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**Dear Comrades,**

**9th January, 2017**

**News of Interest 9th Jan**

**QUOTE OF THE DAY**

**“THERE IS PROGRESS WHETHER YE ARE GOING FORWARD OR BACKWARD! THE THING IS TO MOVE!”**

**EDGAR CAYCE**

- 1. I-T DEPT ASKS BANKS TO REPORT PRE-NOTE BAN CASH DEPOSITS**
- 2. HOW MUCH BLACK MONEY DO INDIANS HAVE? THESE INSTITUTES MAY HAVE THE ANSWER**
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Business Standard

**1. I-T dept asks banks to report pre-note ban cash deposits**

Besides, banks have also been directed to ask account-holders who have not furnished PANs or Form 60

[Press Trust of India](#)

Seeking to analyse banking transactions in the months before the demonetisation move, the Income Tax Department has asked banks to report cash deposits in savings accounts between April 1 and November 9, 2016.

Besides, banks have also been directed to ask account-holders who have not furnished Permanent Account Numbers (PANs) or Form 60 (for those without PAN) at the time of opening the accounts to do so by February 28 this year.

According to the notification, banks, cooperative banks and post offices will have to report to the tax department all cash deposits between April 1 and November 9, 2016 — the day demonetisation came into effect, junking old Rs 500 and Rs 1,000 notes.

Bank officials will have to document PAN or declaration of Form 60 received from account-holders and maintains all records for transactions under Rule 114B of the I-T Act. It said persons who have not quoted PAN, or did not furnish Form 60 at the time of opening an account, would have to provide the same by February 28. Form 60 is a declaration filed by an individual without PAN.

The tax department had earlier asked banks and post offices to report to it all deposits above Rs 2.5 lakh in savings accounts and more than Rs 12.50 lakh in current accounts made between November 10 and December 30. Also, cash deposits exceeding Rs 50,000 in a single day had to be reported.

With an estimated Rs 15 lakh crore in junked currency notes coming back into the banking system after demonetisation, the tax department has started analysing the bank deposit trends.

### **Black money in net**

More than Rs 4,807 crore of undisclosed income has been detected, while Rs 112 crore worth new notes have been seized by the Income Tax department as part of its country-wide operations against black money hoarders after demonetisation. Official sources said the taxman carried out 1,138 search, survey and enquiry operations under the provisions of the Income Tax Act since the note ban was announced. The department has issued 5,184 notices to various entities on charges of tax evasion and hawala-like dealings. The department, they said, has seized cash and jewellery worth more than Rs 609.39 crore.

## **2. How much black money do Indians have? These institutes may have the answer**

After conducting studies on black money, these institutes have said their reports can't be revealed

Press Trust of India

The reports on the quantum of black money held by Indians in the country and abroad cannot be made public, the country's two premier institutes that conducted studies on the ill-gotten wealth on the Finance Ministry's directive have said.

The United Progressive Alliance government had in 2011 asked three institutes – Delhi-based National Institute of Public Finance and Policy (NIPFP), National Council of Applied Economic Research (NCAER), and National Institute of Financial Management (NIFM), Faridabad – to conduct studies on black money.

The study reports of NIPFP, NCAER and NIFM were received by the ministry on December 30, 2013; July 18, 2014 and August 21, 2014, respectively.

Replying to an RTI query, NIPFP and NCAER said they were not authorised to share the reports.

"Under the Terms of Reference (ToR) with the Ministry of Finance, we are not authorised to share the report without their concurrence. Such concurrence is not

forthcoming and our agreement with the Ministry of Finance prohibits us from disseminating this report," the NIPFP said in reply to the RTI application.

The NCAER, in its response, said: "The primary repository of the report is Central Board of Direct Taxes, Ministry of Finance" and the matter of sharing it should be dealt by the government.

No response has been received so far from the NIFM, which also conducted a study.

Earlier, the finance ministry had declined to share the reports submitted to it by the institutes about three years ago.

"Information is exempt from disclosure under Section 8 (1) (c) of the RTI Act, 2005, as the study reports received from the three institutes are under examination of the government and the same along with the government's response on these reports are yet to be taken to Parliament through the Standing Committee on Finance," the ministry had said.

The Section bars disclosure of information "which would cause a breach of privilege of Parliament or State Legislature".

There is at present no official assessment on the quantum of black money in the country and abroad.

"The issue of black money has attracted a lot of public and media attention in the recent past. So far, there are no reliable estimates of black money generated and held within and outside the country," the finance ministry had said while ordering the studies in 2011.

The different estimates on the quantum of black money range between \$500 billion to \$1,400 billion. A study by Global Financial Integrity estimated the illicit money outflow at \$462 billion.

The ToR for the studies included assessment or survey of unaccounted income and wealth and profiling the nature of activities engendering money laundering both within and outside the country.

The purpose of study was to identify, among others, important sectors of the economy in which unaccounted money is generated and examine the causes and conditions for it.

Financial Express

### **3. Mutual funds and income tax: All you want to know about benefits systematic withdrawal plans offer**

For any long-term investment, tax efficiency matters the most. Systematic withdrawal plans (SWPs) in mutual funds can offer the most tax-efficient income to meet one's post-retirement needs

By: Saikat Neogi

FOR any long-term investment, tax efficiency matters the most. Systematic withdrawal plans (SWPs) in mutual funds can offer the most tax-efficient income to meet one's post-retirement needs.

Most investors look at a lump sum investment to get regular fixed amounts after retirement. Popular products include post office monthly income scheme, senior citizens' savings scheme and monthly income plans of mutual funds. Ideally, an investor must also look at SWP in mutual funds for regular income from investment.

In SWP, an investor can redeem a predefined amount from his mutual fund investment every month, quarterly, half-yearly or annually. He can even withdraw a fixed amount or just the capital gains on his investments. Also, the money withdrawn can be reinvested. SWPs can also be used to create a regular flow of income to meet short-term needs.

### **Useful for pensioners**

SWP is most useful after retirement where there may not be a regular source of income. An investor can instruct the mutual fund to withdraw a certain amount at regular intervals. This gives the benefit to an investor, especially in an upward trending market. In fact, SWP holders are able to secure higher unit prices than those who withdraw the whole amount at once. However, when the equity fund suffers sharp decline in net asset value, the investor would be withdrawing more capital and get less capital appreciation. SWP can be set up to withdraw only the appreciation. In this way, the capital stays invested while he continues to enjoy the gains.

### **Options for withdrawal**

Depending on the investor's needs, one can choose to withdraw either a fixed sum per month or quarter, or the capital appreciation. Fund houses offer two withdrawal options for SWP. For fixed withdrawal option, the investor specifies the amount he wants to withdraw from the investment on a monthly or quarterly basis. A fixed amount can be withdrawn either on the first, 15th or the last working day of every month or quarter. Secondly, in appreciation withdrawal, one can withdraw only the appreciated amount on a monthly/quarterly basis. The capital appreciation as on the last business day of the month can be withdrawn.

### **Tax efficiency**

In SWP, tax treatment of each withdrawal is the same as withdrawal from any equity or debt funds. For equity, short-term capital gains (STCG) tax is not applicable on withdrawal after one year of investment. For debt funds, STCG tax applies if units are held less than 36 months. So, SWP gives an investor regular income and saves on taxes in the long term. Investors should opt for SWP in balanced funds as they are less volatile than pure equity funds.

Analysts say SWP scores over dividends from mutual fund for regular income. In SWP, stability of income is maintained. Also, as the quantum of dividend is not guaranteed, investors should look at SWP for regular flow of income after retirement.

## **4. Demonetisation: Auto, FMCG, realty, telecom companies worst-hit, India Inc Q3 numbers set to disappoint**

India Inc is likely to witness declining to flat profitability during the October-December quarter as companies start reporting their earnings for the season from January 13, which will once again underline that the economy is moving in the terrain of low...

By: [FE Bureau](#)

India Inc is likely to witness declining to flat profitability during the October-December quarter as companies start reporting their earnings for the season from January 13, which will once again underline that the economy is moving in the terrain of low demand and any broad-based recovery is far off the mark. The October-December quarter earnings will also be significant from another point of view — it will reflect the impact the government's demonetisation measure, which kicked in from the midnight of November 8, has had on various sectors.

According to an analysis done by brokerage research firm Kotak, the net income of the BSE-30 Index is likely to be flat on a year-on-year basis and decline 2.3% on a quarter-on-quarter basis and several sectors will be impacted by demonetisation.

Kotak has said its universe of companies are expected to post a strong 23% y-o-y growth in net profit but that will be because of low or negative profit or even losses in the same quarter last year. It said excluding the banking, energy, industrials and metals & mining sectors where several stocks had low or negative base, net income of the KIE universe could decline by 3.9% y-o-y. "We expect a y-o-y decline in the net income of automobile, consumer products, real estate and telecom sectors, partly due to the negative impact of demonetisation on sales volumes," the brokerage wrote in its report.

