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Dear Comrades,

27th December, 2016

News of Interest 27th Dec

QUOTE FOR THE DAY

“SETTING GOALS IS THE FIRST STEP IN TURNING THE INVISIBLE INTO THE VISIBLE. “

TONY ROBBINS

- 1. DEMONETISATION: RS 50,000 AS PENALTY FOR POSSESSING OLD NOTES AFTER DEC 30?**
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Business Standard

1. Demonetisation: Rs 50,000 as penalty for possessing old notes after Dec 30?

Possession of old notes after December 30 may invite penalty of over Rs 50,000

BS Web Team

The government is mulling an ordinance to bring a new law under which possessing, transferring or receiving over Rs 10,000 in banned 500 and 1,000-rupee notes post December 30 will be a punishable offence.

Reports said that there could be a cap of holding no more than 10 notes of each after December 30 and violation of the rule could draw a fine of a minimum of Rs 50,000 or 5 times the amount in question -- whichever is higher, but there was no confirmation. There will be a criminal liability and a municipal magistrate will hear cases involving violation and decide on penalty.

Holders of such currency have an option to deposit them in RBI by March 31 but even that period may be curtailed, they said.

Of the Rs 15.44 lakh crore worth of 500 and 1000 rupee notes in circulation on November 8, close to Rs 13 lakh crore have been deposited in accounts or exchanged for valid currency.

There was no official word on the move which is likely to come up before the Cabinet on Wednesday.

The ordinance may also extinguish the liability of the government and RBI towards the promise to pay the bearer of these notes their value because of a statutory requirement.

In 1978 a similar ordinance was issued to end the government's liability after Rs 1,000, Rs 5,000 and Rs 10,000 notes were demonetised by the Janata Party government under Morarji Desai.

The government had while announcing the demonetisation of the old currency allowed holders to either exchange them or deposit in bank and post office accounts. While the facility to exchange the old notes has since been withdrawn, depositors have time till Friday to deposit the holding in their accounts.

Under the Garib Kalyan Yojana, people have till March 31, 2017 to disclose their illegal wealth and pay 50 percent tax, while locking in another 25 per cent of the declared income for four years.

2. Now, pay 137% in tax, penalty on black money post I-T raid

Total levy to be 107.25% if the undisclosed income is admitted to and substantiated during the raid

Press Trust of India

Black money holders will have to bear taxes and penalties amounting to as high as 137 per cent if they do not admit to or fail to explain the source of undisclosed income after being raided, the income tax department said on Monday.

However, the total levy can touch 107.25 per cent if the undisclosed income is admitted to during search operations and that income substantiated, the department said in a release, adding that tax dodgers can come clean by paying 50 per cent on bank deposits post demonetisation.

If one fails to admit his unexplained income during the course of the search and in case the taxes are not paid and he does not substantiate the manner in which the income is earned, then the tax incidence will be 137.25 per cent, the tax department said in a release.

However, if the undisclosed income is admitted during the search, taxes are paid and return is filed before the specified date declaring this income and the assessee substantiates the manner in which the income is earned, then the tax rate will be 107.25 per cent, the release added.

"We are asking people to declare their undisclosed cash deposits in banks and post offices, which have not been subject to tax earlier under the Pradhan Mantri Garib Kalyan Yojna, 2016 (the scheme)," Principal Chief Commissioner of Income Tax (NWR) Rajendra Kumar said on Monday.

This scheme, which has come into effect on December 17, shall remain open for declarations up to March 31, 2017, he said.

If the income is not admitted during the search and the assessee is not able to substantiate the earning, it will attract 60 per cent tax, 60 per cent penalty, 15 per cent surcharge, three per cent education cess surcharge — amounting to 137.25 per cent.

In case the income is admitted to during the search and the assessee is able to substantiate the earning, it will attract 60 per cent tax, 30 per cent penalty, 15 per cent surcharge, three per cent education cess surcharge — totalling to 107.25 per cent.

The Taxation Laws (Second Amendment) Act, 2016, has amended the penalty provisions in respect of search and seizure cases, the release said.

