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GST to have Short – term Impact on Inflation

RBI gives thumbs up to 18% GST rate, says it will not have any material impact on CPI inflation.
The implementation of the Goods & Services Tax can lead to a short – term impact on inflation trajectory said by RBI in its Monetary Policy report on Tuesday, while giving thumbs up to the 18% GST rate.
"The creation of a unified goods and services market in the country would reduce supply chain rigidities, cut down transportation costs and trim costs in general through improvements in productivity, it could also produce a short lived pass through to the inflation trajectory" as per the report of RBI in its Monetary Policy.

By Shahana Shaikh

What has changed in RBI's Policy making?

The Monetary Policy Committee (MPC):

3 members nominated by Government	3 members nominated by RBI
Chetan Ghate, Professor of Indian Statistical Institute	Urijit Patel, Governor
Pami Dua, Director of Delhi School of Economics	R. Gandhi, The Deputy Governor Member incharge of Monetary Policy
Ravindra Dholakia, Professor of IIM - Ahmedabad	Michael Patra, Executive Director

MPC before and now :

Before	**Now**
Starting 2009, a technical advisory committee would advise the RBI Governor but he wasn't obl8iged to adhere by its judgment. The policy's authorship was solely that of the RBI Governor, thanks to his Veto Power. The August 9 policy was the last time things were done this way	Starting with the Tuesday, announcement the policy interest rate will be decided by the MPC, a key element in India's move to an inflation – targeting policy that also democratizes the process. The RBI has been tasked with keeping consumer inflation at 4 % in the next 5 years with a margin of 2 % points on either side in the Monetary Policy framework agreed with the Government.

By Shahana Shaikh

The Impact of GST on E-Commerce

The rapidly growing E-Commerce industries is one of the major industries that's having far reaching effect on how the business process which are being limited to square feet of infrastructure.When we talk about the e-commerce industries, several issues in relation to taxing crops up which bound the industries to limit their activities to certain states every states have their own set of rules & guidelines to the tax the E-Commerce industries /operators state of Uttarakhand has imposed additional 10% tax on goods delivered Via E-commerce states like Delhi & Kerala require E-Commerce operators to provide the information relating their platform. Delhi VAT laws have even gone to the extent of imposing penal provisions on the E-commerce operators by treating them as dealers in case of non-provisions of information about the suppliers as required by them. A lack of clarity and different set of rules/guidelines create a legal hassle for the E-Commerce industries/operators to carry out their operations smoothly i.e. without the interference of the revenue authorities.With GST on the way, E-Commerce industries/operators expected that it will help the industry business model to flourish by providing uniformity in tax rates and regulations across the country. This will help doing business in India easier, allow free play to market dynamics and allow cheaper penetration to these services however, the questions arise whether GST model law came out the revenue authority will fulfill above requirement and creates a hassle free & less compliance burden for the industry from the taxation perspective. As we all know, E-Commerce industries worked under various models. It can generally be categorized in the following categories:

B2B - Business to Business

B2C - Business to Consumer

C2C - Consumer to Consumer

B2G - Business to Government

C2G - Consumer to Government

G2B - Government to Business

G2C - Government to Consumer

The biggest challenge is to develop the GST model which can comprehensively cover all the paths / models on which E-Commerce industries work. There are several issues that need to be addressed considering the impact of the model GST law on the E-Commerce industries/ operators which are discussed as follows:

1. What about the provision regarding the goods returned by the customer?
2. Do E-Consumer operators have to apply for registration in every state?

As the model GST law is new and every brainstorms is working, it's an appropriate time to make a representation in order to bring hassle free law for the industries, consultants etc. the issues address above is only the few among many. GST is a positive sign for the E-Commerce.

By Tasfiya Shaikh

Income Declaration Scheme 2016

Black money, since the colonial times, has been the elephant in the room: it is everywhere and yet rarely talked about. In recent years, however, the middle class has become more strident in demanding action and it has led to a couple of large-scale public agitations. In Narendra Modi's election campaign too, recovering black money was a much-talked about promise. Closer to the mid-point of its term, the government has attempted to combat the underground economy with the Income Declaration Scheme (IDS), first announced in budget 2016.

