An Initiatve by
PANTOMATH CAPITAL ADVISORS PVT. LTD.

Re-CAP
A weekly mailer encapsulating capital market news
May 29, 2017 - June 03, 2017

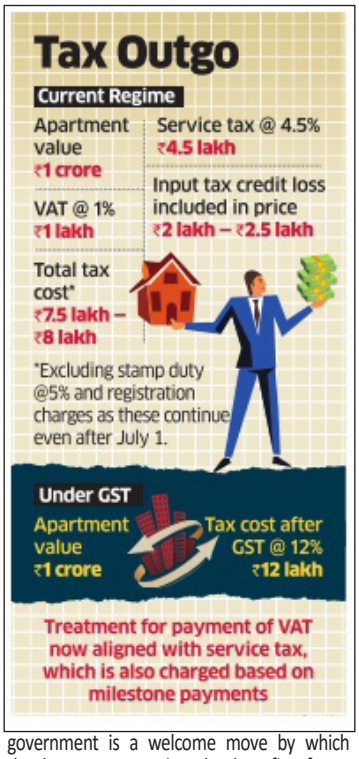
REALTY BUYERS IN STATE TO NOW PAY VAT ON STAGGERED PAYMENTS

PAYMENTS MADE BEFORE JUNE-END FOR UNDER-CONSTRUCTION PROPERTIES WILL BE CHARGED 1% VAT, WHILE PAYMENTS POST-JULY 1 TO ATTRACT HIGHER TAX UNDER GST

In a move that would impact all real estate transactions across the state, the Maharashtra government has issued a notification to levy value added tax (VAT) based on staggered payments received from home buyers.

With this, buyers making payments before June-end for underconstruction properties will be charged 1% VAT, while payments made after that will attract 6% state GST under the new tax regime.

Currently, property transactions attract VAT at 1% of the transaction value payable at the time of registration of the agreement. However, with the amendment in the Maharashtra VAT Act, the buyer will have to pay the tax at the time of making staggered payments to the developer. The treatment for payment of VAT is now aligned with the service tax, which is also charged based on milestone payments. With these changes, a home buyer making payments up to June 30 will need to pay tax of 5.5%, including 1% VAT and 4.5% service tax. Post-GST implementation, the same home buyer will have to pay 12% GST, including 6% Central GST and 6% state GST for payments made from July 1. Effectively, home buyers making payments before June 30 will be paying 1% VAT, while any payment post-June end will attract 6% SGST.



"The recent amendment by the Maharashtra government is a welcome move by which the buyers are getting the benefit of VAT payment in a staggered manner instead of paying upfront at the time of registration. However, this positive move will turn out to be negative keeping in mind the advent of GST from July 1, because all payments after GST implementation will attract SGST at 6% against 1% VAT," saidRohit Jain, senior partner and Harsh Shah, partner at legal firm Economic Laws Practice.

Jain feels that home buyers may be better off making payments before July 1, especially for housing projects that are nearing completion in the next 3-6 months.

Property buyers will benefit if they avail of the window until June end to make the remaining payment for their ongoing deals. However, they will have to bear the burden of additional tax levy if the payments are made after July 1. The burden is expected to be accentuated in tier I cities such as Mumbai and Pune, given the expensive property prices there. While the 12% GST through works-contract comes with eligible input credits on all procurements, such differential credit under the GST regime would not be in excess of 2-2.5% of the agreement value for places like Mumbai, experts said.

"The claimant dealer (builder) opting to pay composition amount (1% VAT in the current regime) under this scheme shall not be eligible to claim to set-off of taxes paid in respect of the purchases (input procurement)," said the government of Maharashtra's notification.

Thus, under the GST regime, the tax cost for property buyers is likely to increase by around 4.5%, which is the difference between 12% GST and current tax cost of around 7.5%. The current 7.5% tax levy is total of 4.5% service tax, 1% VAT and 2-2.5% of tax credit loss.

The property buyers of projects that are nearing completion may take a bigger hit considering that most of the goods may have already been purchased by the developer. For such projects, the tax cost may be even higher than 4.5% and could go up to 6.5% if all goods have already been procured under the current regime.

"Through this amendment, it is likely that the state government will receive higher tax revenues where the payments are received by the developer on or after July 1," said a senior tax consultant.

The notification is effective from June 1 and hence for agreements registered up to May 31, VAT liability will be continued to be paid upon registration.

