent breach in fiscal deficit in a bid to push growth, Kumar said while the Centre made available Rs 1 lakh crore through the breach in deficit, its decision to escrow Rs 22,000 crore into NIIF and IIFCL will see a significant benefit. "We can leverage it by 10 times and can raise around Rs 2 lakh crore ... We are moving strategically and are are creating institutions where we are putting money upfront and others can also come in," he said.

Kumar said if the government had breached the fiscal deficit by another 0.5 per cent, it would have got an additional Rs 1 lakh crore, but by leveraging its investment in the two institutions it will create Rs 2 lakh crore. "We are trying to make the financial system strong, opening it up, making the legislative changes and removing fears from wherever there was and linking it to performance and giving this money upfront from the fiscal deficit itself in these two institutions to leverage it," he said.

Talking about another key reform introduced in the Budget, Kumar said the Centre has introduced a pension reform in the form of a bill for the welfare of the youth and to build a pension society. He said the idea is to ensure that even if a young employee shifts a job quickly, his account should get transferred to the new place and thus it should not be interruptible. "There are many private pension funds which are run by trusts and will be regulated by PFRDA," he stated.

While the government proposed to increase deposit insurance cover from Rs 1 lakh to Rs 5 lakh, Kumar said the decision was a tough one. "If you remove the current account and big corporates, then around 80-85 per cent are under Rs 5 lakh and therefore, we got this increased from Rs 1 lakh to Rs 5 lakh in one go."

He said by doing so, it has now been assured that the systems in the financial sector are robust as far as commercial banks are concerned. After the collapse of PMC Bank, there has been a demand from several quarters that the DICGC — the RBI subsidiary that gives insurance cover to bank deposits up to Rs 1 lakh — should hike the coverage cap.

The Finance Secretary said even as it has been done for banks, now co-operatives are left and that requires little more robustness. "While they play an important role in credit outreach at lower level, ... when you are doing banking and you deal with depositors' money, then you have to follow similar rigour in terms of capital, corporate governance and other compliances as banks do. That is the amendment in the Banking Regulations Act," he said.

INTERVIEW WITH REVENUE SECRETARY

# 'Progressive, graded income tax system considered to be one of the best practices'

THE NEW income tax regime, announced in the Union Budget for 2020-21 on Saturday, would offer to a certain strata of society, which are not in a condition to invest enough to claim deductions and exemptions, a more equitable system of direct taxation, Revenue Secretary AJAY BHUSHAN PANDEY said in an interview. Speaking to AANCHAL MAGAZINE and PRANAV MUKUL, Pandey said a progressive and graded income-tax system is internationally considered to be one of the best practices, and differs from the indirect tax system, where the aim is to lower the number of tax slabs to reduce complexities. Edited excerpts:

Ajay Bhushan Pandey

**The new income tax regime is being seen as a nudge by the government to spend. Are you disincentivising savings?**

Not necessarily. Say, if I want to save, I will opt for the other option. So actually it is providing relief to those who — because of family circumstances or life situations — are not availing those exemptions, or they are not in a position to avail those exemptions. If the earlier system was inequitable to that section of taxpayers, then why should they suffer?

Therefore, we have provided relief. I'll give you an example: if you look around, for someone who has just joined the workforce, he is living as a paying guest, he's just started a job, he doesn't know where he will live, whether he will buy a house, so he has no housing loan. He's not taking any other benefits He's contributing a certain amount in the EPF. So, to that extent, he will take the benefit, he will take some nominal health insurance. Such a person will find this new scheme attractive. So, we are not saying that all those who are claiming exemptions will opt for the new regime, because there is a catch depending on one's income level.

**But you have a road map of doing away with the exemptions.**

The Finance Minister has said that we have removed around 70 of the exemptions in the new simplified regime. We will review or rationalise the remaining exemptions and deductions in the coming years with a view to further simplify the tax system and lowering the tax rate.

So she's talking about the simplified system. The other system will continue. As of today, if we had to remove exemptions, we could have removed it from the older regime.

**But there will be a gradual removal ...**

Yes, in this system.

**But there's no plan to remove exemptions in the old regime?**

As of today, there is no plan. We have provided this new option and if, say, 90 per cent of people shift to the new system, then what is to be done with the 10 per cent? We will see at that time. Why should we indulge in speculation today?

**Since March 31 is the deadline for the first window under the Vivad Se Vishwas scheme, is there any estimate for this fiscal and in the Budget?**

There are two purposes for this scheme. One purpose is to reduce litigation and provide relief to as many people as possible. In the process, you will obviously get revenue but we are more driven by how many people are given relief than actually getting into how much money we will get.

**What will be the penalty under the scheme after March 31?**

There is a penalty of 10 per cent. So if earlier the tax was Rs 1 crore, (someone coming after March 31) will pay Rs 1.10 crore. Similarly, if it was only interest and penalty, we have said that you should pay 5 per cent on that. So if it was 25 per cent, he will pay 30 per cent.

**The Budget mentions transfer of GST balances to compensation fund. Where was the balance till now?**

In 2017-18, certain money for compensation was collected but our compensation requirement was less. So that money, at that time, went to Consolidated Fund of India. So, now the money has to be taken out of the Consolidated Fund of India and put into the Compensation Fund. The balance in 2017-18 and 2018-19 was approximately Rs 35,000 crore.

**There is concern that income from dividends being taxed could lead to a section of companies not giving dividends at all ...**

There used to be a demand from the industry for removal of dividend distribution tax and a switch to the classical system. Now that we have switched to the classical system, they are saying these things. The dividends are distributed on the basis of a company's needs for investment. If the company feels that the money needs to be reinvested, dividends will not be given. Dividends are not given on the basis of the taxation principle. Once the company has decided the dividend amount, it will have to be distributed and whoever receives it will pay at the applicable rate.

**In GST, focus is on simplifying by moving towards lesser number of slabs. But in income tax, on the contrary, the number of slabs have been increased ...**

In GST, having multiple slabs is different from having multiple slabs in income tax. I have a list of countries, which have six to seven slabs. The slabs are dependent on income distribution. If you have a flat tax rate, it becomes inequitable in the way that you are taxing the rich and poor ... Having a few tax slabs also becomes inequitable because there is a sudden jump ... and there will be a tendency to understate income to get to a lower slab. Therefore, a progressive taxation system in income tax is internationally considered to be one of the best practices. In the US, there are six slabs of income, and in China, there are seven slabs of income. We have studied practices of Malaysia, Thailand, Indonesia, Vietnam and several countries.

If you have more income range, you need as many slabs as possible to prevent people from getting a shock when they move from one slab to another. In GST, multiple slabs create a problem because the same input is going into manufacture of five different goods, which are being taxed at different rates. However, if the level of income inequality is high in a society, it is much more simple and desirable to have multiple and graded income tax structure.

DIVIDEND TAX

# Equity mutual fund investors may switch to growth plans

ENS ECONOMIC BUREAU
MUMBAI, FEBRUARY 2

**While the Budget also proposed a 10 per cent tax would be deducted at source for 'income' above ₹5,000 in a year, there is a lack of clarity on whether the levy would be only on dividend income or overall equity returns**

BUDGET PROPOSALS to abolish dividend distribution tax (DDT) and make dividend income taxable in the hands of individuals will benefit debt fund investors who are in the lower tax bracket, analysts said. The move could also lead to a churn in the mutual fund industry with investors likely moving from dividend plans to growth plans of equity mutual funds.

While the Budget also proposed a 10 per cent tax would be deducted at source for 'income' above Rs 5,000 in a year, there is a lack of clarity on whether the levy would be only on dividend income or overall equity returns.

According to SR Patnaik, partner & head—taxation at Cyril Amarchand Mangaldas, for the amount investors get as dividend, they will be required to pay tax depending on the tax bracket. "If the amount of dividend is less than Rs 5,000, mutual fund will not withhold anything but if it's more than Rs 5,000 they will withhold 10 per cent," he said.

For example, if an investor gets a dividend of Rs 10,000 in a year, Rs 9,000 (10 per cent of Rs 10,000) will be credited to their bank account and they will be able to claim credit of Rs 1,000 for the tax withheld by the MF while filing their tax returns. MF players feel this could also increase their compliance cost going forward. "With this announcement, dividend plans of MFs will get less attractive than growth plans. For example, if we look at equity funds, investors will get more benefits staying in growth plan rather than opting for dividend plans," a leading fund house's CEO said. **FE**

# Scrapping of anti-dumping duties on PTA will boost exports: Industry

PRABHA RAGHAVAN
NEW DELHI, FEBRUARY 2

THE GOVERNMENT'S decision to abolish anti-dumping duties on a raw material for synthetic fibre-based clothing and certain plastic-based products will bring down their manufacturing cost and potentially boost exports, say manufacturers. The move, announced "in public interest" in the Budget Saturday, does away with a previous NDA government decision to block countries like China, Taiwan, Malaysia, Indonesia, Iran, Korea and Thailand from substantially exporting the material — purified terephthalic acid (PTA) — to India.

It also follows "persistent" demand "for quite some time" from several industries to allow them to source the product at a more affordable rate.

"That particular product (PTA) is a raw material for many industries. There has been persistent demand that they should be allowed to source that particular product at an affordable rate, even if it means importing it," said Sitharaman.

"We had a look at it, many had been waiting for it (to be removed). We thought at this time that when many industries are dependent on imported raw materials that we are allowing so many others to come in, why not allow this," she said. The minister had said in her

EXPLAINED

**Focus on exports, competitiveness**

THE REMOVAL of the anti-dumping duty would greatly help the country to enhance the global competitiveness, boost exports and also enable the domestic manufacturers to compete with the cheaper imports.

Budget speech that easy availability of this "critical input" at "competitive" prices was desirable to unlock "immense" potential in the textile sector, seen as a "significant" employment generator.

The move may cut prices of PTA by as much as $30 per metric tonne of the product, according to RK Vij, general secretary of the PTA Users Association.

"We have been fighting for the last four-and-a-half years (to abolish the anti-dumping duty)," he told *The Indian Express*. The duties had led to downstream manufacturers of synthetic fabrics operating at only 70 per cent of their actual capacity, he said.

While India has a few domestic PTA producers like Reliance Industries and the Indian Oil Corporation, synthetic fabric makers have faced shortages of PTA on several occasions, Vij argued.

"Exports of these downstream products have dropped and, in some cases, their imports have risen as it is cheaper to procure them from outside India," he said.

The anti-dumping duties, first imposed around July 2014, levied additional charges between $27 to $160 per metric tonne for those wishing to import PTA, according to the Southern India Mills' Association. Data from the Commerce Ministry shows exports of some products made with PTA like polyester staple fibres (used to make synthetic yarn) dropped over 35 per cent to $197 million in 2015-16 from $309 million in 2013-14. In 2018-19, India exported $320 million worth of this product. Exports of textured yarn of polyesters dropped 19 per cent to around $680 million in 2015-16 from around $842 million 2013-14, before growing to around $832 million last financial year.

"This (removal of the anti-dumping duty) would greatly help the country to enhance global competitiveness, boost exports and enable domestic manufacturers to compete with cheaper imports," said Ashwin Chandran, chairman of SIMA, Coimbatore.

BRIEFLY

## ONGC, IOC, others to invest ₹98,521 cr

*New Delhi:* ONGC, IOC and other oil PSUs will invest over Rs 98,521 crore in the coming fiscal in exploring for oil and gas, refineries, petrochemicals and laying pipelines to meet needs of the world's fastest growing energy consuming nation.

## Budget exempts income of ISPRL from tax

*New Delhi:* After exempting foreign companies, Budget 2020-21 exempted income of Indian Strategic Petroleum Reserves from taxes on transaction of crude oil stored in the underground caverns it built as country's strategic stockpile. **PTI**

## China to inject $174 bn into markets

*Shanghai:* China's central bank said it will inject 1.2 trillion yuan ($174 billion) worth of liquidity into the markets on Monday as its stock markets prepare to reopen amid an outbreak of a new coronavirus. **REUTERS**

# '3.8% fiscal deficit target looks ambitious'

The revised 3.8 per cent fiscal deficit for FY20 looks ambitious as it is based on projected 18 per cent rise in tax collections against a paltry 5.1 per cent higher realisation so far, SBI Research said in a report

**₹65,000 cr:** Expected amount to be raised via divestment through the next two months, on which the revised deficit target hinges

**₹17,800 cr:** Divestment proceeds so far, as against the Rs 1.05-lakh crore budgeted target — one of the lowest in recent years

**₹32,335 cr:** Jump in non-tax revenue, equivalent to around 20 basis points of fiscal deficit, possibly reflecting AGR payments/interim dividend from RBI in lieu of telecom

**50 BPS:** Permissible deviation used in the Budget for 2020-21, under Section 4(3) of the FRBM Act to widen the fiscal deficit at 3.8 per cent of GDP

**₹2.60 LAKH CRORE:** Shortfall in revenue, of which states are losing ₹1.09 lakh crore

**>₹1.1 LAKH CRORE:** GST mop-up in January, which crossed the ₹1 lakh crore-mark only the second time in the fiscal after April

**10%:** Projected nominal GDP growth for FY21

*Source: SBI Research/PTI*

# DPIIT working on guidelines for National Seed Fund: Mohapatra

PRESS TRUST OF INDIA
NEW DELHI, FEBRUARY 2

THE DEPARTMENT for Promotion of Industry and Internal Trade (DPIIT) is working on guidelines for a National Seed Fund that was announced in the Budget for 2020-21 to help start-ups and budding entrepreneurs, a top government official said.