The IDS, closing on September 30, is different from the previous schemes targeting black money in one crucial aspect: it is not an amnesty scheme but the Central Board of Direct Taxes (CBDT) is going to levy a total tax of 45% including 30% tax, 7.5% penalty fee and 7.5% surcharge. This means that if someone discloses unaccounted income or assets worth Rs.1 crore, Rs.45 lakhs – close to half of it – would directly go to the government's kitty, while the rest would turn into 'white'. In the past, the maximum tax that the government charged on black income disclosure did not exceed 15%.

Among the incentives under the IDS, no prosecution will be launched under the Benami Transactions (Prohibition) Act, 1988, the Income Tax Act or the Wealth Tax Act in respect of the assets declared. Declaration made under the scheme will not be admissible as evidence against the declarant under any other legal proceedings. However, no immunity is provided under the Foreign Exchange Management Act, Money Laundering Act, Indian Penal Code, Central Excise Act, Customs Act, Service Tax provisions, VAT provisions or other Acts.

By Liily Chwda

India not yet ready for privatization of PSBs: Arun Jaitley

Finance Minister Arun Jaitley has for now struck down the idea of privatization of public sector banks (PSBs), arguing that India is not ready for it yet. Only IDBI Bank would remain an exception.

Speaking at the India Summit, organized by the Economist, Jaitley said that the government is trying to consolidate some of the banks which may otherwise find it difficult in a competitive environment, adding that they would probably continue to be in the present state and function in the same manner.

Jaitley reasoned that public or political opinion ha still not converged to a point where privatization of PSBs could be considered. He added that some reforms did take place like the announcement of a government policy that talks of bringing down government holdings in banks to 52 percent.

Jaitley meanwhile maintained his stand of providing additional assistance for recapitalisation of public sector banks, as need be.

By Liily Chwda

Digital India is banking on post bank

The Post Bank (India Post Payments Bank) the Prime Minister spoke so affectionately about from the ramparts of the Red Fort shouldn't end up being another public sector entity in an already crowded financial services sector. Digital India requires not just vanilla bank accounts but widespread ability to make and receive electronic payments. The Post bank, designed as a service platform for the financial services sector rather than a narrow competing entity, can play an important role in fast tracking cashless India. We look here at the first scaled up application of the India stack.

Governments do better facilitating and servicing their corporate than competing with them. The Post Bank funded out of public exchequer, leveraging the network of the post office, reach of the postman and brand value of the Government of India needs to transmit resultant value to the entire industry rather appropriate it by itself. From the customer point of view, this will translate into walking into a post office (more than 155,000), tapping the postman (more than 300,000) or logging on to a single application on a smart device to transact with a service provider of choice.

For retail financial service providers like banks, payment service providers, mutual funds, insurance companies, pension fund managers, forex service providers and money transfer companies, it will mean extended reach to customers and cost saving on high street presence.

For the Post Bank, a platform approach will have several advantages. For one, it will work from a known position of strength of a common service provider rather than a competing agency, something the public sector is not adept. Second, it will be able to garner numbers in a high volume, low margin business. Third, it will attract foot falls from across the board providing cross-selling opportunities.

Fourth, it will serve a larger public purpose as a publicly funded entity. Fifth, it will be able o leverage consequential market intelligence to design and retail its own products much like a multi brand store attracting eye balls for its own products while retailing those of competitors.

As far as financial inclusion is concerned, resultant economies of scale and business efficiencies will make opening and servicing small accounts viable. Global experience suggests the first ladder of financial inclusion is remittance service, second saving accounts and third access to credit. Analytics flowing from the platform can be leveraged for credit scoring of individual’s families. The Post Bank, while not licensed to operate credit services, can support related third-party services.

Two developments make the Post Bank an attractive service platform. The requirement of the entity to be registered as a body corporate and regulated by the RBI will imbibe confidence in other players to use its services without being overawed by dealing with the Government of India. Second, the proliferation of interoperable technology in financial services will obviate the development of supporting technology platforms from scratch. The micro ATM pioneered by the UIDAI and the UPI of NPCI make for immediate roll-out of interoperable banking solutions. Visa and Mastercard have equally smart ready-to-use solutions.

The suggestion is not to down play the Post Bank. On the contrary, it will be nothing short of the proverbial game changer as the first mover in the financial services aggregator space. In fact, entry barriers will be high for considerable time before a competitor steps in. Systemically, this could be a major shot at deepening the financial services market, promoting cashless economy and supporting Direct Benefit Transfers.

By Sonal Saki