In the automobile sector, which has seen low sales in November and December due to demonetisation, the expectation is that volumes would be muted, which along with the increase in commodity costs, will see Ebitda margin impacted of all the car makers. "We forecast net profits of companies under our coverage universe to decline by 10% y-o-y (mainly led by a weak quarter for Tata Motors) driven by a 4.2% y-o-y decline in revenues and a 10.5% y-o-y decline in Ebitda. We expect the Ebitda margin for companies under our coverage universe to decline by 90 bps on a y-o-y basis," Kotak observed.

Similarly, consumer products, which have borne the impact of demonetisation, the expectation is of a dismal quarter with aggregate revenues and Ebitda/Pat for the KIE consumer universe (ex-ITC/Nestle) likely to decline by 0.2% and 5-6%, respectively.

In the real estate sector, another casualty of the demonetisation measure, weak sales would result in increase in debt for most developers. New land tie-ups will slow down and the expectation is that debt would increase for most listed developers also, barring Oberoi and Sunteck.

In telecom where the full impact of the launch of Reliance Jio Infocomm's is to be felt during the quarter, Kotak has estimated that in the voice segment, Bharti Airtel and Idea Cellular would report a 3-4% q-o-q decline in their revenues driven by a sharp 8-10% q-o-q decline in reported voice realisation per minute. It, however, expects voice traffic growth to be strong at +6-7% q-o-q.

In the data segment, the estimate is a flattish y-o-y and 9-12% lower q-o-q revenue for the two companies as customers shift their usage to Jio's free platform. "Revenues/Ebitda we model a 5.4% q-o-q and 2.5% y-o-y decline in revenues for Idea while for Bharti, we estimate a 4.5% q-o-q decline and 0.5% y-o-y growth. We expect overall wireless segment costs to be broadly flattish for the two companies as increase in network opex is mitigated by some savings on interconnect and regulatory costs. Ebitda will see near -100% flow-through impact of lower revenues and is likely to decline 10% q-o-q for Bharti and around 18% q-o-q for Idea. On a y-o-y basis, this would mean a 4.2% growth for Bharti and an 18.3% decline for Idea," Kotak has noted.

Economic Times

## **5. Govt asks banks to obtain PAN/ Form 60 from all account holders**

OUR BUREAU

The Centre has asked banks to obtain and link permanent account number (PAN) or Form 60 (where PAN is not available) in all existing bank accounts by February 28 this year.

The income tax rules have been amended for the purpose.

The directive will, however, not apply to the basic savings bank deposit account (BSBDA), according to an official release.

BSBDA are basically 'no-frill' accounts or those with very low minimum balances.

It may be recalled that the RBI had on December 15 last year mandated that no withdrawal would be allowed from accounts having substantial credit balance/deposits if PAN or Form No 60 is not provided in respect of such accounts.

Therefore, persons who are having bank account but have not submitted PAN or Form 60 are advised to submit their PAN or Form No 60 to the bank by February 28, the release added.

It has also been provided that person who is required to obtain PAN or Form No 60 should record the PAN/Form No 60 in all the documents and quote the same in all the reports submitted to the Income Tax Department.

### **Details of cash deposits**

Meanwhile, the Centre has directed banks and post offices to submit information in respect of cash deposits from April 1, 2016 to November 8, 2016 in accounts where the cash deposits during the period November 9 to December 30 exceeds the specified limits.

## **6. Banks search for revival in 2017**

### **S A RAGHU**

Demonetization may have temporarily shifted the spotlight away from the problems of banks, but early 2017 will herald in their yearly performance.

During the current half year, the 28 public sector banks (which account for over 80 per cent of the system) posted an overall loss of around ₹900 crore; this may seem an improvement from last fiscal's losses of ₹18,000 crore, but when we consider that the reduction was due to treasury and trading gains of a handful of banks, the message is clear — lending is becoming unprofitable and the villain is the mounting NPA stockpile.

Gross NPAs of the system have climbed relentlessly from ₹4.7 lakh crore last fiscal to over ₹6.5 lakh crore in September 2016. Particularly concerning is the fact that the accretions are mainly from slippages (from restructured standard assets) than from fresh credit, indicating the failure of restructuring. The asset quality review was essentially an accounting exercise to get banks to recognize and provide for asset value depletion and was, in a sense, the easier part of the resolution process, but the real problem will be unlocking cash flows from the NPAs — through sale, settlement or recovery. Consider this — at a weighted average lending rate of 10 per cent, the foregone interest income alone is over ₹65,000 lakh crore annually, not to mention the principal repayments. Unless assets are sold off or recovered, this massive cash deficit will require increased borrowings or higher deposits accretion. Deposit growth has also been slowing to around 6 per cent in FY2016. This will be the primary challenge for banks next year and it remains to be seen how the new tools like the Bankruptcy and Insolvency code will help. There is still a large stock of restructured standard assets with banks and the RBI's own estimation of the systemic GNPA to advances ratio at over 9 per cent by March 2017 seems on target.

## **Profitability challenge**

If unlocking resources from bad debts will be a huge task, an equally difficult challenge will be that of profitability. We need to remember that, unlike private or foreign banks, public sector banks largely rely on lending income to grow their profits. Unfortunately, credit growth has been abysmal at around 6 per cent last year due to the low investment appetite of industry. Retail credit (read home loans) has been the silver lining but with every bank piling up large retail exposures, concerns on asset quality are cropping up here too. In any case, the flood of CASA deposits from demonetization by itself should bring down rates without the RBI having to act.

One other positive offshoot of this liquidity, even if one-time, is the treasury and trading gains on banks' securities portfolios due to plunging yields.

But the key to reviving the long-term profitability of banks rests in the growth of credit, which is a function of a larger set of macro variables than just interest rates.

## **Constraint of capital**

Another constraint will be capital — under Indradhanush, banks were to raise around ₹1.1 lakh crore from the market, while Government was to infuse ₹70,000 crore as capital over four years. But with their performance indicators at a low, both capital and market borrowings look challenging. Another look-out for 2017 would be the expected roll-out of the payment banks and the small finance banks.

Payments banks had a shaky start with dropouts and it remains to be seen when the rest will commence operations given the changes that have since taken place — demonetization and the introduction of unified payment interface (UPI) have raised further question marks on their viability.

As to small finance banks, only two of the 10 commenced operations; the key question for the rest will revolve around how quickly the cash-intensive micro-finance sector adapts itself to the post-demonetization economy, because these players are all erstwhile MFIs that have transformed themselves into banks.

For banking in particular, the SBI subsidiaries' merger will be watched, while the long-due IFRS standards, in their unlikely event of being introduced next year, could be momentous for the banking system.

*The writer is an independent consultant*

## **7. Petrol outlets not to accept cards from today**

### OUR BUREAU

The All-India Petroleum Dealers' Association (AIPDA) has decided to stop accepting payment through credit and debit cards at retail outlets with effect from January 9. This follows the decision of some banks to charge for the card transactions.

Addressing newsmen on the side lines of a conference in Mangalore on Sunday, Ajay Bansal, President of AIPDA, said that HDFC Bank and others have informed the petroleum dealers that they will be charged 1 per cent on all credit card transactions and between 0.25 per cent and 1 per cent on debit card transactions from January 9.

The total margin of the petroleum dealers is around 2.5 per cent. The dealers have to bear the staff cost and other maintenance related activities at the retail outlet from this.

In such a situation, petroleum dealers cannot give 1 per cent of their margin to banks, he said. "We have specific mechanisms to compute the margin and these do not have any scope for credit card MDR (merchant discount rate). This will lead to financial losses for the dealers," he said.

(MDR is the commission charged by the bank that provides the necessary infrastructure to the merchant to accept payments using cards.)

As a result, it has been decided to stop accepting payment through credit and debit cards from January 9 in 53,840 retail outlets across the country, Bansal said. The association has written to the Finance and Petroleum Ministries in this regard, he said.

## **8. Bank of India revises lending rates on retail loans**

PTI

State-run Bank of India today said it has decided to reduce its interest rates on retail loans, including home and vehicle loans, with effect from tomorrow.

The bank earlier reduced its minimum lending rates or marginal cost of funds based lending rates (MCLR) by up to 90 basis points, effective January 7, it said in a release here.

"The revision in rate of interest on retail loans is a consequence of reduction in MCLR," it said.

The rate on home loans has been lowered to 8.65 per cent for women borrowers, while for others the rate has been set at 8.70 per cent.

The bank has reduced the interest rates for vehicle loans to 9.35 per cent.

For loan against property, the new rates are set in the range of 10.50-11 per cent.

The rates for women borrowers will be 0.5 per cent lower than the others, the bank said.

Many banks like State Bank of India, Bank of Baroda, ICICI Bank, HDFC Bank and others have reduced their lending rates after they were flushed with funds following the government's move to demonetise high currency notes on November 8 last year.

With kind regards,

Yours Comradely,



**(N. GOVINDRAJULU)**  
**GENERAL SECRETARY**