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Dear Comrades,

21st November, 2016

News of Interest 21st Nov

QUOTE OF THE DAY

“GREAT DREAMS OF GREAT DREAMERS ARE ALWAYS TRANSCENDED. “

A. P. J. ABDUL KALAM

- 1. STAFF CRUNCH: TAXMEN MAY NOT BE ABLE TO SCAN MORE THAN 7 LAKH BANK DEPOSITS**
- 2. PM MODI PROMISES CHEAPER BANK LOANS SOON**
- 3. DEMONETISATION IS A BIG GAMBLE; HERE'S WHY**
- 4. 16 OF 22 PSU BANKS SKIP DIVIDEND IN FY16 ON MOUNTING NPAS**
- 5. TIME TO TRANSPORT CASH TO BANKS CUT FROM 21 TO 6 DAYS**
- 6. DEMONETISATION SETS OFF HUGE SPIKE IN TAX QUERIES**
- 7. PAN CARD MUST FOR WITHDRAWING FUNDS FOR WEDDINGS**
- 8. SUSPECT CASH: I-T DEPT WARNS VIOLATORS WILL FACE MAXIMUM 7 YEAR JAIL**

Business standard

1. Staff crunch: Taxmen may not be able to scan more than 7 lakh bank deposits

Only about 1% of total assessee's might be probed; warning against parking cash in others' accounts

Dilasha Seth & PTI

Hobbling with a paucity of staff, the income tax (I-T) department might find it difficult to assess more than 600,000-700,000 cases a year, though the government has suggested that people depositing a minimum of Rs 2.5 lakh cash in their bank accounts during the ongoing demonetisation drive will come under scrutiny.

On Sunday, however, the department warned people against depositing their unaccounted old currency in someone else's bank account. The tax department said it had decided to slap charges under the newly enforced Benami Transactions Act against violators that carries a penalty, prosecution and rigorous jail term of a maximum seven years.

The demonetisation drive started on November 8, with Prime Minister Narendra Modi announcing that the old series Rs 500 and Rs 1,000 currency notes would be illegal from the next day. Those who possess money in these denominations can get it changed for legal tender from their banks till December 31. However, those depositing Rs 2.5 lakh or more in the old currency would come under the scanner of the I-T department, the government has claimed.

With a staff crunch, it seems the department would now target only the big fish rather than go after small assesseees. This 600,000-700,000 cases represent only one% of the total I-T assesseees in the country and 0.2% of total PAN card holders.

Most tax officials Business Standard spoke to confirmed the manpower crunch will compel the department to prosecute or penalise misreporting of large amounts (in crore).

"Given the current manpower of the department, we will be able to focus only on high-potential big-ticket cases and not the small ones. The scrutiny over deposits of Rs 2.5 lakh or more being talked about is keeping in mind that the amount is the basic tax-exemption limit," said an official.

He added the exception to this could be if a big racket comes to light with a businessman depositing Rs 2.5 lakh in 50 accounts or so. In those cases, deposits of even up to Rs 2.5 lakh crore and Jan-Dhan accounts above Rs 50,000 could be investigated.

According to the sanctioned strength of the I-T department, there are 7,294 assessment officers up to the additional commissioner level, which includes 4,204 I-T officers. The additional commissioners and joint commissioners handle about 30-40 quality cases a year, while the I-T officers assess about 100-150 cases a year, but smaller ones.

Tax officials pointed out the increase in volume of cases could impact the quality of assessment.

"Our situation will be like that of the bankers at the moment. There may be an increase in volumes of assessments as the investigation teams are making enquiries at full swing. But these additional cases arising out of demonetisation could add to the existing backlog and only reduce the quality of assessment," said another official.

The I-T department has issued hundreds of notices to individuals and firms, seeking sources of funds from those who have deposited large amounts in banks using the Rs 500 and Rs 1,000 currency notes since the demonetisation drive began.

"These are just enquiries being carried out by the investigative wing. They will gather information and ultimately give it to the assessment officers for action. These assessment officers are limited in number," said another official.

The move is aimed to check tax evasion, money laundering and black money circulation. But many tax officials claim it may not be difficult to explain the source of funds in case of bank deposits, since the third quarter (October to December) is the peak demand season.

"Most festivals and marriages take place during the third quarter. It will not be difficult to explain the large deposit," he said.

He added it would be a challenge for the tax officer to prove that depositors misreported income the previous year. "Enough evidence will have to be gathered for that. The onus will be on the tax department to prove that depositors misreported."