Source: The Economic Times
June 01, 2017

TELECOM INDUSTRY'S DEBT AT UNSUSTAINABLE LEVELS: SBI

GOVT MUST OFFER BAILOUT TO PLAYERS, SAYS BHATTACHARYA

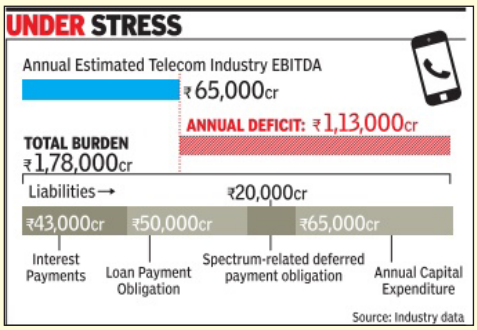
The country's largest bank SBI has sounded alarm bells over troubles of the telecom industry with its chairman Arundhati Bhattacharya writing to the government regarding "highly unsustainable levels" of debt of mobile companies. The telecom industry's debt to the banking sector is estimated at Rs 4 lakh crore.

SBI is understood to be carrying the largest exposure to the telecom industry, and Bhattacharya is now seeking duty waivers and deferred spectrum payments to save the bleeding telecom companies.

"The stress in the sector has reached highly unsustainable levels after the entry of new players and launch of free services, which led to erosion of ebitda (earnings before interest, taxes, depreciation and amortisation) of the telecom service providers," Bhattacharya wrote in a letter to telecom secretary Aruna Sundararajan.

The letter further stated that it may be difficult for telecom companies to sustain the pressure. "The data with us suggests that the total ebitda of the sector on an annualised basis is Rs 65,000 crore, which is clearly unsustainable for debt of more than Rs 4 lakh crore," the SBI chairperson said.

SBI managing director B Sriram told TO that the bank's own exposure to telecom was less than1% of its advances and only telecom loans worth Rs 3,000 crore are on the watch list. However, the bank is taking up the issue with the government as it is the largest bank in the country. Bhattacharya said there was a need for "immediate intervention to stem the slide"and the government should offer a bailout deal to players.



The relief package should include "deferred payment liability" for spectrum purchases that should be aligned to the life of the spectrum holding by telcos, which is 20 years. Against the current payback plan where companies need to pay for spectrum in 10 years after a two-year moratorium, Bhattacharya suggested a moratorium of five years and repay ment in 15 years thereafter.

The SBI chairman also sought "rationalisation of regulatory charges"in view of the "heavy burden of industry-specific levy"on telecom companies. She said against the proposed 18% GST rate, the government should bring it down to 5%," given the criticality of the sector to the Indian economy and cellular service becoming a necessity today".

She further said the 5% licence fee taken towards Universal Service Obligation (USO) Fund should be dispensed with as mobile services are now pan-India with deep penetration. "Also, accumulated USO Fund has already reached more than Rs 45,000 crore. "

Bhattacharya said the telecom industry was passing through a "crisis", which follows years of growth and expansion. "The sector went through its first crisis in the wake of the sweeping cancellation of licences by the courts. However, since then, the sector has forged ahead and hugely increased mobile penetration in the country," she added.

Source: The Times of India
June 02, 2017

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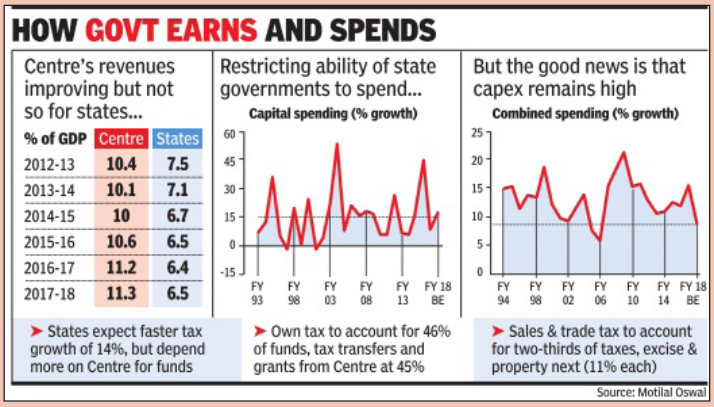
SPENDING BY STATES GROWS AT SLOWEST PACE IN 13 YEARS

MOST BUDGETS FOR 11% INCREASE IN FY18 AGAINST 19% IN FY17

Amid low spending by the private sector, some of the top states in the country have slowed down spending due to their inability to increase the tax base.

During the current financial year, 17 major states have budgeted for a 10.8% rise in spending, compared with 19% last year, making this the slowest pace of increase in at least 13 years. As a result, general government spending is expected to grow 7.8% this year, less than half the 17% rise recorded last year, a study by Motilal Oswal economist Nikhil Gupta showed.

