AIBEA's Banking News

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THE LOTUS IS THE FOCUS

RAGHUVIR SRINIVASAN February 02, 2018 **business line**

With eyes firmly on the 2019 polls, Jaitley targets the distressed sections of the economy which were drifting away from the BJP

CHENNAI, FEBRUARY 1

Any which way you look at it, elections appear written all over Budget 2018. Finance Minister Arun Jaitley has focussed on the distressed sections of the economy — mainly farmers, informal workers and the rural sector — which were drifting away from the ruling party.

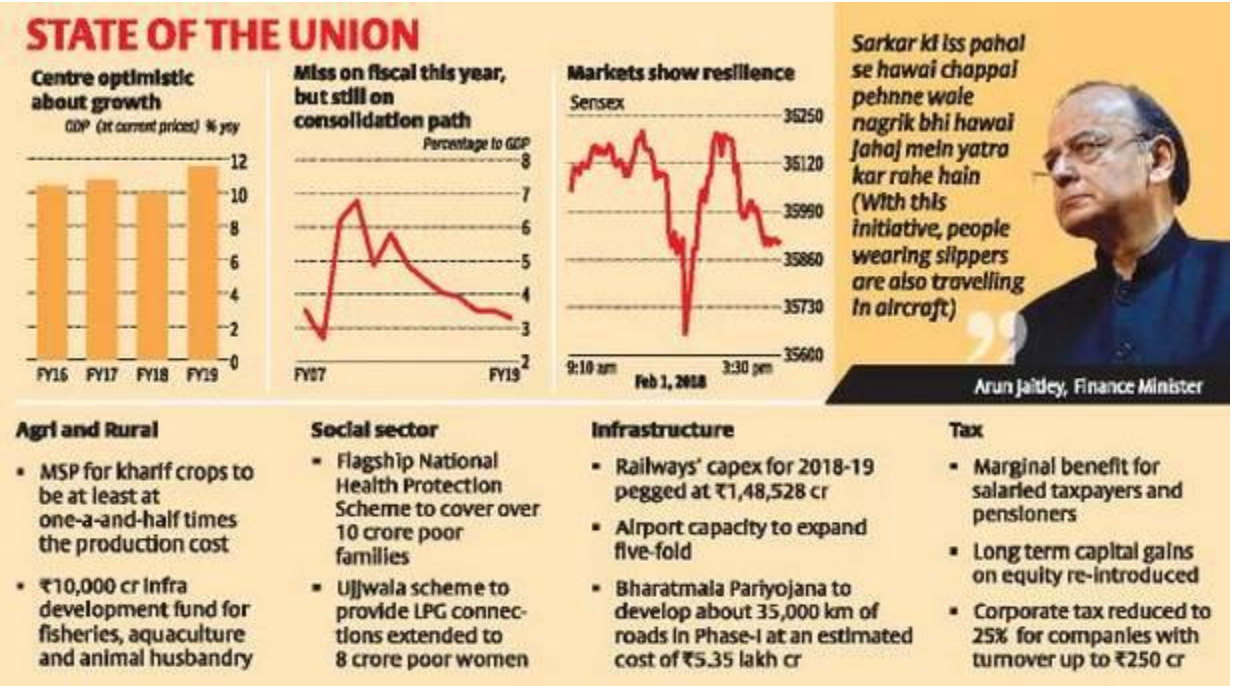
The objective behind the standout proposals — and there are a few of them — appears as much to apply salve on their wounds as to ensure that the votes consolidate behind the NDA.

India Inc and the middle class have been left out of the party — the increase in turnover cap for the 25 per cent tax slab on corporate earnings will still exclude the entire listed universe — but with GST, the former has already got its bonus before the Budget.

ModiCare

The most outstanding proposal of all, one that this Budget will be remembered for, is the initiation of a universal health care programme for the needy. The scheme, designed to provide an annual health cover of Rs 5 lakh per family for secondary and tertiary care, will cover 50 crore people, which is almost 40 per cent of the population. But it is doubtful if this government will be able to reap the political benefits — the details are yet to be fleshed out and the scheme may not roll out in time for the 2019 general elections. Unsurprisingly, there is no allocation for this scheme in the budget.

The biggest challenge before Jaitley was job creation and he has chosen to address it tangentially. He is pinning his hopes on a rural revival by increasing spending on livelihood and infrastructure creation and by giving a leg-up to MSMEs, which are potential job creators. The Finance Minister is banking on MSMEs to invest the funds freed up by lower corporate taxes, but given that most of these companies are in distress and in the red, it is doubtful if the strategy would work immediately.



No infrastructure push

The other big job creator, infrastructure, does not seem to have got significant outlays except for Railways, whose capex has been pegged at Rs 1,48,528 crore. It is a bit disappointing that Jaitley has not chosen to give a push here, especially because private investment is not anywhere near revival.

The question of farm distress has been addressed with a a higher support price — farmers will get 1.5 times their production cost for all crops, but it remains to be seen if this will cheer them as the problem has been not so much with the price as with procurement by government agencies.

Improved market access for farmers gets a push with 22,000 rural ***haats*** to be turned into digitally connected Gramin Agricultural Markets (GrAMs), which will be linked to the electronic National Agriculture Market (e-NAM) network and exempted from regulations of politically controlled APMCs. An Agri-Market Infrastructure Fund with a corpus of Rs 2,000 crore is also on the anvil.

Jaitley has also earned the blessings of senior citizens by increasing the exemption limit for interest income on deposits to Rs 50,000 from Rs 10,000 earlier, raising the deduction for health insurance premium and/or medical expenditure from Rs 30,000 to Rs 50,000 and increasing the deduction for expenditure on critical illness to Rs 1 lakh. The Finance Minister obviously does not see the 1.89 crore middle-class salaried taxpayers who filed returns as a vote bank. The standard deduction of Rs 40,000 that he has proposed is piffling.

Worse, it substitutes existing deductions available for transport allowance and medical expenses, which add up to Rs 34,200. The net benefit of Rs 5,800 will be eroded further if one considers the 1 percentage point increase in health and education cess.

Not surprising then that while the loss to the exchequer will be Rs 8,000 crore from the standard deduction introduction, the gain from the cess will be Rs 11,000 crore, leaving it richer by Rs 3,000 crore!

Compliance goes unrewarded

Interestingly, the middle-class taxpayer has been let down at a time when compliance is rising: the effective taxpayer base zoomed by 27 per cent to 8.27 crore at the end of 2016-17 from 6.47 crore at the start of 2014-15.

The other constituency that has reason to be miffed is the stock market, where long-term capital gains tax has been introduced. However, in his effort to soften the blow Jaitley, may have made the proposal unfriendly: arguments and disagreements between assesses and the department lie ahead.

Fiscal slippages

Taking cover behind an exceptional year owing to the introduction of GST, Jaitley has let the fiscal deficit target slip by 30 basis points to 3.5 per cent for this year and set the next year's target at 3.3 per cent while accepting the FRBM committee's recommendation to cap government debt at 40 per cent of GDP. This is not likely to go down well with the markets, especially because the extra spending is not seen to be rewarding the economy.

With the two main questions of job creation and manufacturing revival not being addressed well enough, will this Budget deliver the political goods for the BJP? Jaitley has chosen to leave the job to private investment aided by a revival of exports, and that appears a dicey move. He may yet get lucky if the green shoots that are visible now sustain themselves and grow.

Investors become poorer by Rs 4.6 lakh crore as stocks crash

PTI | Feb 2, 2018, TIMES OF INDIA

HIGHLIGHTS

- This is the biggest single day fall of the index since August 24, 2015, when it had fallen by 1,624.51 points
- Among the 30-share basket, 27 stocks ended with losses led by Bajaj Auto and Bharti Airtel

NEW DELHI: Investors wealth was on Friday eroded by Rs 4.6 lakh crore amid massive selling in the stock market where the BSE benchmark index plummeted 840 points.

The 30-share Sensex crashed 839.91 points, or 2.34 per cent, to end the day at 35,066.75.

Following the sharp decline in stocks, the market capitalisation of BSE-listed companies tumbled Rs 4,58,581.38 crore to Rs 148,54,452 crore.

This is the biggest single day fall of the index since August 24, 2015, when it had fallen by 1,624.51 points.

The Budget for 2018-19 imposed long-term capital gains tax of 10 per cent on equities.

"The major part of today's correction can be attributed to the budget announcement of imposition of long term capital gains tax on equity, introduction of tax on distributed income by equity oriented mutual funds and fiscal slippage. The move surprised the Street as most participants were factoring in a change in definition of Long Term to two or three years from a year," said Devang Mehta, Head - Equity Advisory, Centrum Wealth Management.

Among the 30-share basket, 27 stocks ended with losses led by Bajaj Auto and Bharti Airtel.

All the sectoral indices on BSE ended in the red led by realty and infrastructure.

On the BSE, 2,527 stocks declined, while 310 advanced and 124 remained unchanged.

"Sensex and Nifty saw heavy selling post budget day. Investors were disappointed with LTCG coming in over and above STT. However, budget is aimed at spurring demand from rural India and masses going forward to take care of India growth story. Execution and implementation will be the key ahead," said Anita Gandhi, Whole Time Director, Arihant Capital Markets.

Sacked employees paid off a lump sum will now have to pay tax on compensation received

MUMBAI: ECONOMIC TIMES 3 2 2018

Sacked employees receiving compensation, business tycoons collecting fat nocompete fee, and trade partners who were paid off a lump sum after their contracts were scrapped often ended up having spats with the tax office over the taxability of such payments.

Several disputes boiled over to tax tribunals and higher courts, where men and women who were compensated argued that the amount should not be taxed as they have lost their source of earnings. However, assessing officers found grounds to contest the claim.

They said earnings were not entirely or permanently extinguished as many took up new jobs and some pursued related activities after an interval. Situations differing from case to case.

But from next year, such court feuds will come to an end. "As per the proposed amendment every type is compensation received by an assesse in connection with the termination of contract, even if it relates to compensation for loss of source of income will be chargeable to tax. So far, by an arrangement or agreement the assessee was able to avoid payment of tax if the compensation was attributed to loss of source of income," said senior chartered accountant Dilip Lakhani.

According to Sanjay Sanghvi, Senior Tax Partner, Khaitan & Co, the amendment (proposed in the Budget) intends to expand the scope of taxability of compensation received in connection with termination or modification of terms of employment, or terms and conditions of a contract relating to business, as 'revenue income'.

"This is to overcome some judicial rulings where it was held that such receipts may not be taxable being capital in nature," said Sanghvi.

The legal disputes took various forms: one of the large liquor companies had claimed a revenue expenditure of Rs. 5.31 crore on account of lease foreclosure payment made to its distributor who did not declare this gain in its annual tax return. As per the memorandum of agreement, the distributor had agreed to transfer the running concern to the liquor company and receive "reasonable compensation". On appeal, the first Appellate Authority held that the compensation received by the assessee cannot be brought under tax even as capital gain. In another case, the court ruled in favour of a partner in a consultancy firm who was compensated after the businesses of firm was transferred to one of the Big Four consultants.

Section 28 (ii) of the Income-tax Act taxes certain compensations received by any person for any change in terms or termination of agency, management of an office or management of a company.

"However, there was no explicit provision regarding compensation for termination or modification of a contract during his business or profession. There were several rulings which used to treat such amount as capital receipt, hence were out of the tax net. The proposed amendment in Section 28 in Finance Bill, 2018 seeks to widen the base and intends to tax such receipts as business income," said Amit Maheshwari, Partner at chartered accountants Ashok Maheshwary & Associates LLP.

On a matter related to invocation of land acquisition law, the district collector in a southern state had acquired a part of the land from a company for the purpose of construction of a railway siding and a compensation was awarded to the party. On appeal, the compensation was recognised as capital receipt.

Union Bank classified Reliance Communications as NPA in December 2017 quarter

MUMBAI: ECONOMIC TIMES 3 2 2018

Union Bank of India has classified Reliance Communications (Room) as non performing loan in the third quarter of this fiscal year, said two senior officials who did not want to be named.

The development comes at a time when the telecom company is undergoing debt restructuring which involves selling some of it's assets to reduce debt.

The account may slip into NPA category for most banks but hopefully it will be reversed soon, said one of the person quoted above. Union Bank official decline to quantify the amount that slipped into NPA basket. "As a policy, we do not comment on specific clients," said a Union Bank official. In the last week of December, Rcom announced sell it's wireless spectrum, media convergence node assets, 43,000 towers, and around 178,000km of fibre network for an undisclosed sum to Reliance Jio.

The account has slipped into non performing category for the quarter ended December 2017 soon after the standstill pack with lenders ended.

According to this pack, lenders would give time to Rcom to repay loans till December 2017 failing which a majority of debt would be converted into equity. Also, there was a standstill on Rcom's payments of loan obligations to banks. The company has outstanding dues of Rs 45,000 crore.

Union Bank reported slippages of Rs 4187 crore in third quarter against Rs 3294 crore in corresponding quarter last year. It reported net loss of Rs 1250 crore in third quarter.

Budget 2018: 'Disappointing' but not Surprising : AIBEA

Hyderabad, Feb 2 (UNI)

All India Bank Employees' Association (AIBEA) felt that at a time when the country's economy is suffering from lesser growth rate and increased poverty, industrial slow down and agrarian crisis, rise in unemployment and job loss, the Budget-2018 is yet another 'huge disappointment' but of course not surprising.

Given the declared economic policy of the Government, this Budget is no surprise at all. It will not address the main problem of widening gap between the majority of the masses and the community of few rich echelons. Rather the gap will further widen to aggravate the distress of the common people, AIBEA General Secretary Ch Venkatachalam said on Friday.

He said the Budget is full of desires, ambition, promises and assurances but it is a well-packaged deception and jugglery.

''The government is claiming many things but we feel, it is not going to help resolve the present economic problems and it is not a growth oriented budget,'' Mr Venkatachalam said.

The budget did not bring in any measures to curb the inflation and price rise. No measures have been introduced to reduce poverty and to lift the teeming millions from the brink of hunger and impoverishment. On the Agriculture front, Mr Venkatachalam said the government claims to double the farmers income by 2022 and a higher income for farmer. Agriculture is to be considered as an enterprise. However, for doubling the farmers income by 2012, the agriculture sector should grow by 14 per cent every year. But, presently, it grows by a mere 2-3 per cent per annum. No proper scheme has been introduced to increase the income of the farmers. It is just an eyewash. Farmers' distress will continue, he added.

Mr Venkatachalam, also the CPI National Executive Member, said while government feels that the farmer should get the Minimum Support Price

(MSP) for kharif produce to be 1.5 times of their produce, it will not serve the purpose unless farmers were allowed to sell his produce directly in the market. And the Government did not spell out as to how the farmer would get the MSP of 1.5 times of his produce.

More than 86 per cent of farmers are small and marginal. APMC (Agricultural Produce Marketing Committee) Act, should be abolished as it does not serve any purpose of improving the farmers' income. APMC would only provide for legalising the market middlemen, which will not give any leverage to the farmers. However, APMC has been encouraged.

He said agricultural Market Fund created at a corpus of Rs 2000 crore is a welcome move but how it works to improve the farmers' fund and their income shall have to be seen in its implementation.