2. PM Modi promises cheaper bank loans soon

Modi says govt 'flexible' to provide relief to the poor as demonetisation is enforced

Archis Mohan

Prime Minister Narendra Modi on Sunday claimed banks had received deposits worth Rs 5 lakh crore since he announced the demonetisation scheme on November 8, and would soon give loans at cheaper interest rates.

Modi said his government wasn't "obstinate" about implementing the scheme, and has shown "flexibility" to provide relief to the poor.

The PM also seemed to suggest that the money recovered because of "note ban" will help government provide housing to the poor in rural areas by 2022.

He also advised the poor to not let their Jan Dhan bank accounts be misused. Modi asked people not to allow others to deposit Rs 2.5 lakh in their accounts, with promises of getting a cut. "The law is strict. The account owner will get punished," he said.

Addressing a Bharatiya Janata Party election rally in Agra, the PM came across less combative than his speeches in Goa and Belgaum, Karnataka, on November 13, five days after his address to the nation on November 8. Modi pleaded he had forewarned of the inconveniences that people were likely to face.

Over the past year, the PM's speeches have focused on the schemes his government has launched for the welfare of the poor. But in a nuanced change, the PM on Sunday repeatedly referred to the "middle classes" to benefit from demonetisation in the form of cheaper loans from banks, better education for their children and cheaper homes.

Modi persisted with his recent discourse that the rich loot the money meant for the poor. He said his demonetisation scheme, which he conceded to have impacted the poor and the middle classes, had dealt a grievous blow to the rich.

The PM said banks would not keep the money deposited with them in some "vault", but give cheaper loans to set up small businesses. "The poor and middle classes will get bank loans at cheap interest rates," he said.

Modi, who laid the foundation stone of his government's housing scheme for the rural poor, said 267 square feet of houses would be constructed for the poor. He said his government will allow the poor to earn MNREGA wages if they construct their own house. He promised electricity supply and cooking gas connections to these houses. On his government's commitment to provide electricity supply to 18,000 un-electrified villages, the PM claimed "95 per cent of the work is complete."

On demonetisation, Modi said he bows before India's poor, its middle class, the educated, and the honest for having blessed the scheme. "I promise that your dreams will become a reality. I had asked for 50 days. I had forewarned that this will lead to some inconvenience, but I am surprised that the people of my country have supported me despite the inconvenience," Modi said. He said the sacrifice of the poor, Dalits, tribals, middle class and women would not go in vain.

The PM claimed he had promised in his speech on November 8 that he will regularly evaluate the scheme, and improve it if needed.

He said one positive impact of demonetisation was municipalities and state electricity boards receiving unpaid property tax and power supply charges from the rich.

In a reference to political parties opposing the move, the PM said the corrupt were angry with him.

Without naming West Bengal Chief Minister Mamata Banerjee, he said people who helped "chit fund" companies rob the poor of their hard-earned money were now questioning him.

While he didn't name Bahujan Samaj Party chief Mayawati, the PM said the corpus of those who were selling MLA tickets was now nothing but a heap of scrap paper.

Financial Express

3. Demonetisation is a big gamble; here's why

Removal of a malignant tissue involves a painful surgery; and the recent demonetisation of R500 and R1,000 notes is no exception.

By: Hardayal Singh

Removal of a malignant tissue involves a painful surgery; and the recent demonetisation of R500 and R1,000 notes is no exception. The de notification of currency of these denominations is indeed a big gamble. If it succeeds it would be a reform, much more significant than the abolition of the licence permit raj in 1991; or any other reform undertaken by any government since independence. If it fails, the economy might plunge in to a recession which might be difficult to shake-off.

The measure will have short-term as well as long-and medium-term impact. In the short run-which is all that matters for most people, the lengthening queues outside ATMs and banks is only the beginning of the problem. Hopefully, people will be able to deposit, withdraw and exchange their old notes for new ones before the situation gets out of hand.

A much more serious problem, however, is the one that confronts the informal as well as certain sections of the formal economy that run largely on cash—namely retail, agriculture, gems and jewellery, real estate, SMEs, etc. For these segments, demonetisation is a money supply shock because they have suddenly lost their medium of exchange.

As any professor taking an Economics 101 course will vouch, wiping out 86% of the money supply in a sudden strike, however precise, is bound to make money scarce, raise private interest rates, and contract demand for both private consumption and investment. Two important components of aggregate demand will, thus, immediately register a contraction. This will in turn lead to lower prices, lower GDP, increase in unemployment and a recession. The vital question facing the nation today is whether improvement in money supply subsequently will lift these sectors out of recession. There are some economists who feel that instead the recession might spill over into other sectors because all of them are dynamically interlinked to one another. In fact, that is what happened in the US, when sub-prime mortgage crisis broke out in 2008.

Regardless, one immediate consequence of demonetisation will be the transfer of resources from private hands to the government. Since not all the demonetised notes of R14.83 lakh are likely to find their way back to banks, some extinction of RBI's liability will take place. When demonetisation last took place in 1978, about 20% of the liability of the RBI got extinguished. The economy at that time was much smaller,

and the demonetisation of high value currency affected very few people. This time the game is very different; the income-tax department has more sophisticated technology and analytical techniques to trace out transactions carried out by tax evaders. As a consequence, many people may prefer to take a direct monetary hit rather than surrender their high denomination cash hoardings to banks and expose themselves to prosecution. As they may fear that they may not be able to explain how they acquired so much cash in the first instance. If this happens to 50% of the cash hoardings, the government will be richer by R7.41 lakh crore, which is currently about a year's collection from income-tax. The government may spend this on building infrastructure, reducing its debt to the public, or improving the position of its fiscal deficit.

Simultaneously, the banks will be flush with funds. They will be in a better position to absorb the NPAs generated in the past and reduce lending rates for their customers. Whether managers will acquire the courage to actually take risks and lend is, however, a totally different issue.

The effect on income-tax revenues will in all likelihood be mixed bag. Since with the new technologies available, it will be easier for the department to track transactions of citizens. Existing taxpayers, too, could be expected to report higher incomes in future. However if a recession does set in, these positive effects may be offset by taxpayers genuinely earning lower incomes as result of which they may pay lower tax. Much would, therefore, depend on how the positive and negative effects of demonetisation balance out in future.

In the medium and long run, however, if the government's gamble pays off, the nation will reap rich dividends. Sources of terrorist funding and all kinds of other socially harmful activity will dry up. India will emerge as a modern economy in which cash plays an insignificant role. Prices will come under control. Banks will be in a much better condition to lend. Government finances will be much healthier than what they are now. Equity and bond markets might flourish, and the country's sovereign ratings too will improve.

Much more, however, needs to be done to ensure that this outcome is achieved. The I-T department will have an important role to play. Its new strategy could perhaps aim at making the cost of evasion as high as possible; and simultaneously, the cost of compliance as low as possible. It may want to depend much more on techniques available in modern information technology—such as data warehousing and analytics—rather than on individual discretion, for selection and investigation of scrutiny cases. In order to strengthen the tax base and attract and retain new taxpayers, it may find it fruitful to enquire into taxpayer needs and see how best these could be satisfied. One way surely would be to simplify and demystify complex provisions so that ordinary taxpayers can comply with them without incurring extra-ordinarily high compliance costs.

Hopefully all this, along with reduction in tax rates, will bring some sunshine in our winter of discontent!

The author was chief commissioner of income-tax and ombudsman to the I-T department, Mumbai

4. 16 of 22 PSU banks skip dividend in FY16 on mounting NPAs

Saddled with mounting bad loans, as many as 16 public sector banks, including PNB, BoB and Canara Bank, skipped paying dividend in 2015-16, leading to three-fold decline in government receipts to Rs 1,444.6 crore.

By: PTI

Saddled with mounting bad loans, as many as 16 public sector banks, including PNB, BoB and Canara Bank, skipped paying dividend in 2015-16, leading to three-fold decline in government receipts to Rs 1,444.6 crore. Only six state-owned banks including SBI declared dividend, though at a lower rate, for the fiscal ended March 2016.

Under the existing guidelines, profit making banks have to pay a minimum dividend of 20 per cent of their equity or 20 per cent of their post tax profit, whichever is higher.

The government, which is the majority shareholder in all the public sector banks, witnessed 67 per cent decline in dividend receipt from PSU banks at Rs 1,444.6 crore as against Rs 4,336.22 crore in the previous fiscal.

According to Finance Ministry data, the highest dividend was paid by SBI to government at Rs 1,214.6 crore during 2015-16, 22 per cent lower than the previous fiscal.

As regards Union Bank of India, the dividend payout was one-third of the previous fiscal at Rs 85 crore. For Oriental Bank of Commerce, it was one-fifth compared to the previous financial year at Rs 12.4 crore despite increase in government holding due to capital infusion.

Those which skipped dividend payments included Allahabad Bank, Bank of Baroda, Bank of India, Canara Bank, Central Bank of India, Corporation Bank, Punjab National Bank, Dena Bank and Syndicate Bank.

Balance sheet of most of the banks were under stress due to clean-up exercise. Due to heavy provisioning for bad loans, many banks posted losses during the last quarter of the previous fiscal.

