Indian Versus Malaysian GST - Lessons For Indian GST

BY- ANUJ JINDAL
Basics of GST

One Indirect Tax For The Whole Nation

Value Added Tax

Minimal Cascading Effect

Follows Destination Principle

Input Tax Credit
Basics of GST

At the Central level, the following taxes are being subsumed:

1. Central Excise Duty,
2. Additional Excise Duty,
3. Service Tax,
4. Additional Customs Duty commonly known as Countervailing Duty, and
5. Special Additional Duty of Customs.

At the State level, the following taxes are being subsumed:

1. Subsuming of State Value Added Tax/Sales Tax,
2. Entertainment Tax (other than the tax levied by the local bodies), Central Sales Tax (levied by the Centre and collected by the States),
3. Octroi and Entry tax,
4. Purchase Tax,
5. Luxury tax, and
6. Taxes on lottery, betting and gambling.
GST - LESSONS FOR INDIA

Why Malaysia’s GST has failed?

• Malaysia’s new PM has got into power on the promise of abandoning Goods and Services Tax

Reasons-

• INPUT TAX CREDIT - The concept of taking credit for the taxes paid previously to settle the final tax liability of business was new to Malaysia (GST was introduced in 2015), creating confusion.
• INFLATION IN MASS USE ITEMS - Malaysia’s GST was also applicable to many mass-use items—the tax was blamed by the public for rising prices.
• Country hit by the multi-year fall in oil prices from the second quarter of fiscal 2015
• Malaysia had a single rate of 6% for all goods and services. India chose a four-slab structure: 5% (for mass-use items), 12%, 18% and 28% (for luxury goods)
India’s Track Record so far on GST

- India’s GST design, with mass-use items either exempt or taxed at the lowest rate of 5%, is the soundest as it does not resort to over-simplification of the indirect tax code.
Q) Consider the following items and find out the ones exempt under GST?

1. Cereal grains hulled
2. Chicken eggs cooked
3. Fish processed and canned
4. Newspapers containing advertising material

Answer- 96 chapters, more than 200 Major Items
Q) Consider the following statements about GST and Find Out the Incorrect one/s?

1. Both Central Excise and Customs have been subsumed under GST
2. Octroi has been subsumed under GST
3. Tax on Petroleum products and Alcohol is still out of purview of GST
4. GST is an Origin Based Taxation system

Answer- 4 is incorrect
RURAL CONSUMPTION, WAGE GROWTH

BY- ANUJ JINDAL
India’s rural consumption surges in boost for FMCG firms

• Consumption growth in rural India has outpaced urban consumption by the widest margin in five years, encouraged by good rainfall and increase in government spending on infrastructure

• Rural consumption rose by 9.7% in the year ended 31 March, faster than the 8.6% growth in urban spending, according to market researcher Nielsen.
Rural consumption had slowed in 2014 and 2015 due to:

- Disruptions of demonetization in November 2016
- Implementation of the goods and services tax (GST)
- Continuous Droughts

Hurting sales of companies such as Hindustan Unilever Ltd (HUL), the nation’s biggest household goods maker.
The Reason Can Be Either LESS DEMAND OR MORE SUPPLY
Q) The following statements are about Rural India. Consider and find out the correct one/s:

1. The rural consumption growth rate has surpassed urban consumption growth rate in the year 2017-18
2. The real wage rate growth is negative in rural India

Options:

a. Both 1 and 2 are correct
b. Only 1 is correct
c. Only 2 is correct
d. Both 1 and 2 are incorrect

Answer- a
2ND BI-MONTHLY MPC MEET
JUNE 6TH 2018

BY- ANUJ JINDAL
Expected Impact of MPC Change
Latest Move - Reasons
Objective of MPC?
What is Monetary Policy Committee?
What is Monetary Policy?
• Highlights of Latest MPC:
  • Repo Rate Increased to 6.25%
  • Reverse Repo Rate – 6%
  • MSF and Bank Rate – 6.5%

• Capacity utilisation by manufacturing firms increased significantly in Q4: 2017-18 as revealed in the latest round of the Reserve Bank’s order books, inventories and capacity utilisation survey (OBICUS)
RBI leans towards a rate hike on spike in crude price, inflation

- Crude oil prices are touching $80 per barrel
- While some economists expect the Monetary Policy Committee to assume a more hawkish tone, others expect a 25 basis points hike in key policy rates (now changed)
- Chances of a rate hike will increase if international crude prices rise further or the rupee depreciates significantly
- RBI had projected inflation to remain between 4.7% and 5.1% in the first half of the financial year.
Factors affecting India’s Fiscal Health:

- **Surging Oil Prices** - Brent crude was at $80 a barrel for the first time in four years, triggering fears of high inflation.

- **Weakening Rupee** – Exports are Promoted but **Essential Imports Become Expensive**

More FISCAL DEFICIT ➔ Higher INTEREST RATES ➔ Expensive Govt. Borrowing

- Expensive Corporate Borrowing
- Less Corporate Profits
Dynamic Fuel Pricing

• **Dynamic Fuel pricing** - price change daily, introduced in June 2017

• **Why Surge?** Supply cut by OPEC, falling production in Venezuela
The implications of rising oil prices

- An analysis, more than a year ago, had indicated that almost the entire reduction of about 0.6% of the gross domestic product (GDP) in India’s fiscal deficit between FY14 and FY16 could be attributed to the sharp fall in crude prices.
- Since the pass-through of the fall in crude prices to retail consumers was limited (the government retained a large part of the benefits by hiking excise duty on retail fuel products), the direct impact on inflation—measured by consumer price index (CPI)—was muted.
- In short, one could safely conclude that higher crude prices will adversely affect the twin deficits—fiscal and current account deficit—of the economy, which will have spillover impact on the monetary policy, and consumption and investment behavior in the economy.

- Fiscal Deficit- More Borrowing Required to Honor Higher Crude Imports
- CAD- A higher Import Bill Means more outgo of Foreign Exchange, which means higher CAD
According to the recent World Economic Outlook (WEO) by the International Monetary Fund (IMF), roughly **80% of the recent oil price increase was caused by deterioration in supply conditions**

**Impact on current account deficit**

- As a rule of thumb, an increase of **$10 per barrel in crude oil prices** will lead to an adverse impact of **$10-11 billion (or 0.4% of GDP)** on current account deficit.
Q) Which of the following is not a Quantitative Tool of monetary policy?

1. Repo rate
2. Reverse repo rate
3. Marginal standing facility
4. Market Stabilization Scheme
5. Loan to Value Ratios

Answer- 5 is incorrect
Q) Consider the following statements about MPC and Pick the incorrect ones:
1. A Dovish Policy tone indicates that RBI expects inflation to go up in the future
2. MPC focuses on Inflation targeting with target of 4% and range of +/-2%
3. An Increase in Policy Rate by MPC means more money supply in the economy
4. MPC increases Repo rate to counter increasing Inflation

Options:
a. All are correct
b. 1 and 3 are incorrect
c. 1, 3 and 4 are incorrect
d. Only 3 is incorrect
e. 3 and 4 are incorrect

Answer- b
NPS REFORMS

BY- ANUJ JINDAL
Will Government NPS hike equity investment from 15% to 50%?

• While the private sector National Pension System (NPS) is set to increase the equity investment limit in the direct or active choice option to 75%, the equity limit for government NPS is still at 15%

• But the Pension Fund Regulatory and Development Authority (PFRDA) is hopeful that the government will allow a hike in equity investment limit for government NPS as well, from 15% to 50%

• As of now, private NPS allows up to 50% investment in equities directly; the equity limit will move up to 75% even under the direct or active choice
Government NPS:

- In case of government NPS (Centre and state), employees can’t choose the investment limits or the fund manager.
- The money is invested in a specific proportion across three state-run managers—SBI Pension Funds Pvt. Ltd, UTI Retirement Solutions Ltd and LIC Pension Fund Ltd—and the caps in each asset class are defined.
- Each pension fund manager can invest up to 50% in government securities (G-secs), up to 45% in debt instruments, up to 5% in short-term debt, up to 15% in equities and up to 5% in structured securities and other miscellaneous investments. The current fund management charge (FMC) of government NPS is 0.0102%.
- The G.N. Bajpai committee report that reviewed investment guidelines of government and private NPS, recommended to increase equity allocation to 50%.

