National Update

RBI Looking at Improving Regulator Architecture

RBI Governor Raghuram Rajan has said there was considerable introspection going on within the central bank on the new regulatory architecture required for the country. A number of internal committees were looking at issues including the level of supervision required, how seamless regulations should be, and the level of regulatory arbitrage required while regulating institutions with similar functions. He was speaking at a conference on banking structure for India. Highlighting the need to upgrade human resources, he said more training institutes and even tests for regulators and officials at higher levels in banks were being given serious thought by the RBI. He said the 'fit and proper' criteria for directors include their grasp over the basics of the business, annual reports, balance sheets and risk management. In what seemed like a significant message for the new Government, he said existing regulators should be used well rather than fragment them. There should not be any attempt to cut regulators' powers or destroy institutions, he said. He said that bankers should be on the warpath to bring inflation down. It was also important to bring down the inflation premium and the credit risk premium.

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

Finance Ministry Wants RBI Intervention to Curb Rupee Volatility

The finance ministry would like the Reserve Bank of India (RBI) to intervene more frequently in the currency market to smoothen volatility, build reserves when the rupee strengthens and use this to bolster the currency when it weakens. The rupee has strengthened from 63.11 to a dollar at the end of January going past the 61 level, triggering calls for the central bank to use the opportunity to buy dollars for building reserves. India's exports contracted in February after seven months of expansion, which was partly blamed on the stronger rupee even as many of the country's exporting rivals have seen their currencies depreciate. "We don't want to target a level of currency. We would like the central bank to intervene to smoothen volatility," said a senior finance ministry official. There should be more intervention by the central bank to smoothen the "rough edges" in the currency markets, he said. The RBI has been reluctant to use its reserves of nearly $300 billion to defend the currency when it depreciates, given that much of this reflects the claims of others or is borrowed money. India is a current account deficit country, a gap that it has met by attracting foreign investment and debt, which will need to be repaid sometime.

***(Source:** www.economictimes.indiatimes.com)*

Govt Unlikely to Meet Tax Collection Targets in Current Fiscal

A slower-than-estimated growth in advance tax receipts from top companies and individuals in the March quarter indicates the finance ministry is unlikely to meet its ambitious tax collection targets for this fiscal year, according to two income tax department officials. Advance tax payments made by 16 Mumbai-based companies rose by 13.5% in the three months to 31st March, said the officials. The city accounts for about 33% of the nation's total tax collections. Companies pay income tax every quarter on their projected earnings and these figures are used as a proxy to estimate financial performance. However, the correlation of earnings with tax paid has at best been mixed.

***(Source:** Press Trust of India)*

Finance Minister Pushes for Tax Pacts

In an effort to deliver on his promise of offering tax certainty, Finance Minister P Chidambaram is trying to address the transfer pricing woes of multinational companies by inking a few Advance Pricing Agreements (APAs) before a new government is formed after the Lok Sabha polls in April-May. APAs can help avoid recurrence of transfer pricing disputes between the income tax authorities and MNCs. The tax department is currently embroiled in transfer pricing rows with Vodafone and Shell. The safe-harbour norms (provision in a statute or regulation which specifies in advance something deemed not to violate a given rule) announced in August 2013 got a lukewarm response from industry, with the finance ministry getting barely

36 applications last year. Chidambaram seems keen on closing a few APAs - a deal between taxpayer and department to decide in advance the pricing of a transaction between an MNC and its group companies in India. "We are at an advanced stage in a few APAs. Every effort is being made to close these before 31st March. Wherever companies have come forward with data, we are moving ahead," said a finance ministry official.

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

Banks Fail to Catch Up on e-Payment of Service Tax

Thousands of service tax payers are suffering as a number of banks have not been permitted or notified for mandatory e-payment of the tax. As per a fresh notification from the Government of India, the threshold limit for the mandatory e-payment for both central excise as well as service tax has been reduced to ₹1 lakh from the earlier ₹10 lakh. This means the numbers of tax payers mandated for e-payment would increase. However, many of the mainstream banks are yet to be authorised to collect the same. Ironically enough, if a service provider is mandated for electronic payment of service tax and fails to do so, he is likely to face a penalty up to ₹10,000 as per legal provisions. In fact, when it comes to Andhra Pradesh, Andhra Bank is among the banks not notified for collecting service tax. When contacted, a senior bank official said they were awaiting permission from the ministry of finance for collecting the e-payment. "The new limit of ₹1 lakh means there will be more assessees going for the e-payment and this makes it all the more important for the banks yet to be notified for e-payment to quickly obtain so", said the official. The new threshold limit for e-payment through internet banking came into effect on 1st January, 2014, as per the amendment of Service Tax Rules, 1994 and Central Excise Rules, 2002.

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

Cenvat Credit (3rd Amend.) Rules, 2014 Notified

Central government has notified Cenvat Credit (Third Amendment) Rules, 2014 w.e.f 1st April, 2014. It amends Rule 7 pertaining to credit distribution by input service distributor. Accordingly, service tax credit attributable to service used by one or more units exclusively engaged in exempted goods manufacture/exempted service rendition, shall be barred from distribution. Further, credit of service used wholly by a unit shall be distributed only to that unit; *Pro rata* distribution of service tax credit shall be based on turnover of units using said service during relevant period to total turnover of all its units operational in current year, during said relevant period. As per new Explanation 3, "relevant period" means (i) preceding financial year, where assessee's turnover available for that year, or (ii) where such details unavailable for some/all units, last quarter for which turnover details of all units available (previous to month/quarter for which credit distributed).

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

Customs to Ask Passengers about Source of Fund for Buying Gold

Seeking to check gold smuggling by courier, the government has tightened baggage rules requiring inbound Indian passengers to provide details like source of funds for importing the metal as well as their air tickets. According to a Revenue Department circular, the baggage receipt issued by Customs will now include the engraved serial number on gold bars and item-wise list of ornaments. "Wherever possible, the field officer, may ascertain the antecedents of such passengers, source for funding for gold as well as duty being paid in the foreign currency, person responsible for booking of tickets, *etc*," it said, adding, the decision is aimed at preventing misuse of the gold import facility. The Customs say that some people are smuggling gold by hiring eligible passengers to import gold on their behalf. The norms have been tightened following "a spurt in import" of gold by eligible passengers through various airports in the recent past across the country. Eligible passengers are allowed to be import gold up to 1 kg by paying 10% customs duty in foreign currency. Eligible passenger means persons of Indian origin or an Indian returning to India after a period of 6 months of stay abroad.

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