Gross NPAs of the PSBs had surged from 5.43 per cent (Rs 2.67 lakh crore) in 2014-15 to 9.32 per cent (Rs 4.76 lakh crore) in 2015-16 of the total advances.

Banks have been given time till March 2017 to clean up their balance sheet.

Times Of India

5. Time to transport cash to banks cut from 21 to 6 days

TNN

The government has managed to cut down the transportation time of cash from printing to the main distribution centres from 21 days to six and is using all modes of transport, including helicopters and Indian Air Force planes, to move the cash quickly.

The government is hopeful that the situation will improve over the next week. With availability of cash improving in urban areas, the government is **concentrating on rural areas**.

Senior government sources said the level of economic activity should climb back to normal levels by January 15. Referring to any "windfall" from the decision to demonetise 500- and 1,000-rupee notes, sources said any gains could be used for recapitalisation of banks, building infrastructure and purchasing advanced weapons systems for the armed forces.

"RBI may transfer higher dividend or there could be a special dividend," the sources

said. There is a probability of the government getting a "windfall" as a significant portion of the notes may not come back. This will reduce the liability of RBI and increase its ability to pay higher dividend. "Even in 1978 when the government resorted to demonetisation, 20% of the notes did not come back," the sources said.

They said they would not like to speculate about the number of notes that may not come back into the system.

Reacting to the talk that the government may use a part of the funds to put in **Jan Dhan accounts**, the mood in government is uncertain about such options. The tentativeness is due to Prime Minister Narendra Modi's known aversion to giveaways. He is of the view that giveaways achieve little for the economy and carries the risk of breeding dependence.

The sources said Rs 2,000 notes could not be put in the tray meant for Rs 1,000 notes as the **recalibration** required both hardware and software changes.

Top Comment

*Look at the response time of the government!!!! Down to 6 days, sounds like the personnel involved in transport are not only motivated but thoroughly devoted to make sure that the transition is as fa... Read More **Ashok Rawat***

They said that the swelling of deposits with banks would translate into better lending capacity for banks.

"The SME sector will benefit as the banks will lend more," the sources said adding that earlier the SMEs were borrowing from the informal agents paying 18-20% interest rate and now the banks would be able to lend at significantly lower rates. They said that the move to scrap the high value notes will lead to a cleaner and transparent.

Business Line

6. Demonetisation sets off huge spike in tax queries

PRIYANKA PANI

The ripple effect of the Centre's recent move to demonetize high-denomination currency notes is being felt in hitherto-unforeseen areas, including in the apparent readiness of more and more businesses to stop evading taxes — and voluntarily bring themselves onto the taxman's radar.

Tax-filing e-portal Clear Tax, for example, has witnessed a six-fold spike in the number of tax-related queries on its platform since the government announced the scrapping of the ₹500 and ₹1,000 notes on November 8.

This isn't just academic interest. Archit Gupta, founder of the Bengaluru-based portal, told *Business Line* he expects the demonetisation to lead to a 200 per cent growth in the number of people paying taxes in the next 18 months as small businesses scramble to get their earnings on the right side of the tax law. The number of tax filings will also go up dramatically, he believes.

The rush to come clean

"We have seen enquiries from gym trainers, housewives, salon owners, coaching centre owners, among other small and medium businesses, who have legitimate enterprises but were not paying any taxes or were evading tax payments," said

Gupta, whose company is educating people on tax laws and the impact of demonetisation on their businesses.

With the government nudging small businesses to migrate to digital payment processes, more of these small businesses will come onto the taxman's radar. "There will be a greater inclination to pay taxes as digital payments become the preferred option," Gupta said.

At least six tax lawyers and chartered accountants to whom *BusinessLine* spoke acknowledged that their client base has increased in recent days. "Demonetisation is primarily intended to curb cash hoarding and tackle counterfeit notes, but it will also solve a larger problem of under-reporting of taxes as more transactions are made through e-wallets and mobile banking, where the money trail can be established," said a Mumbai-based tax advisor.

How the digital push helps

Pritam Mahure, founder of Pune-based tax advisory firm Lawgical Consultants, noted that only about 3-4 per cent of the Indian population comes under the direct tax net (sales and income tax), and that even within this subset, there is under-reporting of income to the extent of 40-50 per cent of their income. "As digital transactions take off, as they will, more of these under-reported incomes will be brought above the board. Tax compliance will go up," he adds.

In Mahure's view, the perception that the cash crunch will last for 6-8 months if the government imposes limits on monthly cash withdrawals will likely incentivise businesses to embrace digital payments for fear of losing customers.

"There is also a widely held belief that the government has more measures in the pipeline to stamp out black money. Small businesses and individuals may opt to come clean on their taxes rather than risk harassment," he said.

