

Connection

Volume III | Issue 10 | January 2015



Lalit Bajaj & Associates
Chartered Accountants



Happy Republic Day

“The job of a professional manager is not to like people. It is not to change people. It is to put their strengths to work.”

~ Peter Drucker

Just to Remind You:

- Jan 21 - E-Payment of MVAT and MVAT Return for the month/quarter ended December 2014
- Jan 30 - Last Date for filing MVAT Audit Report
- Jan 30 - Issue of TDS/ TCS Certificates for quarter ended December 2014.

Inside this issue:

Indirect Tax

- Updates 2

Direct Tax

- Updates 4

Other Updates

- External Commercial Borrowings 5
- RBI Updates 9
- ICAI Updates 11

Goods & Service Tax (GST)

One of the biggest taxation reforms in India the Goods and Service Tax (GST) is all set to integrate State economies and boost overall growth. GST will create a single, unified Indian market to make the economy stronger. The implementation of GST will lead to the abolition of other taxes such as octroi, central sales tax, state-level sales tax, entry tax, stamp duty, telecom license fees, turnover tax, tax on consumption or sale of electricity, taxes on transportation of goods and services thus avoiding multiple layers of taxation that currently exist in India.

Goods and Services Tax is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level. Through a tax credit mechanism, this tax is collected on value-added goods and services at each stage of sale or purchase in the supply chain. The system allows the set-off of GST paid on the procurement of goods and services against the GST which is payable on the supply of goods or services. However, the end consumer bears this tax as he is the last person in the supply chain.

Under GST, the taxation burden will be divided equitably between manufacturing and services, through a lower tax rate by increasing the tax base and minimizing exemptions. It is expected to help build a transparent and corruption-free tax administration. GST will be levied only at the destination point, and not at various points. It is estimated that India will gain \$15 billion a year by implementing the Goods and Services Tax as it would promote exports, raise employment and boost growth. It will divide the tax burden equitably between manufacturing and services. In

the GST system, both Central and State taxes will be collected at the point of sale. Both components (the Central and State GST) will be charged on the manufacturing cost. This will benefit individuals as prices are likely to come down. Lower prices will lead to more consumption, there by helping companies.

India is planning to implement a dual GST system. Under dual GST, a Central Goods and Services Tax (CGST) and a State Goods and Services Tax (SGST) will be levied on the taxable value of a transaction. All goods and services, barring a few exceptions, will be brought into the GST base. There will be no distinction between goods and services. Almost 140 countries have already implemented the GST. Most of the countries have a unified GST system. Brazil and Canada follow a dual system where GST is levied by both the Union and the State governments. It will not be an additional tax. CGST will include central excise duty (Cenvat), service tax, and additional duties of customs at the central level; and value-added tax, central sales tax, entertainment tax, luxury tax, octroi, lottery taxes, electricity duty, state surcharges related to supply of goods and services and purchase tax at the State level.

The combined GST rate is being discussed by government. The rate is expected around 14-16 per cent. After the total GST rate is arrived the States and the Centre will decide on the CGST and SGST rates. Currently, services are taxed at 10 per cent and the combined charge indirect taxes on most goods is around 20 per cent. The prices are expected to fall

in the long term as dealers might pass on the benefits of the reduced tax to consumers. Alcohol, tobacco, petroleum products are likely to be out of the GST regime.



Highlights of New Proposed Goods & Service Tax (GST)

- The basic principal governing behind GST is to have single Taxation System for Goods and Services across the country. Currently Indian economy has various taxes on Goods and services such as VAT, Service Tax, Excise, Entertainment Tax, Luxury Tax Etc. now in the new Proposal of GST; we will be having only two taxes on all goods and Services as follows:
 State Level GST(SGST)
 Central Level GST (CGST)
- In case of Central GST, following Taxes will be subsumed with CGST which are at presently levied separately on goods and services by Central government:
 - a) Central Excise Duty
 - b) Additional Excise Duty
 - c) The Excise Duty levied



under Medicinal and toilet-
eries preparation Act

- d) Service Tax
- e) Additional Custom
Duty (CVD)
- f) Special Additional Duty
- g) Surcharge
- h) Education Cess and
Secondary and Higher
Secondary education Cess

• In case of State GST,
following taxes will be
subsumed with SGST;
which are priestly levied
on goods and services by
State Governments :

- a) VAT/ Sales Tax
- b) Entertainment Tax
(unless it is levied by local
bodies)
- c) Luxury Tax
- d) Tax on lottery
- e) State Cess and Sur-
charge to the extend re-
lated to supply of goods
and services.

The basic principal for subsum-
ing of taxes in GST is provided
as follows:

- a) Those taxes which
commences with import /
manufacture /production

of goods or provision of
services at one end and
the consumption of goods
and services at other end.

b) The taxes, levies and
fees which are not related
to supply of goods
&services should not be
subsumed under GST.

- Taxes on items containing
alcohol and petroleum
product are kept out of
GST. They will continue
to be taxed as per existing
practices.
- Tax on Tobacco products
will be subject to GST. But
government can levy the
extra Excise duty over and
above GST.
- The Small Taxpayer: The
small taxpayers whose
gross annual turnover is
less than 1.5 Crore are
exempted from CGST and
SGST.
- Input Tax Credit (ITC):
Taxes Paid against CGST
allowed as ITC against
CGST. Taxes paid against
SGST allowed as ITC
against SGST.
- Cross utilization of ITC
between the Central GST
and State GST would not
be allowed. Exception:
Inter State Supply of

goods and services.

- PAN based identification
number will be allowed to
each taxpayer to have
integration of GST with
Direct Tax
- IGST Model and ITC:
 - a) Center would levy IGST
levy (CGST + SGST)
 - b) The ITC will be allowed
in this transaction will be
SGST, IGST, CGST as
applicable.
 - c) Appropriate provision
will be provided for con-
signment or Stock transfer
- GST Rate Structure:
 - a) Two Rate Structure
 - b) A lower rate for neces-
sary items and goods of
basic importance
 - c) Standard rate for goods
in General
 - d) Special Rate
- Exports are fully ex-
empted with Zero rates.



Extension of time limit for filing MVAT Audit Report

The prescribed date for filing of
VAT Audit Report under Sec-
tion 61 of the Maharashtra
Value Added Tax Act, 2002 for
year 2013-14 was 15th January
2015. In this regard, representa-
tions from various Trade and
Associations have been re-
ceived for extension of due
date for submission of Audit
Report for the year 2013-14.

The representations, as afore-
said, have been examined by

the Finance Department, Gov-
ernment of Maharashtra and
after careful consideration of
the same, has decided to ex-
tend the due date for submis-
sion of the Audit Report in
Form 704 for the year 2013-14
to 30th January 2015.

In order to avoid initiation of
penalty proceedings, it is man-
datory for the eligible dealers
to upload Audit Report in
Form 704 on or before the 30th

January 2015 and submit the
physical copy of the acknowl-
edgement and the Statement of
Submission of Audit Report
referred in Trade Circular 14T
of 2014 Dt. 20/12/2014 on or
before 10 February 2015.

It is clarified that the liability to
pay interest on additional de-
mands as a result of Audit Find-
ings as per provisions of the
Section 30(2) of the MVAT Act
2002 shall remain unchanged.



Instructions for 'Limited Scrutiny' of cases selected under CASS

Most of the cases selected for Scrutiny are through Computer Aided Scrutiny Selection (CASS). Only a particular class of cases such as those involving Search, Survey and Reopening of Assessment etc. come under Compulsory Scrutiny. A small Number of cases are manually selected by the Assessing Officers where they consider the Income of a particular assessee has been concealed or which require scrutiny for some specific reason. The reasons attributable to selection of cases under CASS are spelt out differently each year. Some of the common reasons are information on the basis of AIR Data, some CIB Information or non reconciliation of 26AS Data.

The CBDT had issued an important **instruction no. 7/2014 dated 26-09-2014** directing that for the cases selected for Scrutiny during the **Financial Year 2014-15** under CASS on the basis of either AIR Data, CIB Information or for mismatch of 26 AS Data, the scope of Enquiry should be **Limited** only to the verification of those particular aspects. It has also been directed that in these cases, the Assessing Officer ought to confine the questionnaire/enquiry/verification only to the specific points on the basis of which the specific Return of Income has been selected for scrutiny. It need not be emphasized that these Instructions are binding on all the Officers of the Department.

The relevant portion of the said Circular/Instruction dated 26-09-2014 is reproduced below:-

- "It has come to the notice of the Board that during the scrutiny assessment proceedings some of the AOs are routinely calling for informa-

tion which is not relevant, for enquiry into the issues to be considered. This has been causing undue harassment to the taxpayers and has also drawn adverse criticism from several quarters. Further, feedback and analysis of such orders indicates that many times the core issues, which formed the basis of selection of the case for scrutiny were not examined properly. Such instances primarily occurred in cases selected for scrutiny under Computer Aided Scrutiny Selection ('CASS') for verification of specific information obtained from third party sources which apparently did not match with the details submitted by the taxpayer in the return of income.

- Therefore, for proper administration of the Income Tax Act, 1961 ('Act'), Central Board of Direct Taxes, by virtue of its powers under section 119 of the Act, in supersession of earlier instructions/ guidelines on this subject, here by directs that the cases selected for scrutiny during the Financial Year 2014-2015 under CASS, on the basis of either AIR data or CIB information or for non re-conciliation with 26AS data, the scope of enquiry should be **limited** to verification these particular aspects only. Therefore, in such cases, an Assessing Officer shall confine the questionnaire and subsequent enquiry or verification only to the specific point(s) on the basis of which the particular return has been selected for scrutiny.
- The reason(s) for selection of cases under CASS are displayed to the Assessing Offi-

cer in AST application and notice u/s 143(2), after generation from AST, is issued to the taxpayer with the remark "Selected under Computer Aided Scrutiny Selection {CASS}". The functionality in AST is being modified suitably to flag the reasons for scrutiny selection in AIR/CIB/26AS cases. This functionality is expected to be operationalised by 15th October, 2014. Further, the Assessing Officer while issuing notice under section 142(1) of the Act which is enclosed with the first questionnaire would proceed to verify only the specific aspects requiring examination/ verification. In such cases, all efforts would be mad to ensure that assessment proceedings are completed expeditiously in minimum possible number of hearings without unnecessarily dragging the case till the time-barring date.

- In case, during the course of assessment proceedings it is found that there is potential escapement of income exceeding Rs. 10 lakhs (for non-metro charges, the monetary limit shall be Rs. 5 lakhs) on any other issue(s) apart from the AIR/ CIB/26AS information based on which the case was selected under CASS requiring substantial verification, the case may be taken up for comprehensive scrutiny with the approval of the Pr. CIT/ DIT concerned. However, such an approval shall be accorded by the Pr. CIT/DIT in writing after being satisfied about merits of the issue (s) necessitating wider and detailed scrutiny in the case. Cases so taken up for detailed scrutiny shall be moni-



"in the cases selected for scrutiny under CASS on the basis of AIR Data or CIB information or for non-reconciliation with 26AS, the scope of enquiry should be limited to verification of these particular aspect"





tored by the Jt. CIT/Addl. CIT concerned.”

The Instructions are a welcome step to curb unnecessary Harassment of the assessee under the garb of a complete & exhaustive enquiry and widest possible verifications. These Instructions are expected to put an end to lengthy routine questionnaires of the Assessing

Officers without application of mind to the specific issues on the basis of which the case had been selected for scrutiny. This will mitigate the Hardship faced by the assessee during the Assessment Proceedings. These Instructions also makes it mandatory for the Assessing Officers to mention the reasons for selection of that case for Scrutiny so that the assessee

can meet out the same. The same was also incumbent upon the Assessing Officer in order to abide the Principles of Natural Justice.

“ECB can be accessed under two routes, viz Automatic Route & Approval Route”

FEMA guidelines provide Indian companies to access funds from abroad by following methods:-

- External Commercial Borrowings (ECB):- It refers to commercial loans in the form of bank loans, buyers' credit, suppliers' credit, securitized instruments (e.g. floating rate notes and fixed rate bonds, non-convertible, optionally convertible or partially convertible preference shares) availed of from non-resident lenders with a minimum average maturity of 3 years.
- Foreign Currency Convertible Bonds (FCCBs):- It refers to a bond issued by an Indian company expressed in foreign currency, and the principal and interest in respect of which is payable in foreign currency.
- Preference shares- (i.e. non-convertible, optionally convertible or partially convertible). These instruments are considered as debt and denominated in Rupees and rupee interest rate will be based on the swap equivalent of LIBOR plus spread.
- Foreign Currency Ex-

changeable Bond (FCEB) :- FCEB is a bond expressed in foreign currency, the principal and interest in respect of which is payable in foreign currency, issued by an Issuing Company and subscribed to by a person who is a resident outside India, in foreign currency and exchangeable into equity share of another company, to be called the Offered Company, in any manner, either wholly, or partly or on the basis of any equity related warrants attached to debt instruments. The FCEB may be denominated in any freely convertible foreign currency.

ECB can be accessed under two routes, viz:-

A) Automatic Route:-

- Access of funds under Automatic Route does not require RBI/GOI approval. Corporate including hotel, hospital, software sectors (registered under the Companies Act 1956) and Infrastructure Finance Companies (IFCs) except financial intermediaries such as banks, FIs, HFCs, and NBFCs are eligible to raise ECB. Units in SEZs are allowed to raise ECB

for their captive requirements. NGOs engaged in micro finance activities are eligible to avail of ECB (subject to certain conditions). Trusts and Non-Profit making organizations are not eligible to raise ECB.

- ECB can be raised by borrowers from internationally recognized sources such as (i) international banks, (ii) international capital markets, (iii) multi-lateral financial institutions (such as IFC, ADB, CDC, etc.)/ Regional Financial Institutions and Government owned Development Financial Institutions, (iv) Export Credit Agencies, (v) Suppliers of Equipments, (vi) Foreign Collaborators and (vii) Foreign Equity Holders (other than erstwhile Overseas Corporate Bodies).
- Overseas organizations and individuals may provide ECB to NGOs engaged in micro finance activities subject to complying with some safeguards outlined in the RBI circular.

All-in-cost ceilings

All-in-cost includes rate of



interest, other fees and expenses in foreign currency except commitment fee, prepayment fee, and fees payable in Indian Rupees. The payment of withholding tax in Indian Rupees is excluded for calculating the all-in-cost.

End use

ECBs can be raised for investment (import of capital goods as classified by DGFT in Foreign Trade Policy (FTP)) in new projects, modernization/expansion of existing units in industrial and service sectors including infrastructure sector.

Overseas direct investment in Joint Ventures (JV)/Wholly Owned Subsidiaries (WOS) subject to the existing guidelines on Indian Direct Investment in JV/ WOS abroad.

First stage acquisition of shares in the disinvestment process and also in the mandatory second stage offer to the public under the Government's disinvestment programme of PSU shares.

NBFCs categorized as Infrastructure Financing Companies (IFC) are permitted to avail ECBs including outstanding in existing ECBs upto 50% of their owned funds under Automatic Route for on lending to infrastructure sector and beyond 50% of owned funds under Approval Route.

For lending to self-help groups or for micro-credit or for bonafide micro finance activity including capacity building by NGOs engaged in micro finance activities, etc.

Restrictions

Utilization for on-lending or investment in capital market or acquiring a company (or a part thereof) in India by a corporate, investment in real estate

sector, for working capital, general corporate purpose and repayment of existing Rupee loans.

Issuance of guarantee, standby letter of credit, letter of undertaking or letter of comfort by banks, FIs and NBFCs from India relating to ECB.

The borrower has the option to offer security against the ECB. Creation of charge over immovable assets and financial securities, such as shares, in favour of the overseas lender is subject to FEMA regulations and ECB guidelines.

Other provisions

Borrowers are permitted to either park the ECB proceeds abroad or to remit these funds to India. ECB proceeds parked in various liquid assets as per regulation can be invested in Treasury Bills and other monetary instruments of one year maturity and having minimum rating etc. The funds may be invested in such a way that the investments can be liquidated as and when funds are required by the borrower in India

ECB funds may also be repatriated to India for credit to the borrowers' Rupee accounts with banks (AD) in India, pending utilization for permissible end-uses.

Upon compliance of minimum maturity period applicable to the loan, prepayment of ECB up to USD 500 Mn. can be made by AD banks without prior approval of RBI.

An existing ECB may be refinanced by raising a fresh ECB subject to the fresh one raised is at a lower all-in-cost and the outstanding maturity of the original ECB is maintained.

The designated AD bank has the general permission to make remittances of installments of

principal, interest and other charges in conformity with the ECB guidelines.

Borrowers are required to enter into an agreement with recognized lender in compliance of ECB guidelines without RBI approval and obtain a Loan Register Number (LRN) from RBI before drawing the ECB as per the procedure laid down in the policy.

B) APPROVAL ROUTE

Proposals falling under the category include:-

- On lending by the EXIM Bank for specific purposes (case to case basis).
- Banks and financial institutions which had participated in the textile or steel sector restructuring package as approved by the Government.
- ECB with minimum average maturity of 5 years by NBFC to finance import of infrastructure equipment for leasing to infrastructure projects.
- Infrastructure Finance Companies (IFCs) i.e. NBFCs, categorized as IFCs, by RBI (beyond 50% of their owned funds) for on-lending to the infrastructure sector as defined under the ECB policy and subject to compliance of certain stipulations.
- Foreign Currency Convertible Bonds (FCCBs) by Housing Finance Companies.
- Special Purpose Vehicles (SPV) or any other entity notified by the RBI, set up to finance infrastructure companies / projects exclusively.



“Borrowers are permitted to either park the ECB proceeds abroad or to remit these funds to India”





- Financially solvent Multi-State Co-operative Societies engaged in manufacturing.
- SEZ developers for providing infrastructure facilities within SEZ.
- Eligible Corporate under automatic route other than in the services sector viz. hotels, hospitals and software sector can avail of ECB beyond USD 750 million per financial year.
- Corporate in the service sector for availing ECB beyond USD 200 Mn. per financial year.
- Cases falling outside the purview of the automatic route limits and maturity indicated, etc.

ECB can be availed from the recognized lenders as explained under Automatic Route.

Amount and Maturity

Eligible borrowers under the automatic route other than corporate in the services sector viz. hotel, hospital and software can avail of ECB beyond USD 750 or equivalent per financial year.

Corporate in the service sector beyond ECB 200 Mn. for permissible end-uses.

All-in-cost

All-in-cost ceilings are the same as that of ECBs under Automatic Route.

End-use

End-use would be the same for the funds raised under Automatic Route.

The payment by eligible bor-

rowers in the Telecom sector, for spectrum allocation may, initially, be met out of Rupee resources by the successful bidders, to be refinanced with a long-term ECB, under the approval route, subject to certain conditions outlined in the Circular.

Restrictions

Restrictions are the same as that of ECB under Automatic Route.

Other Provisions:-

Indian Infrastructure companies (as defined under the extant ECB policy) are permitted to import capital goods by availing of short term credit (including buyers' /suppliers' credit) in the nature of 'bridge finance', under the approval route, subject to the conditions prescribed.

Airline companies registered under the Companies Act, 1956 and possessing scheduled operator permit license from DGCA for passenger transportation are eligible to avail of ECB for working capital with a minimum average maturity period of three years within the overall ceiling of USD one billion for the entire civil aviation sector and the individual maximum permissible ceiling of USD 300 million. The liability should be extinguished from foreign exchange earnings of the companies only.

Issuance of guarantee, standby letter of credit, letter of undertaking or letter of comfort by banks, FIs and NBFCs from India relating to ECB in case of SME as also for facilitating capacity expansion and technological upgradation in Indian Textile industry can be considered on merit subject to prudential norms.

The borrower has the option

to offer security against the ECB. Creation of charge over immoveable assets and financial securities, such as shares, in favour of the overseas lender is subject to FEMA regulations and ECB guidelines.

Borrowers are permitted to either park the ECB proceeds abroad for foreign currency expenditure pending utilization or to remit these funds to India for rupee expenditure pending utilization. ECB proceeds parked abroad can be utilized in various liquid assets as per regulation, and for investment in Treasury Bills and other monetary instruments of one year maturity and having minimum rating etc. The funds should be invested in such a way that the investments can be liquidated as and when funds are required by the borrower in India.

Upon compliance of minimum maturity period applicable to the loan, prepayment of ECB upto USD 500 Mn. can be made by AD banks without prior approval of RBI. Prepayment of ECB for amounts exceeding USD 500 Mn. would be considered by the Reserve Bank under the Approval Route.

Existing ECB may be refinanced by raising a fresh ECB subject to the condition that the fresh ECB is raised at a lower all-in-cost and the outstanding maturity of the original ECB is maintained.

The designated AD bank has the general permission to make remittances of instalments of principal, interest and other charges in conformity with the ECB guidelines.

Foreign Currency Exchangeable Bonds

The Issuing Company shall be part of the promoter group of



the Offered Company and shall hold the equity share/s being offered at the time of issuance of FCEB. The Offered Company shall be a listed company, which is engaged in a sector eligible to receive FDI and eligible to issue or avail of FCCB or ECB.

Entities complying with the FDI policy and adhering to the sectoral caps at the time of issue of FCEB can subscribe to FCEB. Prior approval of the Foreign Investment Promotion Board, wherever required is to be obtained.

An Indian company, which is not eligible to raise funds from the Indian securities market, including a company which has been restrained from accessing the securities market by the SEBI **are not be eligible to issue FCEB**. Entities prohibited to buy, sell or deal in securities by the SEBI **will not be eligible to subscribe to FCEB**.

End Use

The proceeds of FCEB may be invested by the issuing company overseas by way of direct investment including in Joint Ventures or Wholly Owned Subsidiaries abroad subject to the existing guidelines on overseas investment in Joint Ventures / Wholly Owned Subsidiaries.

The proceeds of FCEB may be invested by the issuing company in the promoter group companies which may utilize the proceeds in accordance with end-uses prescribed under the ECB policy.

The promoter group company receiving such investments **will not be** permitted to utilize the proceeds for investments in the capital market or in real estate in India.

All-in-cost

The rate of interest payable on FCEB and the issue expenses incurred in foreign currency shall be within the all-in-cost ceiling as specified by RBI under the ECB policy.

Other provisions:

Minimum maturity of FCEB shall be five years. The exchange option can be exercised at any time before redemption. While exercising the exchange option, the holder of the FCEB shall take delivery of the offered shares. **Cash (Net) settlement of FCEB shall not be permissible.**

The proceeds of FCEB may be retained and/or deployed overseas by the issuing / promoter group companies in accordance with the policy for the ECB or repatriated to India for credit to the borrowers' Rupee accounts with banks in India pending utilization for permissible end-uses.

Issuance of FCEB requires prior approval of the RBI under the Approval Route for raising ECB.

TAKE-OUT FINANCE THROUGH ECB

Existing guidelines **do not** permit refinancing of domestic Rupee Loans with ECB with the exception of infrastructure sector for which Take-out financing through ECB is presently available to eligible corporate borrowers who availed Rupee Loans from domestic banks for development of new projects in sea port and airport, roads including bridges and power sectors. The Scheme is subject to certain conditions viz.

The borrower should have a tripartite agreement with domestic banks and overseas

recognized lenders for either a conditional or unconditional take-out of the loan within three years of the scheduled Commercial Operation Date (COD). The scheduled date of occurrence of the take-out should be clearly mentioned in the agreement.

The loan should have a minimum average maturity period of seven years.

The domestic bank financing the infrastructure project should comply with the extant prudential norms relating to take-out financing.

The fee payable, if any, to the overseas lender until the take-out shall not exceed 100 bps per annum.

On take-out, the residual loan agreed to be taken-out by the overseas lender would be considered as ECB and the loan should be designated in a convertible foreign currency and all extant norms relating to ECB should be complied with.

Domestic banks / Financial Institutions will not be permitted to guarantee the take-out finance, etc.

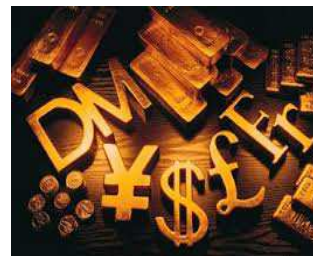
Compliance with ECB Guidelines

The primary responsibility rests with the borrower as regards and ECB raised/utilized and

they are in conformity with the ECB guidelines/RBI regulations/directions. Any contravention of these would attract penal action under FEMA.

TRADE CREDITS FOR IMPORTS INTO INDIA

Trade Credits' (TC) such as suppliers' credit or buyers' credit refer to credits extended for imports directly by the overseas supplier, bank and





financial institution for maturity of less than three years.

Suppliers' credit refers to credit extended by the overseas supplier for imports into India whereas the buyers' credit refers to loans for payment of imports into India arranged by the importer from a bank or financial institution outside India for maturity of **less than 3 years**.

Suppliers' credit and buyers' credit for 3 years and above come under the category of ECB and governed by ECB guidelines.

Amount/Maturity/All-in-cost/Guarantee

Banks (AD) are permitted to approve trade credits for imports into India upto USD 20 Mn. per import permissible

under FTP with maturity period up to one year. For capital goods, the trade credits can be permitted upto USD 20 Mn. with maturity period of more than one year and less than 3 years (from the date of shipment).

No roll-over/extension will be permitted beyond the permissible period and banks are not authorized to approve trade credit exceeding USD 20 Mn. per import transaction.

All-in-cost ceilings over 6 months' LIBOR for maturity period upto one year and more than one year but less than three years would be **350 bps for the respective currency** of credit or applicable bench mark.

Banks are permitted to issue LC/Letter of Undertaking (LOU)/Letter of Comfort

(LOC)/ in favour the overseas supplier, bank and financial institution upto USD 20 Mn. per import of goods other than capital goods and for capital goods upto 3 years subject to prudential norms.

Banks are required to report the details of approvals, drawal, utilization, repayment, etc. of trade credits granted by branches in a consolidated statement and issuance of LC/LOU/LOC/guarantee by the branches in a consolidated statement on monthly and at quarterly intervals respectively to RBI.

“The policy repo rate under the Liquidity Adjustment Facility reduced by 25 basis points form 8% to 7.75%”

RBI cuts policy rates by 25 basis points

Since July 2014, inflationary pressures (measured by changes in the consumer price index) have been easing. The path of inflation, while below the expected trajectory, has been consistent with the assessment of the balance of risks in the Reserve Bank's bi-monthly monetary policy statements. To some extent, lower than expected inflation has been enabled by the sharper than expected decline in prices of vegetables and fruits since September, ebbing price pressures in respect of cereals and the large fall in international commodity prices, particularly crude oil. Crude prices, barring geo-political shocks, are expected to remain low over the year. Weak demand conditions have also moderated inflation excluding food and fuel, especially in the reading for December. Finally, the government has

reiterated its commitment to adhering to its fiscal deficit target.

These factors have significantly reduced the momentum of inflation, compensating for the widely anticipated ending of favourable base effects. Households' inflation expectations have adapted, and both near-term and longer-term inflation expectations have eased to single digits for the first time since September 2009. Inflation outcomes have fallen significantly below the 8 per cent targeted by January 2015. On current policy settings, inflation is likely to be below 6 per cent by January 2016.

These developments have provided headroom for a shift in the monetary policy stance. It may be recalled that the fifth bi-monthly monetary policy statement of December had

stated that “if the current inflation momentum and changes in inflation expectations continue, and fiscal developments are encouraging, a change in the monetary policy stance is likely early next year, including outside the policy review cycle”. In its public interactions, the RBI had committed to initiate the process of monetary easing as soon as data indicated that medium term inflationary targets would be met. Keeping this commitment in mind, it has been decided to:

- reduce the policy repo rate under the liquidity adjustment facility (LAF) by 25 basis points from 8.0 per cent to 7.75 per cent with immediate effect;



- keep the cash reserve ratio (CRR) of scheduled banks unchanged at 4.0 per cent of net demand and time liabilities (NDTL);
- continue to provide liquidity under overnight repos at 0.25 per cent of bank-wise NDTL at the LAF repo rate and liquidity under 7-day and 14-day term repos of up to 0.75 per cent of NDTL of the banking system through auctions; and
- continue with daily vari-

able rate repos and reverse repos to smooth liquidity.

Consequently, the reverse repo rate under the LAF stands adjusted to 6.75 per cent, and the marginal standing facility (MSF) rate and the Bank Rate to 8.75 per cent with immediate effect.

The fifth bi-monthly monetary policy statement also stated that once the monetary policy stance shifts, subsequent policy actions will be consistent with this stance. Key to further easing are data that confirm con-

tinuing disinflationary pressures. Also critical would be sustained high quality fiscal consolidation as well as steps to overcome supply constraints and assure availability of key inputs such as power, land, minerals and infrastructure. The latter would be needed to ensure that potential output rises above the projected pick-up in growth in coming quarters so as to contain inflation.



Due Date to Deposit Pre-2005 Currency Notes extended

Deposit Pre-2005 Currency Notes in Your Bank Accounts before June 30, 2015: RBI Urges Public

Soliciting cooperation from the public in withdrawing these notes from circulation, the Reserve Bank of India has urged them to deposit the old design notes in their bank accounts or exchange them at a bank branch convenient to them. The Reserve Bank of India has stated that the public can do so till June 30, 2015.

Earlier, in March 2014, it had set the last date for public to exchange these notes was January 01, 2015.

The Reserve Bank has stated that the notes can be exchanged for their full value. It has also clarified that all such notes continue to remain legal tender.

Explaining the move, the Reserve Bank said that now the notes in Mahatma Gandhi series have been in circulation for a decade. A majority of the old

notes have also been withdrawn through bank branches. It has, therefore, decided to withdraw the remaining old design notes from circulation. Not having currency notes in multiple series in circulation at the same time is a standard international practice, the Reserve Bank has pointed out.

The Reserve Bank will continue to monitor and review the process so that the public is not inconvenienced in any manner.

“Deposit Pre-2005 Currency Notes in your Bank Accounts before June 30, 2015”

ICAI mourns the sad demise of CA. Rameshwar Thakur, Past President (1966-67)

With profound grief, we inform that CA. Rameshwar Thakur, Past President (1966-67) has left for heavenly abode on 15th January, 2015.

We pray to the Almighty to give enough courage and strength to his family members to bear this irreparable loss. May the soul rest in peace. The void created by his passing away cannot be filled and the profession will always feel orphaned.



LALIT BAJAJ & ASSOCIATES

Mumbai:
Office No.: 5, Barsana, Salasar
Brij Bhoomi, Near Maxus Mall,
Bhayander (West),
Thane – 401101, Maharashtra,
India

Pune:
Office No.: 703, B-Wing,
Sai Laurel Park, Pimple Gurav,
Pune - 411027, Maharashtra,
India

Phone: +91 - 22 - 28180400
+91 - 22 - 28040048
E-mail: admin@bajajit.com



This is the country of colors and faith in spirituals. Lets this Republic day reminds us for the work and life given by our leaders to safe and happy life.

happy
republic
day

General Amnesty for Retrospective Restoration of Membership

With a view to mitigate the hardships being faced by members whose names stand removed as on date due to non-payment of membership fee, the Council has decided to give an opportunity by way of General Amnesty Scheme one time dispensation for restoration of their names retrospectively.

Continuation of membership entitles a member to designate himself as 'CA' and also other benefit of monthly Journal of the Institute, Newsletters of Regional Councils & Branches of the Institute, participation in the conferences, seminars and

other programmes organized by the Institute, Regional Councils and/or Branches; regular update on programs being organized and initiatives taken for the benefit of the profession and members; emerging professional opportunities, practice area development, publications of the Institute etc.

This is an excellent opportunity to get name restored with retrospective effect. The benefit of the scheme may be availed by submitting the prescribed application in Form 9

on or before 31st March, 2015 alongwith the outstanding fee for the intervening period of name removal and restoration fee of Rs. 1200/-.



Disclaimer:

This newsletter is prepared strictly for private circulation and personal use only. This newsletter is for general guidance on matters of interest only and does not constitute any professional advice from us. One should not act upon the information contained in this newsletter without obtaining specific professional advice. Further, no representation or warranty (expressed or implied) is given as to the accuracy or completeness of the information contained in this newsletter.

