



ALL INDIA UNION BANK PENSIONERS AND RETIREES FEDERATION
(Affiliated to All India Bank Pensioners & Retirees Confederation – AIBPARC)
163/4, Kutcheri Road, Mylapore, Chennai - 600004
E mail i.d: aiubparf@gmail.com/ ubioatnng@gmail.com/ suryanarayananram@gmail.com

Com. P.B. Thomas
Chairman
Thiruvananthapuram
M: 09447177456

Com. Nitin Desai
President
Ahmedabad
M: 097277 60641

Com. S. Bagchi
Working President
Kolkata
M: 0983081586

Com. N. Govindarajulu
General Secretary
Chennai
M: 09841089111

Dear Comrades,

2nd February , 2017

News of Interest 2nd FEB

MOTIVATIONAL QUOTES

“DO YOU WANT TO KNOW WHO YOU ARE? DON'T ASK. ACT! ACTION WILL DELINEATE AND DEFINE YOU. “

THOMAS JEFFERSON

- 1. INCOME TAX SLAB SLASHED TO 5% FOR RS 2.5-5 LAKH EARNERS**
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Business Standard

1. Income tax slab slashed to 5% for Rs 2.5-5 lakh earners

However, earners in between Rs 50 lakh and Rs one crore will have to pay 10% surcharge

Indivjal Dhasmana

The Budget gave relief to on personal income tax front, mainly the salaried group in the middle class, by halving the tax to five per cent up to the income of Rs 5 lakh to ease the pains of demonetisation. However, those earning above Rs 50 lakh and up to Rs one crore will have to shell out additional 10 per cent surcharge.

The cut in the tax rate for the lowest slab will also save up to Rs 12,500 for incomes in other slabs, increasing disposable income of the middle class that can provide spur to the slowing down economic growth. The present super rich tax in the form of 15 per cent surcharge will remain for those earning income over Rs one crore.

The finance minister also put more money in the hands of small and medium enterprises by reducing the corporate tax rate to 25 per cent from the current 30 per cent for annual turnover up to Rs 50 crore. Ninety six per cent of companies which file returns come under this category.

Besides middle class and SMEs, the finance minister also addressed the concerns of foreign portfolio investors by exempting India-based funds them from the indirect transfer provisions. The government had put on hold the recent rules by the Central Board of direct taxes in this regard.

Other announcements

CBDT to be authorised to frame a scheme to issue centralised notice, calling for information and documents
Assessing officer can re-open the cases under Income Declaration Scheme for up to 10 years, against six years allowed at present, if there is verifiable evidence of undisclosed asset over Rs 50 lakh seized in searches

TDS to be paid by rent payer at the rate of 5%, if rent is over Rs 50,000 a month

Self-employed will be allowed 20 per cent deduction for their contribution to National Pension System

To merge authority of advance ruling for income tax and that for indirect taxes and create common authority

Thin capitalisation rules to debar subsidiary or branches of foreign companies from getting tax deduction if interest paid on debt is over 30 per cent of its Ebitda

Hard Facts on Tax Compliance

Ours is largely a tax non-compliant society. The predominance of cash in the economy makes it possible for the people to evade their taxes, burdening those who are honest and compliant.

Among the 37 million individuals who filed the tax returns in 2015-16, 9.9 million show income below the exemption limit of Rs 2.5 lakh per annum, 19.5 million show income between Rs 2.5 lakh and Rs 5 lakh, 5.2 million show income between Rs5 lakh and Rs10 lakh and only 2.4 million people show income above Rs10 lakh. Of the 760,000 individual assesses who declare an income of above Rs 5 lakh, 5.6 million are in the salaried class. The number of people showing an income more than Rs 50 lakh in the entire country is only 172,000. As against the estimated 42 million persons in the organised sector, the number of salaried individuals filing returns is only 17.4 million. The same is true for companies. Of the 1.4 million companies registered up to March 31, 2014, 597,000 have filed their returns for the assessment year 2016-17.

2. Jaitley taxes rich, gives to the poor

Introduces a new surcharge of 10% for incomes above Rs 50 lakh to Rs 1 crore

Sanjay Kumar Singh

One set of taxpayers, albeit a small one, would be a tad unhappy with Finance Minister's Union Budget 2016-17. With the Budget introducing a surcharge of 10 per cent for people with incomes of over Rs 50 lakh to one crore, there would be a rise of

around 3 per cent in the income tax payout. The new calculation for income-tax rate for this slab will be: 30 per cent tax + 10 per cent surcharge on tax + 3 per cent cess on both tax and surcharge) or in total, 33.99 per cent. However, the vast majority of taxpayers with taxable incomes of Rs 2.5 lakh to Rs 5 lakh should be a happy lot as their tax burden is down by half.