Low on returns

Government sector National Pension System (NPS) could benefit from higher allocation to equity

- Average return of government NPS* (15% in equity)
- Average return of private sector NPS^ (50% equity, 50% g-sec)

9.02%

9.96%

*Central government returns, for three fund managers; ^Five fund managers; Since private sector pension fund managers have different dates of inception we have chosen a period of 21 May 2009 to 27 April 2018 to calculate returns for both private and government sector NPS.

Source: NPS Trust return calculator and Mint Research
Q) Consider the following statements regarding NPS and find out the incorrect one/s:

1. The upper limit of Equity investment in Government NPS has been hiked to 50%
2. The upper limit of Equity Investment in Private NPS has been hiked to 75%
3. The contribution to Government NPS can be invested in any of the 3 options- SBI Pension Funds Pvt. Ltd, UTI Retirement Solutions Ltd and LIC Pension Fund Ltd
4. The committee which proposed a hike in equity investment under NPS was headed by Umesh Sinha

Options:

a. All are correct
b. Only 1 and 3 are incorrect
c. Only 1 and 4 are incorrect
d. Only 2 and 3 are incorrect
e. Only 2 and 4 are incorrect
f. Only 1 and 2 are incorrect

Answer- c
PROMPT CORRECTIVE ACTION PLAN AND LENDING TO MSMEs

BY- ANUJ JINDAL
What is PCA?

Bank's Financial Condition Starts Going Down

RBI imposes restrictions and takes corrective action

Measured Through-
1. CRAR
2. Asset Quality
3. Profitability
4. Leverage
## PCA matrix - Areas, indicators and risk thresholds

<table>
<thead>
<tr>
<th>Area</th>
<th>Indicator</th>
<th>Risk Threshold 1</th>
<th>Risk Threshold 2</th>
<th>Risk Threshold 3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Capital</strong> (<strong>Breach of either CRAR or CET 1 ratio to trigger PCA</strong>)</td>
<td>CRAR- Minimum regulatory prescription for capital to risk assets ratio + applicable capital conservation buffer (CCB) current minimum RBI prescription of 10.25% (9% minimum total capital plus 1.25% of CCB as on March 31, 2017) <strong>And/Or</strong> Regulatory pre-specified trigger of Common Equity Tier 1 (CET 1min) + applicable capital conservation buffer (CCB) current minimum RBI prescription of 6.75% (5.5% plus 1.25% of CCB as on March 31, 2017) <strong>Breach of either CRAR or CET 1 ratio to trigger PCA</strong></td>
<td>upto 250 bps below Indicator</td>
<td>more than 250 bps but not exceeding 400 bps below Indicator</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>&lt;10.25% but &gt;=7.75%</td>
<td>&lt;7.75% but &gt;=6.25%</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>upto 162.50 bps below Indicator</td>
<td>more than 162.50 bps below but not exceeding 312.50 bps below Indicator</td>
<td>&lt;3.625%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>&lt;6.75% but &gt;= 5.125%</td>
<td>&lt;5.125% but &gt;=3.625%</td>
<td></td>
</tr>
<tr>
<td><strong>Asset Quality</strong></td>
<td>Net Non-performing advances (NNPA) ratio</td>
<td>&gt;=6.0% but &lt;9.0%</td>
<td>&gt;=9.0% but &lt;12.0%</td>
<td>&gt;=12.0%</td>
</tr>
<tr>
<td><strong>Profitability</strong></td>
<td>Return on assets (ROA)</td>
<td>Negative ROA for two consecutive years</td>
<td>Negative ROA for three consecutive years</td>
<td>Negative ROA for four consecutive years</td>
</tr>
<tr>
<td><strong>Leverage</strong></td>
<td>Tier 1 Leverage ratio</td>
<td>&lt;=4.0% but &gt;=3.5% (leverage is over 25 times the Tier 1 capital)</td>
<td>&lt; 3.5% (leverage is over 28.6 times the Tier 1 capital)</td>
<td></td>
</tr>
</tbody>
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*CCB would be 1.875% and 2.5% as on March 31, 2018 and March 31, 2019 respectively.*
## Actions That RBI Can Take

<table>
<thead>
<tr>
<th>Specifications</th>
<th>Mandatory actions</th>
<th>Discretionary actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Threshold 1</td>
<td>Restriction on dividend distribution/remittance of profits.</td>
<td>Common menu</td>
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<td></td>
<td>Promoters/owners/parent in the case of foreign banks to bring in capital</td>
<td>Special Supervisory Interactions</td>
</tr>
<tr>
<td>Risk Threshold 2</td>
<td>In addition to mandatory actions of Threshold 1,</td>
<td>Strategy related</td>
</tr>
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<td>Restriction on branch expansion; domestic and/or overseas</td>
<td>Governance related</td>
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<td>Higher provisions as part of the coverage regime</td>
<td>Capital related</td>
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<tr>
<td>Risk Threshold 3</td>
<td>In addition to mandatory actions of Threshold 1,</td>
<td>Credit risk related</td>
</tr>
<tr>
<td></td>
<td>Restriction on branch expansion; domestic and/or overseas</td>
<td>Market risk related</td>
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<td>Restriction on management compensation and directors’ fees, as applicable</td>
<td>HR related</td>
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<td>Profitability related</td>
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<td>Operations related</td>
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<td></td>
<td>Any other</td>
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</tbody>
</table>
The PCA framework would apply without exception to all banks operating in India including small banks and foreign banks operating through branches or subsidiaries based on breach of risk thresholds of identified indicators.

i. Breach of ‘Risk Threshold 3’ of CET1 by a bank would identify a bank as a likely candidate for resolution through tools like amalgamation, reconstruction, winding up, etc.
How important are Public sector banks to MSMEs?

- The government has voiced its concern that micro, small and medium enterprises (MSMEs) would face difficulty in getting credit as 11 public sector banks face restrictions on their credit disbursals, with two of them already asked to stop lending.

- The finance ministry is going to ask the Reserve Bank of India (RBI) to relax some of the rules under its Prompt Corrective Action (PCA) to avoid banks from clamping up loans to MSME firms.

- Under PCA, Dena Bank has already been asked to stop lending, while Allahabad Bank has been told to avoid corporate credit exposure. For all purposes, these lenders can no longer disburse loans to any kind of businesses.
• In the report *MSME Pulse*, Small Industries Development Bank of India, which facilitates financing for such firms, has said that private sector banks are increasing their market share.

• According to the report, private sector lenders have a market share of 40% as of December 2017, a 6 percentage points gain in two years.

• Small businesses are a major source of employment for the economy and it is imperative that funding to them continues. But let the funding be from a strong balance sheet.
Q) The Inclusion of a Bank Under PCA is determined by RBI based on the following factors, except?

1. CRAR
2. Asset Quality
3. Profitability
4. Leverage
5. Solvency

Answer- 5
Q) Consider the following statements about PCA and find out the correct ones:

1. PCA was introduced by RBI in the year 2002
2. There are a total of 3 Risk Thresholds under PCA framework as per RBI
3. PCA applies to all banks except Regional Rural Banks
4. RBI can order restructuring of a bank under PCA but it can not order winding up of the bank

Options:
a. All are correct
b. Only 1 is correct
c. Only 1,2 and 3 are correct
d. Only 1 and 2 are correct
e. Only 2, 3 and 4 are correct
f. Only 2 and 3 are correct

Answer- d
Pradhan Mantri Vaya Vandana Yojana

Eligibility - 60 years and above

Minimum - 1,50,000

Maximum - 15,00,000

Assured return - 8% p.m.

The difference between return generated by LIC and the assured return of 8% per annum would be borne by Government of India as subsidy on an annual basis.
Q) Consider the following statements about PMVVY and find out the incorrect ones:

1. The minimum yearly investment is 150,000 and maximum investment is 1500,000
2. This is a defined benefit pension scheme
3. This is a defined contribution pension scheme
4. The scheme is eligible for people of 60 years and above

Options:
- a. All are correct
- b. 3 and 4 are incorrect
- c. 1 and 2 are incorrect
- d. 1 and 3 are incorrect
- e. Only 3 is incorrect
- f. Only 2 is incorrect

Answer: e is incorrect