The existing slab for penalty of 10 per cent, 20 per cent and 60 per cent of income levied under section 271AAB has been rationalised to 30 per cent of income, if the income is admitted and taxes are paid. Otherwise, a penalty at the rate of 60 per cent of income shall be levied, the department said in the release.

3. Online lending firms see higher loan growth on card transactions

Lending cos such as Capital Float and LendingKart are seeing growth from small firms
Apurva Venkat

Around October, digital lending platform, Capital Float was rolling out a plan for restaurants and shops to take loans against their point-of-sale machines.

The repayment was to be made through transactions done on the machine, a move that helped Capital Float hit pay dirt as it saw business scale up fast after demonetisation. As these shops and restaurants saw improved sales due to acceptance of cards amid the cash crunch, they were able to repay loans faster to Capital Float. Lending to this portfolio grew three to four times since November and it also saw new customers adding up as they built transaction history that helped them raise funds for the company.

“We saw loans grow three to four times against the PoS machine,” says Gaurav Hinduja, co-founder of Capital Float, “In the next five to six months we will see two to three times growth in people wanting loans.”

India’s shift to a formal economy has hastened since the Narendra Modi government withdrew 500- and 1,000-rupee notes as legal tender in its fight against black money. Since then, the narrative has changed to move towards a cashless society, even as the government struggles to get enough cash to banks and ATMs in order to enable people to withdraw.

At the same time, lending companies such as Capital Float and its rival LendingKart are seeing growth from small firms. Lendingkart, an online portal, gives small-term loans of around Rs 4-5 lakh for 3-12 months. The company is looking to close the year with Rs 500 crore in disbursed loans as compared to Rs 125 crore last year.

Harshvardhan Lunia, co-founder of Lending kart, says that while luxury goods manufacturers have seen a dip in sales, those dealing with essential goods remain unaffected. Many SMEs in India are involved in manufacturing essential goods such as small bags, food items, footwear, and pens.

Lunia takes an example of a Kirana shop or the small neighbourhood store selling essential goods to explain how the informal loans will shift to the formal sector.

He says a shopkeeper doing a business of Rs 10 lakh would earlier make half the payments in cheque and the other half in cash. For cheque payments, the

shopkeeper would come to companies like lending kartor formal loan institutions. For his cash business, the shopkeeper would go to friends or family or money lenders.

The company gives loans to small and medium enterprises as well as e-commerce vendors in Tier-2 and Tier-3 cities, who lean heavily on the local money lender for transactions that are made in cash.

“Now, with demonetisation, a lot of people who were taking cash payments earlier want bank payments as friends and family do not have excess cash with them to lend and the business of money lenders has totally stopped. So all of this will come to the banks and hence the demand for loans will increase,” says Lunia.

He says, while the shopkeeper’s business will come down from Rs 10 lakh to Rs 7 lakh due to the instability, the demand for loans from SME will increase from Rs 5 lakh to Rs 7 lakh. Lunia says, leads (people wanting to take loans) post demonetisation have surged but conversions have reduced.

“This is because we have to be much more cautious. In loan terms, the amount has reduced and the demand of longer tenure to stabilise and repay has increased,” added Lunia. Lending kart plans to disburse Rs 1,600 crore to Rs 2,000 crore next year.

“The demand will go up will mainly because working capital is drying up. Generally, informal lenders come into play in this situation, but then they all deal in cash. So they will come to us for these requirements henceforth. The increase in uptake will be there for the next 3 to 4 months, post that the rate of growth will stabilise,” Hinduja added.

Financial Express

4. Unified Payment Interface crosses 1 mn hits mark; value soars to Rs 457 cr

Transactions on the Unified Payments Interface (UPI) platform have crossed the one million-mark in December, reports Shritama Bose in Mumbai

By: [FE Bureau](#)

Transactions on the Unified Payments Interface (UPI) platform have crossed the one million-mark in December, reports Shritama Bose in Mumbai. Moreover, in just over a month of its launch, SBI Pay—State Bank of India’s UPI app —has seen 5,00,000 downloads.

Data from Reserve Bank of India (RBI) show total UPI transactions between December 1 and December 22 at 1.2 million valued at R457.07 crore. This is up from 0.3 million transactions in November valued at R90.5 crore. The average ticket size has risen to R3,808 in December from R3,016 in November.

While digital payments have increased post the withdrawal of high currency notes on November 8, the jump in UPI-based transactions can be partly attributed to the fact that two large lenders—SBI and HDFC Bank — joined the platform on November 23.

With this, 33 banks have joined the platform and 27 banks have their own UPI apps. HDFC Bank does not have a separate UPI app. Punjab National Bank, IDFC Bank, Union Bank, Allahabad, Canara Bank and Bank of Maharashtra all have separate UPI apps.

UPI has been described as a WhatsApp moment in finance. Built on the existing IMPS platform that allows real-time transfer of money, it is inter-operable across banks. A customer’s multiple bank accounts can be added to a single bank’s UPI app and neither the payer or payee needs to share their bank account details or IFSC code

with each other. Moreover, sellers can also raise a payment request a feature that should help merchants raise invoices.

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Personal, corporate taxes to come down next year With the continued sluggishness — if not decline — in private investment and stressed top-lines of corporates, lowering the tax rate has become an imperative, the sources added.

On Sunday, a day after the prime minister lamented low or zero tax rate for certain types of financial income and said that this could be increased in a fair, efficient and transparent way, the finance minister Arun Jaitley said no such plan was in the offing, but the markets, which feared reintroduction of long-term capital gains tax, were not fully pacified (the sensex lost 233 points on Monday).

Jaitley on Monday said at a revenue department function that "a lower level of taxation that is globally compatible is necessary if the country has to have a broader base of economy." He said gone were the days of the philosophy that high taxation would bring greater revenues and that since 1991 the course of economy had altered itself. "And the mindset of the tax payer (should be) that payment of legitimate taxes is a responsibility and then it should be reciprocated by you with a confidence in the tax payer.

The taxpayer is to be trusted, except when it's proven otherwise. And therefore only in those select cases, very objectively selected, you go in for a wider audit or a wider scrutiny itself," Jaitley said. "There are no grey areas in taxation laws. It's either black or white. It's either payable or not payable.

And therefore to discover grey areas in fiscal laws is not possible, that's the same principle that applies to criminal law also, either an offence has been committed or not committed," the minister said.

Markets spooked by PM's tax talk, Sensex at 5-week low Fe Bureau adds: Bank of America Merrill Lynch wrote in a recent report the combined impact of demonetisation and the Goods and Services Tax(GST) would leave corporate earnings volatile for the next 3-4 quarters, at least. Downgrades are likely to continue, the brokerage added. However, valuations, it noted, were less of a hurdle given the MSCI India was trading 15.7 times one year forward. Moreover, it expects government to act soon—providing both a monetary and fiscal stimulus.

The difficulties on the lack of cash now should end in a few weeks, it observed in a report.

DIPP asked by PMO to pick low-hanging fruit for Budget. The panel's suggestions are supposed to be first reviewed by Cabinet secretary Pradeep Kumar Sinha before being sent to the PMO.

As part of this exercise, the panel has been looking at steps to further strengthen the Make-In-India and the Start-Up India programmes, and the Budget could reflect such measures, said one of the officials. Ease of doing business will again get prominence, with special focus on digitisation and more IT-enabled government processes.

One of the priority areas will be enhancing the country's competitiveness in sectors like textiles and garments, capital goods, defence production, chemicals & petrochemicals, maintenance repair and overhauling of aircraft and ship repair and even information technology hardware could get utmost importance, one of the officials said.

Customs and excise duty rates on certain inputs, raw materials, intermediaries and components and certain other goods could be tinkered with in the Budget to prepare for the goods and services tax regime, which, analysts say, could be introduced only in September 2017 or later.

To promote Make In India, the Budget 2016-17 had decided to withdraw customs duties exemption on direct imports of specified goods by the central or state governments. Even the customs duty exemption on specified goods imported by contractors of the central government or even the PSUs was withdrawn.

The last Budget also raised the basic customs duty on certain capital goods from 7.5% to 10% and hiked it on metals like primary aluminium and zinc alloys from 5% to 7.5%.

Times of India

5. Old notes selling at a premium in Kolkata market

Rohit Khanna

At a time when people across the country are queuing up outside banks to get rid of old Rs 500 and Rs 1000 notes, the scrapped currencies are selling at a premium in the serpentine bylanes of trading hub Burrabazar. Old notes of Rs 500 and Rs 1000 will fetch you Rs 550 and Rs 1,100 here.

On Monday, TOI spotted men sitting with wads of new currency notes in the shops dotting the trading hub. They were there a month ago too, but then they were handing out anything between Rs 800 and Rs 850 in exchange for a note of Rs 1000 in old denomination. The sudden reverse exchange may stump commoners but those in the know say it has been triggered by shell companies who need to shore up 'cash in hand' in their balance sheets that show huge paper transactions. The city's accountancy fraternity sees this as a bid to justify the paper transactions before the third quarter ends on December 31.

In the balance sheet, 'cash in hand' is the amount held by a company in the form of notes or coins. In layman's term, 'cash in hand' is the money that is kept to pay small amounts but is not deposited in the bank. However, it does not mean the money lies in physical form in a chest or a drawer.

After PM Modi announced demonetisation on November 8, the business community in the city adopted every possible means to either exchange the notes or get some deposited in banks. With the third quarter coming to an end, they have little cash left to show as 'cash in hand'. Income tax officials have come across a number of companies which have shown a large amount 'cash in hand' in the balance sheet when the physical cash was much less

If these companies have shown 'cash in hand' over a long period, then a large part of the amount is expected to be in the form of old Rs 500 or Rs 1,000 notes. But, as per RBI guidelines, these notes can be deposited in banks only till December 30 this year. This has led to the sudden surge in demand for the scrapped currency. "There is such a possibility but I can't say if anyone has utilised the scope to fudge the balance sheet," said Anirban Datta, chairman of Institute of Chartered Accountants of India (eastern region).

Business Line

6. Jaitley bats for low-tax regime based on trust

OUR BUREAU

Ahead of Union Budget 2017-18, Finance Minister Arun Jaitley on Monday said the country needs to transition to a lower level of taxation that is globally compatible if it has to have a broader base of economy.

"What you need is a broader base of economy for which you need a lower level of taxation. You need to manufacture products and provide services that are more competitive in character and, therefore, your taxes have to be globally compatible," he said.

At the inauguration of the training of the 68th batch of Indian Revenue Service Officers, he said that competition is not only domestic, but also global, and governments have been guided by these principles.

Extraordinarily high tax rates have also led to higher tax evasion in the past, he noted.

His comments come at a time when the government is widely expected to lower corporate tax rates in the next Budget along with some income-tax relief to the common people who have been impacted by the demonetisation of high-value currency notes. He urged tax officers to have a high level of "integrity, honesty, sincerity," and said officers must ensure that voluntary compliance increases in the coming years.

"Voluntary compliance by citizens of payment of due taxes needs to be reciprocated by authorities with a tax-friendly administration," he said, adding that tax payers should be trusted, unless proven otherwise.

"And, therefore, only in those select cases, very objectively selected, you go in for a wider audit or a wider scrutiny itself," Jaitley said, adding that tax authorities are judged by the quality of what they write or what they decide.

7. SBI yearly composite index at all-time low in Dec

OUR BUREAU

Historically low credit growth, coupled with moderation in consumer demand, has had a ripple effect on State Bank of India's yearly composite index, which crashed to an all-time low of 45.5 for December 2016 as compared to last month's revised index of 50. This crash comes in the backdrop of the demonetisation exercise.

A composite index reading of '42 to 46' and '50 to 52' implies 'moderate decline' and 'low growth', respectively, in manufacturing activity in the economy. According to State Bank of India's report Ecowrap, the monthly index, however, increased to 49.4 in December 2016 from 48.3 in the previous month. Both these readings indicate 'low decline' in manufacturing activity.

Soumya Kanti Ghosh, Group Chief Economic Adviser, SBI, said credit growth is at historically low levels, even lower than what it was in 2009 following the global financial crisis.

"And if the credit growth collapses, obviously the (composite) index will collapse... Industrial activity has actually shrunk in November and December."

Low credit growth is a matter of concern, said SBI economists. The fortnightly data of all scheduled commercial banks indicate that credit offtake (year-on-year) has declined to a historical low of 5.8 per cent as on December 9.

Factory output

The report said factory output, measured by the index of industrial production, may continue to remain in negative territory in December 2016.

"A further decline (in IIP) may not be ruled out. Right now, sector-wise sales are low," explained Ghosh.

The report observed that the impact of demonetisation on different sectors is largely negative in the short term. As the situation improves, it will help them grow smartly in the long run, it added.

"Retail sales during November were down in the range of 20-40 per cent due to the currency crunch and negative sentiments on account of uncertainty post government's monetary initiative," Ecowrap noted.

Overall, SBI economists feel that the effect of demonetisation will be felt only in the short term, say a quarter or two in most sectors, except real estate, jewellery, luxury goods, and will normalize thereafter.

Rate cuts

Due to weak credit offtake and huge money (deposit) inflows, economists expect lending rate cuts by banks as the inflation trajectory is expected to remain benign with retail inflation at sub-4 per cent till January 2017.

Though inflation may increase thereafter, they predicted that it may not be more than 4.5 per cent by March 2017.

8. The fall and fall of deposit rates

RADHIKA MERWIN

Deposit rates have been on a free fall since the beginning of RBI's money-easing policy in January 2015. While this is not entirely out of place, the pace has been the fastest in the last decade-and-a-half.

Over the past two years, deposit rates have plummeted 200-250 basis points, even as the RBI reduced its key policy repo rate by 175 basis points. In the past, such steep fall in deposit rates happened only when the policy rate was reduced by 300-400 basis points.

The RBI's neutral liquidity stance since April and the recent move to demonetise high-value notes have resulted in excess liquidity and led to deeper cuts in deposit rates this year. With banks expected to be flush with funds in the near term, deposit rates can trend down hitting historical lows. If the RBI had, as expected, cut rates in the latest policy, depositors would have felt more heat in the coming months.

In the past

In the past three rate easing cycles since 2001 — April 2001 to March 2004; October 2008 to April 2009; April 2012 to May 2013 — deposit rates have fallen 3-4 percentage points, but in tandem with similar cuts in policy rates by the RBI. Between April 2001 and March 2004, for instance, as the RBI lowered its key policy

rate from 9 per cent to 6, deposit rates in the three- to five-year bucket also fell about 4 percentage points.

Similarly, between October 2008 and April 2009, deposit rates fell around 3 percentage points as the RBI slashed repo rate by 425 basis points to 4.75 per cent. The short lived rate cut cycle between April 2012 and May 2013 saw repo rate move lower by 125 basis points, but deposit rates fell by a much lower 50 basis points.

In the recent rate-cut cycle since January 2015, however, slashes in deposit rates have been deeper. In 2016, reduction in deposit rates accelerated and fell another 125 basis points, even as the RBI cut its repo rate by only 50 basis points. Deposit rates in the three- to five-year category are currently hovering in the 6-7.25 per cent range from about 8.5-9 per cent in the beginning of 2015.

Shubhada Rao, chief economist at YES Bank, says: "The initial small decline in deposit rates was in response to RBI's change in liquidity stance. The recent sharp decline in bulk deposit rates of a few banks has been due to the crowding in of liquidity in the banking system post the withdrawal of Specified Bank Notes."

The idea to lower the deposit rates amid slowing credit growth in the economy is to dis-incentivise the flood of deposits as it comes with a cost, added Rao.

So how far can deposit rates fall from here? While past data may not be comparable, they do give an indication.

Looking back

Deposit rates in India have mostly ruled high — in the late 1990s they were at 11-13 per cent levels. Since 2000, banks have been offering lower rates in the 9-10 per cent range. Over the last two decades, call money rates — the rate at which short-term funds are borrowed and lent in the money market — have fallen to 4-5 per cent levels during financial years ending 2003 and 2004 (rate easing period).

Deposit rates in the three- to five-year tenure then fell to 5.5-6.25 per cent. At present, call money rates are around the 6 per cent mark.

"We need to assess the quantum of durable excess liquidity, post the closure of window. Only then we can assess how much permanent net deposit accretion has taken place. The banking system will subsequently review and recalibrate rates on certain deposits," said Rao.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY