Credit policy review: RBI Strikes Balance Between Inflation and Growth

Reserve Bank of India governor Raghuram Rajan took the market completely by surprise recently, keeping the repo rate unchanged in the face of overwhelming expectations of an increase citing the tenuous state of the economy and hopes that food prices may be declining. The central bank admitted that the decision to maintain the status quo had been a close-run thing but that the situation merited a pause in the policy tightening war on inflation. "Current inflation is too high," it said in a release. "However, given the wide bands of uncertainty surrounding the short term path of inflation from its high current levels, and given the weak state of the economy, the inadvisability of overly reactive policy action, as well as the long lags with which monetary policy works, there is merit in waiting for more data to reduce uncertainty." The central bank's move to hold the repo rate at 7.75%, the reverse repo at 6.75%, the cash reserve ratio at 4% and the marginal standing facility and the bank rate at 875% followed what seemed to be strong signals that an increase was all but inevitable in the face of unrelenting inflation. It is clear that the central bank has taken on board concerns over growth. Lauding the RBI's decision not to hike interest rates, India Inc said monetary policy alone was not the answer to tackling inflation and that the government must initiate supply-side reforms and put in place better storage facilities to contain food prices. The RBI has demonstrated restraint and foresight to strike the right balance between inflation and growth.

(***Source:*** *News agencies)*

New CBDT Format for Poll Donations

Aiming to facilitate corporate houses that fund political parties through their electoral trusts, the Central Board of Direct Taxes (CBDT) has provided a format that would allow them to furnish a comprehensive set of details from the number of shareholders to the amount of contribution. Released recently, the checklist would highlight the most essential facts firms must provide while filing details about the electoral trust with the Income Tax department. The format poses questions such as whether the electoral trust is a registered company under section 25 or created solely to distribute funds to political parties. The scheme allows business entities to register non-profit companies having 'Electoral Trust' in their names, thus differentiating them from the companies having other business interests. Earlier this year, the government notified the ET scheme to make corporate donations to political parties more transparent. The scheme requires companies to spend 95% of the total contributions they receive in a given financial year to registered political parties within the same year in order to qualify for tax benefits. Besides forbidding them from taking cash contributions, the scheme also asks them to note down Permanent Account Numbers of individual donors within India and passport numbers of non-resident Indians. The trusts are not allowed to accept donations from foreign citizens or companies.

(***Source:*** *http://www.expressindia.com)*

FinMin Service Tax Amnesty Scheme is a Winner

A one-time amnesty scheme to encourage payment of service tax dues is proving to be a winner for the Finance Ministry. "We have managed to get over ₹2,500 crore from the Voluntary Compliance Encouragement Scheme for Service Tax. The total will easily exceed ₹3,000 crore or even much more than that," Finance and Revenue Secretary Sumit Bose said. Every day, 800 to 900 applications for settling dues are coming in. The largest number of applicants is from the construction sector, followed by the manpower/private security firms, and rentals sector. After a lukewarm response during the initial days, Finance Minister P. Chidambaram met trade and industry representatives in Chennai, Delhi, Mumbai, Kolkata, Bangalore and Hyderabad. Based on the queries raised at these meetings, the Ministry issued two clarifications, with the latest one being on December 11. This allowed applicants to pay a minimum of 50 per cent of the tax dues in instalments, and not as a lump sum, by December 31.

(***Source:*** *www.thehindubusinessline.com)*

New Rule for Promoters Turning Public (Holders)

In the past one year, promoters of a few companies chose to re-classify themselves as public shareholders to comply with the rule that any listed firm must have a nimimum public holding of 25%. The strategy did not go down well with the capital markets regulator, which feels that promoters took the easy way out to comply with regulations. But now, the Sebi is working on a policy to allow promoters to describe themselves as public shareholders as long as the former give up their special rights and lower their stake 5% or less in the companies concerned. "Also, such a promoter may have to step down from key managerial positions in the company and other group entities, and refrain from exercising any control either directly or indirectly," said a person familiar with the development.