The new normal

Rohit Lohia, Co-Founder of fintech marketplace Coin Tribe, said tax collections could increase on two counts: first, from the tax and penalty on hitherto-undeclared incomes that are now being flushed out into the open; and second, from higher reporting of income in the remainder of the financial year to account for the disproportionately high cash deposits that some businesses may end up making.

"This higher reporting will also reset the levels at which these businesses will move in the future," he said. In this context, he pointed out, the larger impact will be from the introduction of a goods and services tax (GST): in an environment where much of the black money has been flushed out of the system, this will lead to more accurate tracking and, therefore, reporting of sales, which in turn will positively impact tax collections going forward.

7. PAN card must for withdrawing funds for weddings

VINSON KURIAN

Production of the Permanent Account Number (PAN) card is mandatory for withdrawing money for wedding expenses of up to ₹2.5 lakh post-demonetisation of high-value notes.

The Centre has issued instructions to banks that families celebrating weddings may be allowed to withdraw the amount in cash from their own accounts.

Salient features listed for the new dispensation limit the maximum amount permitted for withdrawal at ₹2.5 lakh.

The amount may be withdrawn either by the person getting married or his/her parent. However, only one of the these three individuals can use this facility.

The amount must be withdrawn from one bank account, in the name of one of the three individuals. The account must be KYC-compliant. The limit will apply separately to the boy's and girl's family.

The Standard Operating Procedure (SOP) issued alongside requires that this discretion should be exercised by the head of the bank branch.

At the branch

When an account holder approaches the branch for availing this facility, the head of the branch should obtain a written application-cum-declaration in the attached format, the wedding invitation, and a copy of relevant PAN card.

On verification, the application will be approved by the branches or any authorised official. He should maintain an Excel file of all such cases with full details, so as to respond to any data request from the Reserve Bank/Government.

He should retain all documents along with the cheque/withdrawal slip in vouchers. Production of PAN card is mandatory.

Any relaxation and obtaining Form 60 is also not permitted. Form 60 is a form or declaration filed by a person who does not have a permanent account number

8. Suspect cash: I-T dept warns violators will face maximum 7 year jail

PTI

Warning people against depositing their unaccounted old currency in someone else's bank account, the tax department has decided to slap charges under the newly enforced Benami Transactions Act against violators that carries a penalty, prosecution and rigorous jail term of a maximum seven years.

In a related development, official sources said that the department has detected over Rs. 200 crore in undisclosed income after it conducted over 80 surveys and about 30 searches in cases of suspicious usage of the scrapped currency. About Rs. 50 crore has also been seized in these operations since November 8, they said, across various states.

The sources said the taxman has initiated a country-wide operation to identify suspect bank accounts where huge cash deposits have been made post November 8, when government demonetised the Rs. 500 and Rs. 1000 currency notes.

Such instances where the suspicion is found to be true will be prosecuted under the Benami Property Transactions Act, 1988, applicable on both movable and immovable property, that has been enforced from November 1 this year.

They said the Act empowers the taxman to confiscate and prosecute both the depositor and the person whose illegal money he or she has "adjusted" in their account.

"The CBDT has asked the Income Tax department to closely monitor all such transactions where people are using bank accounts of other persons for hiding and converting into white their black money using the old currency notes of Rs. 500 and Rs. 1000.

"Already some instances have been reported in this regard and the department is set to issue notices under the Benami Act," the sources told PTI.

Primarily, they said, the notices will be issued in cases of huge cash deposits beyond the threshold of Rs.2.5 lakh but in cases where a suspicious report is received from the bank or the Financial Intelligence Unit below this threshold will also be investigated.

"Such an arrangement where a person deposits old currency of Rs. 500 and Rs. 1000 in the bank account of another person with an understanding that the account holder shall return his money in new currency, the transaction shall be regarded as benami transaction under the said Act.

"The person who deposits old currency in the bank account shall be treated as beneficial owner and the person in whose bank account the old currency has been deposited shall be categorised under this law as a benamidar," a senior official explained.

The Benami Act, the official said, provides that the benamidar, the beneficial owner and any other person who abets or induces the Benami transaction, shall be punishable with rigorous imprisonment for a period ranging from 1-7 years.

"The benami amount in the bank account deposited post de-monetisation will be seized and confiscated and the accused will also be liable to fine which extends upto 25 per cent of the fair market value of the benami property," the official said.

The Income Tax department has stepped up its action to check black money transactions, money laundering and tax evasion in the wake of the de-monetisation and has issued hundreds of notices of enquiry to charitable and religious trusts to show their account balances and to those who have deposited huge cash in their bank accounts.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY