BYJU'S The Learning App

Economy This Week (19th August to 1st Sep 2019)

TABLE OF CONTENTS

1. Draft DTC submitted (LM 20/8/19)

- The panel has submitted report to overhaul 58 years old Income Tax Act
- Some of the important recommendations are
    - Uniform corporate tax of 25% for all the companies (Indian + Foreign, presently foreign companies present in India without a subsidiary are taxed at 40%, these foreign companies do not pay a dividend distribution tax)
        - Presently the domestic companies with a turnover of up to ₹ 400 Cr pay corporate tax at 25% and those earning more than ₹ 400 Cr pay a corporate tax of 30% (excluding surcharges and cess)
    - Income Tax slabs to be restructured to provide benefit middle and upper middle class Indians
    - Providing incentives for promoting startups
    - New concept of settling of tax disputes through mediation (between taxpayer and collegium of officers)
    - Shorter and simpler direct tax law
    - Code has proposed “branch profit tax” on the earnings of foreign entities, that they repatriate to their overseas parent
    - Has recommended making the assessment proceedings faceless.

2. RBI wants loans linked to repo rate (LM 20/8/19)

- The central bank is considering asking the banks to link the loans to an external benchmark such as repo rate to improve the transmission of policy rates and foster economic growth
- The central bank has not said if they would be issuing any specific guidelines in this regard
- In December, RBI had asked banks to link their lending rates on all fresh loans (retail and small business loans with floating rates) to an external benchmark from April 1. This was opposed by many bankers and hence the proposal was put on hold
- Currently, banks price their loans based on MCLR (Marginal Cost of Funding Based Lending Rate)
- Except the cut in August, the MPC has cut repo rate cumulatively by 75 bps and the banks have transferred a benefit of 29 bps on an average. RBI governor has stated that the central bank is not happy with this transmission.

3. Finance Commission (BS 20/8/19)

- The 15th FC is expected to recommend abolition of many centrally sponsored schemes. This would provide a huge relief to the centre and states and enable them to realise substantial savings from next year

- The schemes that are to be withdrawn fall under the state list such as agriculture, public health, water supply, irrigation etc
- At present, there are 30 centrally sponsored schemes. These are umbrella schemes with many schemes under them. Apart from this, as per budget 2019-20, there are more than 700 central sector schemes
- The centrally sponsored scheme have financial contribution from centre and states, whereas in the case of central schemes the contribution/expenditure is incurred by the central govt alone
- The states have been demanding a reduction in the number of centrally sponsored schemes
- The central govt is looking into the evaluation of the schemes and sub-schemes to be pruned
- The viewpoint of the states is that the centrally sponsored schemes are leading to a huge expenditure which is affecting their finances. The chief ministers of the states have asked the centre to either convert these schemes into central schemes or withdraw them.

4. Govt to revise indices of farm and rural labour (LM 20/8/19)

- The govt is all set to revise the inflation indices for agricultural and rural labour to determine their minimum wages
- The current base year is 1986-87. The Labour Bureau has started the work taking 2018-19 as the new base year. Apart from changing the base year, it will also take into account the new consumption patterns of the workers. This exercise is slated to be completed by February 2020
- The revision in the indices will be a good measure of change in the rural wages
- These will also help the govt in revising the floor wages under the newly formulated wage code. The current voluntary national minimum wage is ₹ 176 per day and the internal committee has recommended that it be increased to ₹ 375 (the labour ministry has stated that a committee will be set up to decide the mandatory wage floor. This committee may look into the new indices and consumption pattern in deciding the wage floor)
- In these indices, more than 66% of the weightage has been given to food items and the essential services such as health education etc have not received due representation. Apart from this, another reason for redrawing the indices is that, with implementation of NFSA (National Food Security Act) the food grains have become less costly for the beneficiaries.

5. GST regime proving troublesome for the states (BL 27/08/19)

- Some of the issues are
    - For 2018-19, the revenue target was ₹ 1,12,000 Cr per month. The actual revenue collected fell short of an average of ₹ 1 lakh Cr for that year. The shortfall is a problem because the states have given up a significant part of their indirect tax powers, they would be compensated for a period of five years only (for any of the shortfall of their revenues)
    - Month-wise tax collections have increased (when compared to the same month of the previous year), the collections by the state governments have been volatile. In simple terms, the tax accruing to the central divisible pool are doing better than those directly going to the states (SGST). This raises concerns for the states on the position of these revenues at the end of three years from now when the compensation period would be over
    - The interstate inequalities have increased
        - States with strong GDP have collected higher GST (SGST and state's share in IGST)
    - These findings have larger implications
        - The states have given up their right to tax many of the products to raise the revenues, they are now dependent on the share of central revenues which are devolved as per

the recommendations of the finance commission. This makes things more difficult for the poorer states compared to richer states (as these are already collecting large revenues under GST)

- This disparity/inequality will further increase if the petroleum products are covered under GST.