(***Source:*** *http://economictimes.indiatimes.com/news/)*

Sebi Proposes to Allow Certain Companies to File Shelf Prospectus

To make fund raising process easier, Sebi proposed allowing public sector financial institutions, scheduled banks and NBFCs, among others, to file shelf prospectus for issuance of non-convertible debt securities. Shelf prospectus allows frequent issuers to raise money, without the requirement of filing separate prospectus for every issuance. It is proposed to allow public financial institutions and scheduled banks, Infrastructure Debt Funds-Non-Banking Financial Companies (IDF-NBFC) and other NBFCs to file shelf prospectus for raising funds through non-convertible debt securities, Sebi said in a circular.The Securities and Exchange Board of India (Sebi) has also suggested allowing issuers authorised by CBDT to make public issue tax free secured bonds to file shelf prospectus. The provision of filing a shelf prospectus for certain entities is there in Companies Act. As per the panel's recommendations, NBFCs and other listed issuers would be eligible for filing shelf prospectus only if meet certain criteria, including having a networth of at least ₹500 crore. The information memorandum/ tranche prospectus filed should contain the disclosures prescribed by Companies Act, 2013, as well as details on revision in ratings.

(***Source:*** *http://economictimes.indiatimes.com/news/economy/)*

Flat Buyers Spared Service Tax on Maintenance Fee

Home buyers have something to look forward to in an otherwise dull property market. The customs, excise and service tax appellate tribunal recently held that they will no longer have to pay service tax on the one-time maintenance charge (deposit) paid to builders at the time of booking a flat. "The impact of indirect taxes on home buyers is very high. So, this order will, to an extent, help buyers save 12.36% (service tax) on the amount of the deposit paid." The one-time maintenance charge includes a flat owner's share in the common electricity bill, lobby and water charges in a housing complex . The charge varies according to the project, amenities, use of property (whether for commercial or residential purpose), the city as well as the location and other such factors.

(***Source:*** *http://www.business-standard.com/)*

Competition Act to Cover Forced Bank Mergers: MCA

The corporate affairs ministry has turned down the Reserve Bank of India's request for a blanket exemption from the Competition Act for forced mergers of distressed banks initiated by RBI. The central bank had sought exemption under Sections 5 and 6 of the Competition Act, which requires prior approval from the government before a merger. In January this year, the government had issued a notification exempting failing banks from the applicability of the provisions relating to the regulation of mergers for five years under section 54 of the Competition Act. This was applicable to bank mergers where section 45 of the Banking Regulation Act, 1949 was invoked by the RBI. The central bank had invoked the section in the forced merger of Global Trust Bank (GTB) with Oriental Bank of Commerce and other mergers. The same provisions were invoked by the RBI when the Satara-based United Western Bank was amalgamated with IDBI Bank and when Kerala-based Nedungadi Bank was merged with Punjab National Bank.

Tax Reforms Panel Keen to Improve Dispute Resolution Mechanism

The Tax Administration Reforms Commission (TARC) will set up focused groups to identify quicker solutions for long-term issues the Income-Tax Department and taxpayers are grappling with. These groups will involve private sector representatives as well as revenue officials, TARC Chairman Parthasarathi Shome said. Besides suggestions on improving the dispute resolution mechanism, the groups are expected to come up with 'out-of-the-box' ideas on treating taxpayers as customers of the department. "The main issue is, how do we develop customer focus and make it a regular feature of our tax administration," Shome said. The absence of 'customer focus' has been a major lacuna of tax administration. Aspects such as continuous stakeholder dialogue have been missing in the Indian income tax system. Source-based taxation principle is sacrosanct for India and there is no proposal to move away from such an approach, Shome said at a recent Global Tax Summit, adding that India followed the United Nations convention. This was different from the residence-based taxation followed under OECD model by the developed countries. In this context, he pointed out that India followed a source-based principle for software taxation, which saw some controversies in recent years. Controlled foreign corporation (CFC) rules and thin capitalisation have not gone out of the radar of the Central government, Shome said. It may become a reality when the proposed Direct Taxes Code Bill is enacted into law.

(***Source:*** *http://www.expressindia.com)*