Prior to this Budget, the government levied a surcharge (of 15 per cent) on those with an income above Rs 1 crore. This, say experts, is a sop from the government to compensate for the hardships of demonetisation. This reduction in tax rate will benefit people in all tax slabs. "For those in the income bracket less than Rs 5 lakh, the tax burden will be zero or it will half. For everyone in the above Rs 5 lakh income bracket, the tax bill will be reduced by minimum Rs 12,500," says Archit Gupta, founder and chief executive officer, ClearTax.com.

One reason for reducing the tax rate applicable to the lowest income slab, says Gupta, could be to persuade more people to either file their returns for the first time or declare their income honestly. Another key announcement was that returns of those having income less than Rs 5 lakh will not be scrutinised unless the tax authorities have specific information against the assessee. Experts view this too as an inducement to get more people to file tax returns.

Sonu Iyer, tax partner and people advisory services leader, EY India informs that people having income up to Rs 3 lakh will not have to pay any tax at all. The standard deduction stands at Rs 2.5 lakh. On the next Rs 50,000, a tax rate of 5 per cent would have amounted to a tax bill of Rs 2,500. But the rebate of Rs 2,500 under Section 87A means that people with income up to this level don't have any tax burden.

In the future, enforcement is likely to become stricter. "Some of the data cited by the Finance Minister--76 lakh tax payers in the country of which 56 lakh belong to the salaried class--was astonishing. The government will use data analytics to get more people to file IT returns and disclose their income honestly," says Kuldip Kumar, partner and leader, personal tax, PwC India.

Henceforth, cash transactions of above Rs 3 lakh will not be permitted. This was a recommendation of the Special Investigation Team (SIT) which the government has accepted.

3. Little in Budget for stress loan-laden banks

Bad bank proposal very much on government agenda: Jaitley

Abhijit Lele

The government's provision of Rs 10,000 crore for infusing equity into public sector banks (PSB) and its assurance to infuse more on requirement has fallen short of expectations. PSBs, which are reeling under bad loans, need more capital from the government, considering that they will find it difficult to raise money from markets due to low valuations.

Referring to the Budget proposal, bankers said the total capital requirement till March 2019 is pegged at Rs 1,80,000 crore. Out of that, the government has committed Rs 70,000 crore and it expects banks to raise Rs 1,10,000 crore from market. This estimate was made in August 2015 and the situation now is very different, they say. Many PSBs have reported only small profits or are going in losses.

Karthik Srinivasan, group head-Financial Sector ratings, ICRA, said retaining Rs 10,000 crore for recapitalising PSBs, as envisaged under the Indradhanush plan, is a disappointment as these banks require Rs 45,000 crore to Rs 50,000 crore of the total Tier 1 capital in FY2018. However, the assurance of more funds, if required, offers some comfort.

Pankaj Patel, president of the Federation of Indian Chambers of Commerce and Industry (FICCI), said this figure will have to be increased during the course of the next fiscal, given the actual requirements of the banks and the need to support growth.

The amount for recapitalisation of PSU banks will be a morale booster in scenarios where the banks are in dire need of capital for credit growth and Basel III compliance, added Ashwani Kumar, chairman and managing director, Dena Bank.

Meanwhile, in a post-Budget media interaction, Finance Minister Arun Jaitley said the idea of a centralised Public Sector Asset Rehabilitation Agency (PARA) to take over bad loans is very much on the government's agenda. The Economic Survey for 2016-17 had mooted a proposal to float PARA as an effective solution for big-ticket stressed loans.

The agency could take charge of the largest, most difficult cases and make politically tough decisions to reduce bad loans covering non-performing assets and restructured loans.

Referring to steps for tackling bad loans, the finance minister said the focus remains on resolving the stressed legacy accounts of banks. The legal framework has been strengthened to facilitate resolution through the enactment of the Insolvency and Bankruptcy Code and the amendments to the SARFAESI and Debt Recovery Tribunal Acts.

Listing and trading of security receipts issued by a securitisation company or a reconstruction company under the SARFAESI Act will be permitted in SEBI-registered stock exchanges.

Sai Venkateshwaran, partner and head-Accounting Advisory Services, KPMG, said this will enhance capital flows into the securitisation industry and will particularly be helpful in dealing with bank NPAs. However, this needs to be done with adequate safeguards and should possibly be restricted to sophisticated investors who understand the risks associated with it.

The government also extended sops to banks for setting aside money as a provision for bad loans. Jaitley said as a step to give a boost to the banking sector, the government proposes to increase the allowable provision for NPAs from 7.5 per cent to 8.5 per cent. This will reduce the tax liability of banks.

Kumar said the deductions allowed for the NPA provisions made by banks have been increased to 8.5 per cent of the income. This will act as a breather in supplementing the profitability of the banks.

The government also proposed to tax the interest receivable on actual receipts instead of on an accrual basis for NPA accounts of all non-scheduled cooperative banks. This will also be on a par with scheduled banks.

Banks feel the push

- Outlay for capital infusion in public sector banks pegged at Rs 10,000 crore
- Total capital requirement for 2016-2019 is Rs 1,80,000 crore
- Government expects banks to raise Rs 1,10,000 crore from market
- Listed public sector banks have low valuation
- Resolution of stressed loans is a painfully slow process
- The proposal for "bad bank" to take over non-performing assets revived

4. Union Budget 2017: It's as though demonetisation hasn't happened; normally, this would be a fine budget

The real issue is not the fiscal slippage target but whether the government's expenditure patterns are really addressing the need and the funds are utilised with right strategy.

By: Banikinkar Pattanayak

Fiscal Deficit target budgeted at 3.2% of GDP for FY 18 despite calls for fiscal expansion to spur economy: The real issue is not the fiscal slippage target but whether the government's expenditure patterns are really addressing the need and the funds are utilised with right strategy. Under normal circumstances, this would be a fine Budget.

But my essential worry is it tends to give the impression that demonetisation has not really taken place. As for fiscal expansion, there is no point announcing spending when the adequate systems are not in place to spend the extra money. I am afraid the capacity of government to spend quickly (to pump up the economy) is not that great.

The Plan and non-Plan spending classification has been removed and rise in capital spending budgeted at 25.4%: An impression is being made that capital expenditure has been raised substantially, but the real issue is how this growth projection has been calculated. Revenue and capital expenditure data are sensitive to classification and the Budget speech didn't mention how they have been classified. In the earlier classification, only the plan size (of a scheme) was quoted.

Doing away with the plan and non-plan classification is a good idea. But what does serve the real purpose is that a proper classification of expenditure is done so that the full costing of individual scheme or project can be done.

At the moment, analysis of only partial costs of schemes is done, as a lot of the expenditure is classified under the non-plan category.

Gross tax revenue growth pegged at 12.3%, against 17% for FY17: Ultimately, the rise in tax revenue depends upon the growth of the economy. The assumption of a 12.3% rise in tax revenue is a reasonable one.

But with that much of growth in tax revenue, how the 3.2% fiscal deficit target (the same as the revised estimate for FY17) will be achieved remains to be seen.

Sharp rise in advance filing of personal income tax following the note ban: Demonetisation may have played a role in the sharp 34.8% rise in advance filing of personal income tax until December. (It's assumed that some people might have declared black money hoarded with them as income).

But what is also likely is that since people were given the choice to use the old high-denominated currency notes to pay taxes, some might have paid excess advance tax. If that is the case, then the tax collection in the fourth quarter could drop.

As told to Banikinkar Pattanayak

5. Union Budget 2017: Big relief for home buyers, affordable housing gets boost

Home buyers can look forward to more affordable housing, as the government has bolstered the segment, giving it infrastructure status in the Union Budget for 2017-18.

By: Priyanka Ghosh

Home buyers can look forward to more affordable housing, as the government has bolstered the segment, giving it infrastructure status in the Union Budget for 2017-

18. Essentially, it means lower cost of capital, said Samantak Das, national director at Knight Frank, India. Hopes are that the developers will pass on this benefit to consumers. Experts estimate the cost of funds will now be approximately 10% to 12%. "On an average, I imagine a reduction of 150 basis points," said Neeraj Sharma, partner at Grant Thornton, India.

The move is expected to attract financiers too. Besides, with the infrastructure stamp, companies will now be able to access additional avenues. "For example, we now also have access to the Rs 40,000-crore national infrastructure investments fund (NIIF)," said Kirta Timmanagoudar, managing partner at Brick Eagle Funds, which is in the process of raising a Rs 700 crore affordable housing fund.

To be sure, low cost of capital will be augmented by tax benefits under Section 80 I (B).

Last year, the government allowed 100% deduction for profits in projects where companies built homes up to 30 square metres in the four metro cities and 60 square metres otherwise. This move, however, failed to spur supply.

Industry watchers said it was too frugal for companies to shift plans. This year, a number of clarifications were made, signaling to the industry that the government is strong in its intention to invigorate this segment. "The benefit has now been extended to five years, instead of three, which is too short a time period to execute because approvals still take time," said Sunil Rohokale, CEO and managing director at ASK Group. Now developers have more legroom.

The government has clarified that the specification of the floor area has to be calculated as per carpet area, leaving no room for ambiguity.

Experts said the guidelines that can categorise a project as affordable are not clear at the moment; whether Section 80 I (B) completely defines the conditions, or there are other factors, remains to be seen.

Economic Times

6. Budget 2017: Retirees may get assured 8% on pension

By *Shilpy Sinha*

Lower interest rates need not worry those on the verge of retiring or have just retired. The government plans to provide pension benefits with an assured return of 8% through Life Insurance Corporation to those above 60 as it pushes social security in a country where most do not even have jobs in the organised sector.

The scheme would provide 8% return for 10 years. The scheme, similar to the Varishtha Pension Bima Yojana, is an immediate annuity plan and will be open for subscription for a period of one year from the date of launch.

If the return generated by LIC is less than 8%, the government will bear the difference as subsidy on an annual basis. While the details of the product are not yet known, it is likely to have an upper limit as there are fears that it could be abused by the wealthy otherwise.

7. Income Tax department can now reopen up to 10-year old cases involving big transactions

By PTI |

Income Tax officers can now reopen tax cases for up to 10 years if search operations reveal undisclosed income and assets of over Rs 50 lakh.

Currently, I-T officers can go back up to six years to scrutinise the books of accounts of assesses.

According to the memorandum to the Finance Bill 2017, the amendment to the Income Tax Act will take effect from April 1, 2017. This means that the books of accounts of an assessee can be reopened by taxmen back till 2007.

The amendment seeks to check tax evasion where "tangible evidences" in the form of undisclosed investment in assets are found during a search or seizure operation.

It empowers tax officials to issue notices to such assessee up to the 10th assessment year, beyond the 6th assessment year already provided for in the I-T Act.

As per the amendment, notices can be issued if the assessing officer has in his possession books of accounts or other documents or evidence which reveal that the income that has escaped assessment amounts to Rs 50 lakh or more in a year or in aggregate of four assessment years.

The notices can also be issued if the income which escaped assessment is in the form of assets.

"The amended provision of Section 153A shall apply where search under Section 132 is initiated or requisition under Section 132A is made on or after April 1, 2017," the memorandum said.

In case of undisclosed foreign assets, the government had allowed tax authorities to reopen cases up to 16 years.

The move to extend the period for reopening of tax cases is part of the overall exercise of the government to unearth black money through a host of initiatives.

The government had earlier come out with disclosure schemes for foreign and domestic black money holders. In November, it demonetised high-value bank notes and provided black money holders one last opportunity to disclose unaccounted cash holding in Pradhan Mantri Garib Kalyan Yojana (PMGKY).

Business Line

8. Jaitley bans cash dealings above Rs 3 lakh from April 1

PTI

Continuing with government steps to clamp down on black money, Finance Minister Arun Jaitley today proposed to ban all cash transactions above Rs. 3 lakh beginning April 1, 2017.

The decision to ban cash transactions beyond a threshold is based on the recommendation of the Special Investigation Team (SIT) on black money that was set up by the Supreme Court, Jaitley said while presenting Union Budget 2017-18 in Parliament.

All cash transactions above Rs. 3 lakh will be banned, he said.

The SIT, headed by Justice M B Shah (retired), in July had submitted its fifth report to the Supreme Court on steps needed to curb black money.

Noting that a large amount of unaccounted wealth is stored in cash, SIT had said, "Having considered the provisions which exist in this regard in various countries and also having considered various reports and observations of courts regarding cash transactions, the SIT felt that there is a need to put an upper limit to cash transactions."

It recommended a total ban on cash transactions of Rs. 3 lakh and above and that "an Act is framed to declare such transactions as illegal and punishable under law".

9. Govt proposes Payments Regulatory Board in RBI

PTI

Finance Minister Arun Jaitley today proposed creation of a six-member Payments Regulatory Board in the RBI, headed by its Governor, as part of bringing about structural reforms in the payment eco-system.

For the purpose, necessary amendments are proposed in the Finance Bill 2017 to create a Payments Regulatory Board in the Reserve Bank of India by replacing the existing Board for Regulation and Supervision of Payment and Settlement Systems.

In his Budget Speech, Jaitley said a Committee on Digital Payments constituted by Department of Economic Affairs has recommended structural reforms in the payment eco system, including amendments to the Payment and Settlement Systems Act, 2007.

He said the Government will undertake a comprehensive review of this Act and bring about appropriate amendments.

"To begin with, it is proposed to create a Payments Regulatory Board in the Reserve Bank of India by replacing the existing Board for Regulation and Supervision of Payment and Settlement Systems," the Finance Minister said.

As per the Finance Bill, the Reserve Bank will be the designated authority for the regulation and supervision of payment systems.

The RBI Governor will be Chairperson, ex officio. The Deputy Governor who is in—charge of the Payment and Settlement Systems—Member, and one officer of the Reserve Bank to be nominated by its Central Board will be its members.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY

