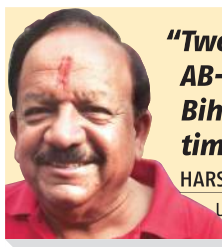


"Two big states (Punjab & Rajasthan) have joined AB-PMJAY only in late 2019. Large states (UP, MP, and Bihar) are implementing the scheme for the first time and hence, their demand is still picking up"

HARSH VARDHAN
Union health minister

"Prime Minister Narendra Modi and Delhi Chief Minister Arvind Kejriwal are not interested in jobs for youngsters, but are keen on making one Indian fight another for staying in power"

RAHUL GANDHI
Congress leader

"When ministers come out to the streets holding guns, then what lies ahead for the country? We do not know what will happen tomorrow"

MAMATA BANERJEE
West Bengal chief minister

LIC STAFF HOLD STRIKE AGAINST IPO

Employees of LIC staged a walkout in Mumbai on Tuesday to protest against the government's move to sell its stake through an IPO. More than 1.2 million agents will strike work for two hours on Wednesday and stage a protest in Delhi next month

PHOTO: KAMLESH D PEDNEKAR

New rules to hit dividends from foreign subsidiaries

Rewriting dividend taxation norms may result in double taxation, say experts

SACHIN P MAMPATTA & ADITI DIVEKAR
Mumbai, 4 February

The rewriting of dividend taxation rules may have an impact on dividends received from the foreign subsidiaries of domestic companies.

Easier rules of taxation applicable earlier have changed, potentially leading to double taxation on the amount received from foreign subsidiaries and distributed by their parent companies to shareholders, according to experts.

Dividends received by Indian companies from foreign subsidiaries have been subject to a concessional tax rate of 15 per cent, said Pranav Sayta, national leader, International Tax and Transaction Services, EY India. When the parent firm further paid out dividends to its shareholders, dividend distribution tax only applied to that amount and excluded the dividend from the foreign subsidiary. This avoided double taxation.

For example, consider a parent company which received ₹70 from its foreign subsidiary and paid out ₹100 in dividends.

Dividend distribution tax in FY20 would only be applicable after deducting ₹70 received from the foreign subsidiary, meaning 20.56 per cent DDT would be paid only on ₹30. Only shareholders earning dividend of over ₹10 lakh a year would pay an additional 10 per cent tax in FY20. "Now all of that is gone," Sayta said.

Under the new rules, the dividend on the entire ₹100 would be taxable at the marginal rate for the parent firm's shareholders.

Some of its shareholders in the highest tax bracket would end up paying a tax of 42.7 per cent. This would involve the dividend being taxed twice.

Tushar Sachade, partner-tax and regulatory services, PricewaterhouseCoopers, too, pointed out that there was a kind of cascading credit, provided for dividends paid by Indian companies, which took into account dividends received from foreign subsidiaries.

Dividends from a foreign subsidiary were taxed at 15 per cent, however, if the parent were to pay dividends, it was not required to pay DDT (on foreign dividends).

"Now in case of a foreign subsidiary, there is double taxation. If the Indian parent receives dividend, it pays tax when it declares dividend; the recipient also pays tax," he said.

Indian companies have made several foreign acquisitions over the years. For example, Aditya Birla Group's metal sector major Hindalco Industries acquired global aluminium player Novelis in 2007. Similarly, Tata Steel acquired UK-based Corus in 2007.

Any dividends received from such acquisitions would potentially be subject to higher taxes.

Tata Steel's operations outside India many a time have not been in a position to pay dividends. Hindalco, too, is not looking to return capital at this point, according to a source.

"We have not taken any dividend from Novelis for several years. In any case, we do not look at Novelis as a subsidiary which is (at a stage) to give us dividends. We want to simply grow the company. But going ahead, if we take dividends from Novelis and if that situation arises, we will study the tax implications," said the source.

Spokespersons for the companies mentioned above did not respond immediately to a request for comment on the new tax rules.

The removal of DDT, announced in the Budget, was seen as a positive by some quarters as it ensured that foreign shareholders could get credit for taxes paid on dividends. This also means that companies no longer have the compliance burden of deducting the tax. Tax is now to be paid by the recipient at the applicable rate, instead of the flat DDT rate of 20.56 per cent.

TAX WOES

- **Foreign subsidiary dividends** taxed at 15% in FY20
- **Dividend distribution** tax calculation excluded such income
- **New regime requires** tax in hands of recipients
- **Foreign subsidiary now taxed** in hands of parent, and again on redistribution
- **Leads to** double taxation

PNB back in red, net loss at ₹492 crore

SOMESH JHA
New Delhi, 4 February

Punjab National Bank (PNB) slipped into losses in the third quarter of 2019-20, posting its first quarterly loss in over a year ahead of its planned merger with two other public sector banks (PSBs).

PNB's net loss stood at ₹492.3 crore in October-December 2019, compared to a net profit of ₹507 crore in the previous quarter.

A big jump of 73 per cent in provisioning for bad loans, from ₹2,565 crore in the same quarter in the previous financial year to ₹4,445 crore, affected the profitability of the second-largest PSB.

PNB was in the red last in the September quarter of 2018-19, when its net loss was ₹453 crore. In the third quarter of this financial year, the bank's net interest income (difference between interest earned through lending and interest paid to depositors) remained flat at around ₹4,355 crore from a year-ago period.

The bank's fresh slippages — the amount of loans that turned from good to bad — doubled to ₹6,783 crore from ₹3,324 crore in the same quarter last year. More than 50 per cent of the fresh slippages happened in agriculture (₹2,100 crore) and the micro, small and medium enterprises (MSME) sectors (₹1,400 crore). The bank had to provide for ₹1,189 crore towards housing finance company Dewan Housing Finance Corporation.

The bank has an exposure of around ₹1,000 crore towards Vodafone Idea, which will add to the stress. The bank is expecting fresh NPAs of ₹3,000 crore in the next two quarters, mostly on account of stress in agriculture and MSME accounts.

"Cases worth ₹8,800 crore will come up for resolution in bankruptcy courts in the fourth quarter and we expect a recovery of ₹3,000 crore from these accounts," PNB Managing Director and Chief Executive Officer S S Mallikarjuna Rao told *CNBC-TV18* on Tuesday.

Q3 SCORECARD

In ₹ cr

	Oct-Dec 2018	July-Sept 2019	Oct-Dec 2019
Total income	14,854	15,557	15,967
Total expenditure	11,754	11,995	122,045
Provisions towards bad loans	2,566	3,253	4,445
Profit/loss before tax	346	633	-383
Net profit/loss	346	507	-493
% of net NPAs	8.22	7.65	7.18
% of gross NPAs	16.33	16.76	16.3

Source: Punjab National Bank

Stress in wholesale book of NBFCs to rise further: CRISIL

Realty exposure of non-banking financial companies (NBFCs), which is out of moratorium, has a bad loan ratio of over 10 per cent as of September 2019 and the fear is rest of the book under moratorium may go the same way, said rating agency CRISIL. About 30 per cent of the realty book of NBFCs has come out moratorium while 40 per cent of the exposure is still0 under moratorium. The bad loan ratio of the realty portfolio of NBFCs was 1.8 per cent as of March 2019 and by September it almost doubled to 3.3 per cent. CRISIL said the overall NPA ratio of NBFCs can rise by 30-150 basis points, depending on the asset class as stress in the space is inching amidst the challenging economic environment. SUBRATA PANDA

ADJUSTED 90+ DPD FOR THE REAL ESTATE PORTFOLIO (in %)

	Share to AUM	19 Mar	19 Sep
Book in moratorium	40	0%	0%
Lease rental discounting	30	<0.5	<0.5
Book out of moratorium	30	5.8	10.2
Reported NPA		1.8	3.3

FinMin to assuage concerns of rating agencies: DEA secy

The finance ministry has said it will try to assuage concerns of rating agencies on opting for higher deficit and other Budget numbers while stressing that fundamentals of the economy are strong. Department of Economic Affairs Secretary Atanu Chakraborty said the Indian economy remains robust and more than meets the requirement of investment grade and above. PTI

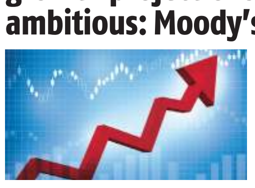
FDI at $34.9 billion till November of this fiscal year

Foreign Direct Investment in India has been increasing on an annual basis and was at $34.90 billion till November of this fiscal year, government informed the Parliament on Tuesday. PTI

CSB Bank's pre-tax profit up multiple fold to ₹42.4 crore

Fairfax-backed CSB Bank's profit before tax (PBT) rose by multiple fold to ₹42.4 crore in the December quarter, from ₹1.6 crore during the same period last year. BS REPORTER

India's economic growth projections ambitious: Moody's



Moody's Investors Service on Tuesday said economic growth projections made by Finance Minister Nirmala Sitharaman in her Budget for 2020-21 appear ambitious given the structural and cyclical challenges facing the Indian economy. The Budget expects nominal GDP growth of 10 per cent in 2020-21, followed by 12.6 per cent and 12.8 per cent in FY22 and FY23. PTI

Looking to create air defence command to cover aerial ops: CDS

The armed forces are likely to collaborate and create an 'air defence command' to cover all aerial operations taking place in the Indian airspace, a 'peninsula command' to look after all naval operations in the closer Indian Ocean region, and a 'logistics command', said India's first chief of defence staff (CDS) General Bipin Rawat on Tuesday. PTI

Govt pegs GST lottery rewards at up to ₹1 crore

CBDT chairman clarifies taxpayers can switch between new and old regime

DILASHA SETH
New Delhi, 4 February

Interim chairman of the Central Board of Indirect Taxes and Customs (CBIC) John Joseph said the government was working on a lottery scheme for goods and services taxpayers, where the winning amount may range from ₹10 lakh to ₹1 crore.

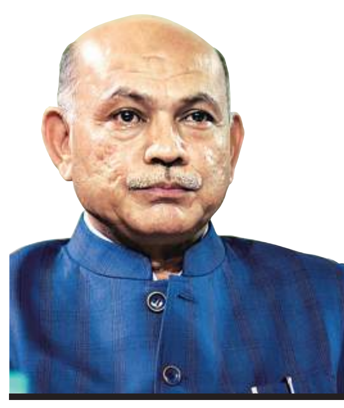
This is being done to improve compliance and boost collections that have been lagging in the current fiscal year on account of the economic slowdown and fake invoices.

"Every GST bill of a taxpayer will be a price winning lottery ticket," said Joseph.

The lottery scheme will be on the lines of what the Delhi government had under the value-added tax (VAT) regime for consumers, said the official. The Delhi government had introduced the 'Bill Banao, Inaam Pao' scheme in 2015 during the VAT regime.

According to the scheme, a customer was eligible for a prize of five times the taxable value subject to a cap of ₹50,000, if he made a purchase from a registered dealer. About ₹5.65 lakh of reward amount was distributed to customers who participated in the scheme.

Meanwhile, during a post-Budget interaction with industry, Central Board of Direct Taxes (CBDT) chairman P C Mody on Tuesday said that unlike corporates, individual taxpayers will have the flexibility to switch between the new and old income tax rates on a year-to-year basis.



"I THINK TIME HAS COME FOR A RELOOK AT THE ENTIRE SYSTEM. YOUNGSTERS, WHO HAVE NOT GOT USED TO DEDUCTIONS AND EXEMPTIONS, WILL FIND THE NEW TAX REGIME ATTRACTIVE"

P C MODY, CHAIRMAN, CBDT

He added that the government wants to phase out all exemptions and deductions that a taxpayer gets in a staggered manner.

Propagating benefits of the new tax regime unveiled by finance minister Nirmala Sitharaman on Saturday, Mody said even the salaried class will benefit from the option of the lower tax regime. This is in lieu of exemptions and deductions and it was time to relook at the entire system.

"Taxpayers will be able to switch between the old and new personal income tax rates on year-to-year basis. The tax structure has been made simple. I think time has come for a relook at the entire system. The younger people, who have not got used to the deductions and exemptions, will find it attractive to go for a lower rate," Mody said at an Assocham event.

The option to switch between the two rate regimes is available only to the individual and Hindu undivided family (HUF) categories that do not have a business income.

The Budget memorandum has specified that those having a business income will not be allowed to revert to the old regime, once they have switched to a lower tax regime.

Sandeep Sehgal, director, tax & regulatory, Ashok Maheshwary & Associates LLP, said the option to switch from the old to new regime and vice versa may not be beneficial for majority of middle-class taxpayers. This is because they would be claiming deductions and exemptions for recurring investments/expenses like health and life insurances, tution fee for their children, home loan and house rent allowance, among others.

"However, this option would serve millennials well as they may not be committed initially to these expenditures and are in a better position to evaluate from year to year which particular slab would save them more tax," he added.

'Budget strikes right balance between growth push & fiscal discipline'

Chief Economic Advisor **KRISHNAMURTHY SUBRAMANIAN** said the hikes in Customs duty in the Budget were not protectionist as they were aimed at finished goods and not raw material. Speaking to **Arup Roychoudhury** and **Dilasha Seth**, Subramanian said that fiscal year 2020-21 (FY21) targets were transparent and realistic. Edited excerpts:

Q&A

Though you have expanded your FY20 and FY21 fiscal deficit targets, compared to earlier estimates, it was still a fiscal contraction year-on-year (YoY). Should there have been a bigger stimulus?

This is the beauty of comparisons. When you use different benchmarks, the same comparison can have different meaning. So, at least for me, the way I would look at it is that before the Budget, we were actually looking at 3.3 per cent for this year and 3 per cent for next year. And we have taken the Fiscal Responsibility and Budget Management (FRBM) Act relaxation of 50 basis points to go from 3.3 per cent to 3.8 per cent for this year, and 3 per cent to 3.5 per cent for next year. That's the way I look at it.

Now, many have commented on whether there should have been a greater stimulus push. In the Economic Survey, what we basically said is in this delicate balance between fiscal prudence and a spurt to growth, we said we need to lean on growth, we did not say put your full weight on growth. Because, if you look at the experience from 2009-10, when after the global financial crisis we let fiscal deficit go up indiscriminately, we had the taper tantrum in 2013 and India became part of the fragile five.

As they say, if you don't learn from history, [you] are condemned to repeat it. So, the worry this time was that if we go for indiscriminate fiscal expansion, 2-3 years later, we may actually have a similar problem. Macro stability is non-negotiable. We have come close to the sweet spot in ensuring that we've given a growth spurt and maintained discipline as well, within the ambit of the framework provided by the FRBM Act.

With so many import duty announcements in the Budget, are we going back to being protectionist?

I like making a distinction between finished goods and raw materials. In raw materials and intermediate goods, custom duties have been brought down, which is good. For exports of finished goods, imports of some of these intermediate products are important. And that's what we've shown in the Economic Survey as well. It is important to keep in mind this distinction between finished goods and intermediates and raw materials. This is important, rather than painting it in one stroke... calling it protectionist.

High-cost economy comes from imports of intermediates and raw materials not being allowed. The cost for a producer is basically either the raw materials or the intermediates, and I've been very clear on that. This is about the delicate balance between domestic production, imports, and enabling exports as well. If you are charging higher import duties for finished goods, that doesn't really affect the cost structure for producers, so it's really important to make that distinction.

In media interactions, the Economic Affairs Secretary said economists want to play T-20 cricket match to make themselves popular, and DIPAM Secretary said the idea of a Temasek-like holding company for PSUs (proposed in the Economic Survey) needs to be debated. What are your thoughts as an economist and author of the Survey?

I think the T-20 versus test match debate is a good characterisation of economic policy, of taking care of the short run versus taking care of the long run. I think what we have done is we are playing a test match. With the Budget, we are in test-match mode. The role of the Economic Survey, in some parts, is to foster debate. Mentioning the Temasek model has led to discussions on its pros and cons. I think that is important. Just because we have recommended something does not mean it should immediately get implemented. It has to be debated. But by bringing it into the into the policymaking arena, we actually encouraged debate on that. As an academic, I am absolutely comfortable with that.

The revenue estimates for the next fiscal again appear unrealistic with direct tax growth pegged at 12.7 per cent, as against a nominal gross domestic product (GDP) growth rate of 10 per cent. Besides, for FY20, even the revised target of 2.9 per cent appears high, considering that we are hovering at a negative 6 per cent...

There has been a strong emphasis on getting the projections as realistic as we can. Therefore, in this Budget there has been an emphasis on transparency compared to the previous two Budgets. The realistic 10 per cent growth rate and a tax buoyancy at 1.2 per cent is easily achievable. And with some of the measures like "Vivaad se Vishwas" scheme introduced, I don't think they are unrealistic. There are close to 500,000 cases under dispute... While it is very hard to Budget the exact amount of these, even normal tax numbers should be achievable. The annexure to the Budget speech showing off-Budget items is a step towards transparency. Overall, there has been a real emphasis on being as realistic and transparent as possible.

With you being a member of the direct tax committee that submitted its report in August last year, what do you have to say on the personal income tax cuts introduced in the Budget?

The report is not in the public domain, so I cannot talk about that. But, I can talk about the tax proposals in the Budget. As an economist, if I were to design a tax scheme it will be a flat rate scheme. I will get rid of all exemptions. The income tax act is so voluminous because we kept adding clauses for the last 50 years, which gives people the opportunity to interpret it in different ways. Tax research shows that a simple scheme is efficient and enables to garner greater revenues. Getting rid of exemptions is a move in the right direction. If you do quick back-of-the-envelope calculation, someone earning ₹10 lakh can get a benefit of anywhere between ₹35,000 and ₹45,000, even if he or she is availing exemptions. According to the data put out by the department of revenue, a large proportion of people do not avail full exemptions as they don't have money to invest in those schemes. It is a step in the right direction, but we need to keep working on it to have a flat tax and no exemptions.