DPIIT Secretary Guruprasad Mohapatra said that most of the start-ups actually face problem in raising finance or funds in the ideation to the proof of concept stage. He said that now the finance minister has announced a proposal in the Budget on Saturday for providing seed fund to start-ups, the department will work on this. Finance Minister Nirmala Sitharaman proposed to provide early life funding, including a seed fund to support ideation and development of early stage startups.

"So now we will move a Cabinet note and create a fund and guidelines in this regard," Mohapatra told *PTI*.

He said that the department will work on a National Seed Fund policy and creation of the fund.

In their interactions with the department, start-ups have time and again demanded formulation of a national seed fund scheme.

# FPIs stay net buyers for 5th straight month in January

PRESS TRUST OF INDIA
NEW DELHI, FEBRUARY 2

FOREIGN INVESTORS pumped in over Rs 12,000 crore in stock markets in January, remaining net buyers of Indian equities for the fifth month running, helped by easing concerns pertaining to tension between the US and Iran coupled with US-China trade war.

In the equities segment, foreign portfolio investors (FPIs) invested Rs 7,547.8 crore in September, Rs 12,367.9 crore in October, Rs 25,230.6 crore in November and Rs 7,338.4 crore in December.

# WeWork appoints real estate industry veteran Mathrani CEO

REUTERS
BENGALURU/NEW YORK, FEB 2

SOFTBANK-BACKED OFFICE sharing firm WeWork named real estate industry veteran Sandeep Mathrani as its new chief executive officer on Saturday.

Mathrani will join the company as the CEO from Feb. 18, 2020 and will report to Marcelo Claure, who will remain as executive chairman, the company said in a statement.

Mathrani succeeds co-CEOs Sebastian Gunningham and Artie Minson, WeWork said.

Both Gunningham and Minson will remain with the company at least through a transition period to ensure a smooth onboarding process, the company said. The CEO search was handled by the WeWork board without an external executive search firm, the sources said, adding that a couple of search firms were initially considered. WeWork did not immediately respond to requests for comment.

Mathrani will bring much-needed real estate experience to WeWork. He is the former chief executive of Brookfield Properties' retail group, and prior to that he was an executive at real estate firms including Vornado Realty Trust. Brookfield declined to comment.

# India Inc reports flat revenues, muted profits in Q3

ENS ECONOMIC BUREAU
MUMBAI, FEBRUARY 2

**Sales for a group of 431 companies contracted 1 per cent year-on-year**

INDIA INC'S performance for the three months to December 2019 has been abysmal with companies struggling to grow revenues.

Maruti Suzuki's net revenues, for instance, rose by just 5 per cent year-on-year (y-o-y) with the carmaker reporting only a 2 per cent rise in volumes during a festive period. At Asian Paints the growth in domestic decoratives was a dull 3 per cent y-o-y since volumes grew in low double digits that implied realisations must have weakened. At the other end of the spectrum, L&T reported a 3 per cent y-o-y fall in core E&C revenues. Even where volumes grew reasonably well, like at Godrej Consumer's local operations, the sharp fall in realisations resulted in revenues growing by just 1 per cent y-o-y.

Profits are up but that's more thanks to falling costs and lower tax outflows. At Bajaj Auto, the Ebitda margin expanded 230 basis points y-o-y on better gross margins led by lower raw material prices. But managements remain cautious as prices of some key commodities are rising whereas demand, especially in rural India, remains weak and key sectors like construction and real estate show no signs of recovery.

Given the slowdown in markets overseas, managements of IT firms like TCS are conservative while speaking on the outlook, noting that it would not be easy to replicate the growth rates of the past. That State Bank of India's corporate loan book contracted during the quarter is evidence of the sluggishness in industry. Sales for a group of 431 companies contracted 1 per cent year-on-year; operating profit margins rose 132 basis points y-o-y as costs contracted by over 2 per cent y-o-y. Some large companies like JSW Steel posted a sharp drop in profits of 88 per cent y-o-y.

Manufacturers of consumer goods say rural demand is yet to show a resurgence, and in some pockets, has slowed more. Hindustan Unilever managed to grow volumes by 5 per cent y-o-y in Q3FY20 on a high base. **FE**