Budget has proposed to allocate Rs 11 lakh crore for farm sector of institutional credit. However, in the last year when the allocation was Rs 10 lakh crore, the majority of this credit has not reached the small and marginal farmers but to bigger farmers and corporate farmers, he claimed. Agriculture to be in future market would only increase the prices of agricultural products and would definitely affect the common man. This also will not help the farmers or farm income, he said and added that Sec.80P of the Income Tax Act has not been amended to exempt profits of co-op Banks.

This forces the cooperative banks and cooperative societies to pay income tax, who cater to the needs of the rural sector. Despite demands to exempt the cooperative banks from Sec.80P of the Income Tax Act, this has not been considered by the government, the CPI leader said.

On the National Health Protection scheme to cover 10 crore poor and vulnerable families and about 50 crore beneficiaries up to Rs 5 lakh per family per year for secondary and tertiary hospitalisation, Mr Venkatachalam said, However, there is no concrete scheme introduced in the budget to implement the above proposal. ''It appears to be an announcement keeping 2019 election in mind,'' he said.

Before this government came to power, they have promised that every year, 2 crore jobs would be created to resolve the unemployment problem. In the current year's budget speech, the Finance Minister has stated that 70 lakh formal jobs has been created this year as per the independent survey. However, this independent study results have been challenged by various economists and independent researchers opining that it is flawed. This claim of the Finance Minister is not correct since in August, 2017, Arvind Panagariya, the then Vice-Chairman of NITI Aayog stated, ''The major impediment in job creation is that our entrepreneurs simply do not invest in labour intensive activities.'' The job generation of schemes has not been announced in the Budget by the Finance Minister.

Touching the Tax Proposals, the AIBEA General Secretary said, Corporate tax reduced to 25% to companies who have a total turnover of Rs.250 Crore (Rs.7000 Crores revenue foregone).

Individual income tax limits have not been revised or reduced except for standard deduction of Rs.40000 linked to medical expenses and the transport facilities to differently abled persons. It is a big disappointment for middle class salaried employees.

Mr Jaitley has announced that Educational cess will be increased to 4 per cent. Hence, the salaried class is not benefitted by this budget. The rich and the super-rich has not been taxed despite the fact that this has been suggested in the Oxfam report, which said that the inequality is quite high in India, he added.

The CPI leader said the corporate income tax, excise duty and customs duty, by and large remained untouched and which gives a lot of concessions already to the industrialists and corporates by way of revenues foregone.

These are the companies and industries that got benefited by the corporate income tax, excise duty and customs duty, who do not invest in labour intensive or job creating activities but still the government continues to dole them out the concessions. This is despite the fact that there is no reduction in corporate income tax or excise duty or customs duty. The revenues foregone would be definitely more than Rs.2,45,000 Crore this year also.

Mr Venkatachalam said the recovery of piling bad loans of the public sector banks has not been addressed in the Budget. AIBEA has been demanding stringent measures to recover the huge bad loans, particularly from the corporate defaulters. But no concrete measures have been announced. Already, there are indications that under the Insolvency proceedings, Banks are going to suffer deep haircut and huge sacrifice. But still, no other effective measures have been announced, he said

AIBEA's demand for periodical publication of names of loan defaulters by amending the RBI Act has been deliberated avoided. This shows that Government wants to protect the corporate companies because of election funds. The important demand to define willful loan default as a criminal offence is also ignored indicating the nexus and vested interests.

There is also no indication that the FRDI Bill will not be pursued thus attempts are afoot to utilise the people's money to whitewash the corporate delinquency.

Overall, the Budget is quite disappointing and will not help in containing inflation and price rise, creating jobs, removing agri crisis, and boosting industrial production, Mr Venkatachalam said.

AIBEA THIS DAY – 5 FEBRUARY	
1993	**All India Demands Day on Pension issue observed by AIBEA & AIBOA**
2002	**AIBEA Central Committee meets at Baroda.**
2007	**Strike in Indian Bank against dilution of capital**

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