But the good news is that at 7.8%, the pace of increase in revenue spending is lower than capital spending, which creates assets and generates jobs. Capital expenditure is projected to rise by14%, faster this year than the long-term average growth of around 12%. Given that nearly 84% of states' budgets goes toward revenue spending, such as interest payments, there is very little left to undertake productive spending.



Devendra K Pant, chief economist at India Ratings, said," Indian states are providing support to investment growth. The subdued investment is possible only because of the capital spending by the states. After the 14th finance commission award, the general apprehension was that states would spend on current consumption. On the contrary, the states have spent more on capital expenditure. On average, states spent 60% of their capex on building roads and bridges, power, and irrigation."

This year too, the highest share of allocation is towards irrigation and flood control (23%), followed by transport (19%) and energy (8%). Of the overall revenue spending, education (18%) tops the list, followed by interest payments (12%) and pension (11%).

But the real worry is inability of states to increase the share of own tax revenue. States raise resources from four key areas -own taxes, nontax receipts, share of central taxes and grants from the Centre. Although tax collections are budgeted to grow over 14%, the highest in five years, as percentage of GDP it remains a modest 6.5%.

States are increasingly relying more on the Centre to meet their funding needs as the growth in states' own receipts has significantly lagged the rise in support from the Centre, which comes in the form of tax transfers and grants. While Centre's support has increased by nearly 30% in the past three years, states' own resources grew by only 10% per annum between 2013-14 and 2016-17, the report said.

Just three years ago, support from Centre was estimated at around 60% of states' own tax receipts, but now they are nearly equal following the recommendations of the last finance commission.

Source: : The Times of India
May 29, 2017

WHAT IF BENGAL DOESN'T LAUNCH GST?

West Bengal's threat of not going ahead with GST from the scheduled rollout date of July 1may end up adversely impacting consumers and manufacturers in the state, albeit for around 75 days. Following last year's amendment to the Constitution, by mid-September, all states and the Centre have to move to GST and do away with multiple levies such as excise, service tax, VAT, central sales tax and entertainment tax.

If the other states and the Centre stick to the July deadline, until mid-September, producers

in other states will ship goods to West Bengal after paying Integrated GST and Central GST, while the state government will impose other levies, including VAT. Unlike rest of the country , input credit or credit for taxes paid will not be available to companies for goods sold in West Bengal, resulting in consumers having to shell out more, or face the prospect of supplies being slowed down, said experts.

Nearly 90% of the businesses in West Bengal have registered on the new GST platform, and Kolkata has the third-highest enrolment after Ahmedabad and Mysuru, a CBEC official said. Yet, the state government has called for a deferment. State finance minister Amit Mitra had said differences need to be sorted out before he moves the State GST Bill in the assembly.

"If a state does not enact the SGST law before July 1, then supplies made within the state will be costlier given that both CGST and VAT may apply. Similarly supplies made to outside the state would also be costlier assuming input VAT credits would not be available," saidBipinSapra, partner for indirect tax at consulting firm EY.

Manufacturers sending goods to other states will have to pay IGST and CGST in addition to local levies. Again, they would be at a disadvantage. Given that West Bengal is a consuming state, even the state government is seen to be a loser if it doesn't move to GST from July. And, in any case, it will lose out on possible compensation for revenue loss for this period, experts added. "The introduction of GST is at such an advanced stage that it is fervently hoped that all states continue to display the same spirit of cooperative federalism that they have displayed in the GST Council meetings held since February 2017," said M S Mani, senior director at Deloitte.

Source: The Times of India
June 01, 2017

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FILING RETURNS WILL NO LONGER BE TAXING

There is an excitement in the country about GST. People want to understand the process of GST. Through this article, we present some points about the process of filing returns.

Every trader will have to file returns once a month and pay tax. The input credits of taxes that have been paid on purchases will be automatic and will be available to every trader. The whole process of filing returns is online. If accounts are kept in the Excel sheet provided by GSTN, then the same account will automatically be converted into returns with the help of an offline tool every month.

If a trader sells all his merchandise only to retail customers, then the returns of such a trader will be very simple ¬ the summary of rate-wise turnover will be shown.

If a trader avails of the composition scheme and has a turnover of less than `50 lakh, such a trader will not have to file returns every month, but every three months, showing the total turnover.

Traders selling business-to-business merchandise must give specific details for each sale invoice in their returns. When a trader's sales details are entered into the form of returns on the GST website by the 10th of the month, the complete details of purchases made by his buyers will be seen in his GSTR-2 (GST Online Account). That means it will auto-populate.

With the purchasing buyer clicking okay, after looking at these details, the merchant's GSTR-3 return will appear in the computer itself. The GSTN system will auto prepare and show the merchant's tax liability and the complete details of the input tax credit, along with net tax liability. The trader would be required to deposit the difference between tax liability and input tax credit. Taxes must be deposited online or in the bank.

After this, the trader will have to submit the final return made by computer by clicking on GSTR-3 and submitting it by the 20th of the month.

There is an arrangement in business-tobusiness transactions which we call the input tax credit reversal, which is to return the input tax credit taken. A lot of people have expressed concern about this, but if you understand the whole process, then you would fully support it.

If the trader from whom you buy goods has shown that transaction in his return by the 10th of the month, you will get input tax credit. Suppose the person selling the goods does not put that invoice in his returns, even then you will get an opportunity to show it in your GSTR-2 return by the 15th of the month, and by doing so; you will get full input tax credit.

> **If a trader sells all his merchandise only to retail customers, then the summary of rate-wise turnover will be shown**

After that, you have to contact the businessman (the supplier) and explain that he must show that transaction in his return so that there is no reversal of the input tax credit received in the next month. You will get 30 days for this and if even then the merchant who sells the merchandise does not accept this transaction and does not show it in his return, then the input tax credit tax that you got would be reversed in your returns next month.

It is the duty of every businessman to deal with such traders who have deposited the tax with the government after collecting the tax from you.On the basis of the default of each merchant, they will be given a compliance rating, which will be visible to all other traders so that you do not do business with frequent defaulters.

Source: The Economic Times
June 02, 2017

BANKS, RATING COS MAY GET I-T DEFAULTERS' IDs

A seven-member committee constituted by the Central Board of Direct Taxes (CBDT) will discuss whether the names of confirmed income tax (I-T) defaulters should be shared with banks, financial institutions, credit and risk-rating agencies.

The current mechanism of naming and shaming such defaulters will be also reviewed to ascertain whether it has served the intended purpose of collecting outstanding I-T dues.

The process of naming and shaming high-value defaulters was introduced a little over two years ago. It began with periodical release of details of defaulters owning more than Rs 10 crore each. But last August a decision was taken to also make available a list of chronic defaulters owning more than Rs 1 crore. In addition to issuing advertisements asking these defaulters to pay, CBDT also uploads their details on its website.

The main objective of this committee, whose members comprise high-ranking I-T officials, is to suggest ways to ensure better collection of tax arrears. Top dossier cases will be studied to see whether additional parameters of monitoring should be introduced to ensure larger recoveries are made in such cases in a shorter time frame.

CBDT'S MANDATE

- Review existing mechanism of naming and shaming defaulters
- Study top dossier cases and ascertain whether additional monitoring mechanisms are required
- Conduct deep-dive analyses based on categories, period of outstanding, regional review

According to CBDT's internal reports, the provisional outstanding arrears were Rs 9, 29,972 crore at the beginning of FY 2016-17. CBDT had set a collection target of Rs 53,981 crore for the year ended March 31, 2017. The collection target for Mumbai was the highest at Rs 10,836 crore, followed closely by Delhi with a target of Rs 10,598 crore. In February, Sushil Chandra, CBDT chairperson, had shot off a letter to I-T officials, asking them to expedite the process of recovery of these outstanding amounts.

Source: The Times of India
May 30, 2017

UDAY KOTAK TO HEAD SEBI PANEL ON CORP GOVERNANCE

Aiming to improve standards of corporate governance of listed companies, markets regulator Sebi on Friday set up a committee under the chairmanship of Uday Kotak, executive vice chairman of Kotak Mahindra Bank. The panel includes representatives of corporate India, stock exchanges, professional bodies, investor groups, chambers of commerce, law firms, academicians and research professionals, and Sebi. The committee would make recommendations on ensuring independence in spirit of independent directors and their active participation in functioning of the company and steps for improving safeguards and disclosures pertaining to related party transactions.

Source: The Economic Times
June 03, 2017

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NSE VC QUITS AS PROBE INTO SYSTEM BREACH GATHERS PACE

Just as the market regulator Sebi was stepping up its investigation into NSE's alleged favouring of a few select brokers to access trading data between 2012 and 2014, Ravi Narain, the bourse's vice-chairman, has tendered his resignation. "On Thursday night, Ravi Narain sent his resignation letter to the chairman which will now be discussed by the board," an NSE source said.

In its efforts to fix responsibility for the systems breach on NSE's trading servers that had happened for 18 months starting December 2012, Sebi had a couple of weeks ago sent show-cause notices to about15 current and former NSE officials and also the exchange. Narain, one of the founding members of the bourse that was set up by late R H Patil, is among those who have been show-caused by the regulator.The systems breach affair is also called NSE's HFT (high-frequency trading) scam.

The alleged systems breach had come to light after an anonymous whistleblower sent a detailed mail to Sebi. Subsequent investigations showed that this systems breach had started when Narain was NSE's MD and ended in May 2014, a few months after Chitra Ramkrishna, another NSE founding member, took over as the bourse's MD. In December 2016, just days before NSE filed with the regulator for its IPO, Ramkrishna had put in her papers.

In an earlier communication, Sebi had asked the NSE board to name the people who were responsible for the systems breach that resulted in preferential access for a few brokers who used high-speed algorithmic trading programmes to profit from it. Sebi believes the breach had led to illegal profits for some brokers.

An NSE spokesperson didn't reply to messages and calls.

Source: : The Times of India
June 03, 2017

SEBI TO LEVY FEE ON P-NOTE ISSUANCE

In a bid to discourage foreign portfolio investors from issuing participatory notes, Sebi on Monday proposed to levy a fee on P-Notes. This charge will be in addition to the fee that FPIs pay when they register with the Indian regulator. P-Notes are offshore derivatives instruments that foreign investors who do not want to invest in the Indian market can buy from registered FPIs.

Sebi also wants P-Note players to issue these instruments only for hedging of the buyers' positions in India and not for any speculative purpose.

At one point of time P-Notes were popular instruments, mainly among questionable foreign investors since they could plough black money into the Indian stock market through this route. In the last few years, as Sebi and the government cracked down on the issuance of P-Notes, its use has come down drastically.

As of April 2017, total value of outstanding P-Notes was Rs 1.68 lakh crore, down 20.5% from Rs 2.12 lakh crore a year earlier, Sebi data showed. A few years ago, the total value of P-Notes was more than 50% of the overall FPI investments in India. Currently it is at just about 6%, Sebi data showed.

Industry players said Sebi's latest proposals, published in a consultation paper that invited public comments, was another move to check any misuse of PNotes to channelise black money into the Indian market.

Source: : The Times of India
May 30, 2017

SEBI FORMS PANEL ON CORPORATE GOVERNANCE

Aiming to improve standards of corporate governance of listed companies, markets regulator Se bi on Friday set up a committee under the chairmanship of Uday Kotak, chief of Kotak Mahindra Bank.

The panel includes representatives of corporate India, stock exchanges, professional bodies, investor groups, chambers of commerce, law firms, academicians and research professionals, and Sebi. The panel would have to submit the report within four months, Sebi said. The committee would make recommendations to Sebi on ensuring independence of independent directors and their active participation in functioning of the company and steps for improving safeguards and disclosures pertaining to related party transactions. Besides, the panel would suggest measures to address issues faced by investors on voting and participation in general meetings and ways to improve effectiveness of board evaluation practices. Further, it will also suggest Sebi on issues pertaining to disclosure and transparency.

Earlier in April, Sebi had come out with detailed corporate governance norms for listed companies providing for stricter disclosures and protection of investor rights, including equitable treatment for minority and foreign shareholders. The new rules, which would be effective from October 1, require companies to get shareholders' approval for related party transactions, establish whistleblower mechanism, elaborate disclosures on pay packages and have at least one woman director on their boards.

Source: The Times of India
June 03, 2017

I-T DEPT WARNS AGAINST RS 2L CASH DEALINGS

Income Tax department on Friday warned people against indulging in cash transaction of Rs 2 lakh or more saying that the receiver of the amount will have to cough up an equal amount as penalty.

It also advised people having knowledge of such dealings to tip-off the tax department by sending an email to `blackmoneyinfo@ incometax.gov .in'. The government has banned cash transactions of Rs 2 lakh or more from April 1, 2017, through the Finance Act 2017.

The newly inserted section 269ST in the Income Tax Act bans such cash dealings on a single day, in respect of a single transaction or transactions relating to one event or occasion from an individual.

"Contravention of Section 269ST would entail levy of 100% penalty on receiver of the amount," the tax department said in a public advertisement in leading dailies. In the 2017-18 Budget, FM Arun Jaitley had proposed to ban cash transaction of over Rs 3 lakh. This limit was lowered to Rs 2 lakh as an amendment to the Finance Bill, which was passed by the Lok Sabha in March.

Source: The Times of India
June 03, 2017