Can salary paid for services by head office to its branch offices in other states attract GST?

ET CONTRIBUTORS | Sep 15, 2018, 10.45 AM IST

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The KAAR, with respect, has adopted an overtly simplistic approach in this matter. Assesses in order to avoid disputes on this topic, could adopt some safeguards.

By Ranjeet Mahtani & Prateek Bansal

With the introduction of Goods and Services Tax (GST) regime in India, the industry and trade has been befuddled as to whether activities performed by the employees at the corporate office (head office or "HO") of a legal entity, in the course of employment-engagement, are to be treated as "supply" of services and taxed, or otherwise under the Central Goods and Services Tax Act, 2017 ("CGST Act").

The Karnataka Authority for Advanced Ruling ("KAAR") in a recent advance ruling in re: Columbia Asia Hospitals Pvt. Ltd. [Advance Ruling No. KAR ADRG 15/2018] ruled that employees in the corporate office or head office (HO) are providing services to the HO, hence there is an employee-employer relationship only with the HO. And by extension, services provided by the said employees for beneficiation of other States' branch offices ("BO") of the same legal entity qualify as "supply" by the HO to the respective State BO.

Consequently, the salaries of employees and HR costs (internal expenses for the Company) need to be cross-charged by the HO to these other BOs and taxed. The KAAR has reasoned that since the HO and the BOs are "distinct persons" under the GST law, there is no employee-employer relationship between the employees of one distinct entity (i.e. the HO) with another distinct entity (i.e. the BO), even when they belong to the same

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The KAAR appears to have proceeded on an assumption that contract between employees and a company / legal entity is for rendition of services (by such employees) only to the concerned office (i.e. the HO in this case), and thereafter that the HO is under an obligation to supply services to BOs located in other States (which BOs in GST law are regarded as "distinct persons"). While any GST advance ruling is not binding on other parties / tax-payers (especially since it is enforceable in the context of the State in which it was rendered), it reflects the Revenue Department's thinking and view-point.

There are some factual / practical as also legal aspects that deserve attention, and which help evolve the conclusion that GST doesn't apply to such amounts of employee costs:

- **Employer-employee relationship cannot be taxed:** A contract of services of the employees of the HO extends to the company / firm (legal entity, as a whole) including to any of its pan India offices/ registrations (i.e. BOs). This is done under the employment contracts, and for which no separate consideration is charged either by these personnel to the Company, or by the HO of the Company to the BO of the Company. The hiring of an employee by a legal entity, who would be directed to be stationed at a particular location / establishment of the Company or report to a specific BO, cannot limit the obligations under the employment contract to the said establishment or BO concerned only; rather, the employee's obligations under the contract are towards the Company as a whole (legal entity), agnostic of the site where the employee is deputed for the time being. In the case of Milind Kulkarni, the Customs, Excise & Service Tax Appellate Tribunal (CESTAT) observed that employees of a branch are the employees of an organisation. Therefore, by virtue of Schedule III to the CGST Act, such situation cannot be brought to tax.
- **Levy of GST on employer-employee relationship is un-intended in GST law:** Entry 1 of Schedule III of the CGST Act (which excludes the employer-employee relationship from the GST net) excludes all services by an employee to an employer in the course of employment. Any attempt to charge GST on the said employment services (within the same PAN) would render Entry 1 of Schedule III otiose or nugatory, besides being contrary to the legislative intent and objective of the said Entry.
- **BO does not have a separate legal existence:** The Hon'ble Supreme Court in case of Agencia Commercial International Limited held that a body corporate and its branches are not distinct and separate entities from each other, they constitute mere components through which the corporate entity expresses itself and all transactions entered into with the branches are in legal reality transactions with the corporate body. It can be safely stated that as a BO does not have a separate legal existence, all units (i.e. BOs) are cut from the same legal fabric, and employment contracts equally permeate to all branches of the legal entity.
- **Fiction of "distinct person" cannot alter the employer-employee relationship:** From a HO's perspective, the HO and the BOs covered under different GST registrations would be regarded as "distinct persons" for GST law, yet this legal fiction is expressly provided only for the purpose of ascertaining taxability of a transaction and cannot discolour or alter the employer-employee relationship which employees have with the legal entity (and equally with each office). It was not appreciated that Section 7(2) of the CGST Act employs "notwithstanding" within it, thus overpowers Section 7(1), which sets out the scope of "supply".

For the reasons described, there is an inadequate case for levy of GST on internal (salary) expenses. The KAAR, with respect, has adopted an overtly simplistic approach in this matter. Assesses in order to avoid disputes on this topic, could adopt some safeguards.

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Indian exporters in US

By Sidhartha, TNN | Oct 22, 2018, 10.49 AM IST

The push comes at a time when India is grappling with a widening trade deficit and the rupee has come under pressure due to concerns over the current account deficit

The commerce department is sensing an opportunity for exporters in the US due to the trade war with China and has identified close to 180 items where Indian players can take advantage of the opportunity that has opened up due to higher duties on Chinese products.

The products are spread across sectors ranging from engineering goods to auto components and some chemicals, sources told **TOI**. The department, which is seeking to push Indian exports at a time when the trade deficit is widening, has begun sensitising trade bodies and is asking them to aggressively move to tap the opportunity. The list includes motors and components used in vehicles apart from specialised chemicals. While the list put together by the government covers Chinese exports of $8-10 billion, which would be impacted by higher import duties in the US, sources said Indian exporters could look at grabbing a part of the market. “It could be $2-3 billion or more, depending on how quickly and effectively Indian companies move,” said a source.

The Donald Trump administration has levied tariffs on $250 billion of imported goods from China, which represents around half of the imports of Asia’s largest economy. The move has been countered by Beijing that has announced higher duties on $110 billion of US exports to China.

The push comes at a time when India is grappling with a widening trade deficit and the rupee has come under pressure due to concerns over the current account deficit (CAD), where the problem has been accentuated by foreign portfolio investors (FPIs) withdrawing from emerging markets. CAD is the gap between exports and imports, investments and remittances.

The commerce department had done a similar exercise for China. In a report, the government said the retaliatory tariff actions provide a window for enhancing India’s exports to its neighbour, a move that could help bridge the trade deficit — which has been a major area of concern. It went on to identify products such as fresh grapes, alloy steel seamless boilers.

Trade experts, however, said that there is a limited scope for Indian exporters to break into the American and Chinese markets given that many of the products are specialised products, where domestic players may not have the capability to produce the matching category of goods. Besides, in case of China, trade barriers are so high that Indian exporters often find it tough to break in.

(This article was originally published in The Times of India)

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Woodcraft Exporters to face EU traceability norms

By *Kirtika Suneja*, ET Bureau | Updated: Oct 22, 2018, 12.36 PM IST

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Indian exporters of wooden handicrafts and other wood goods face strict traceability

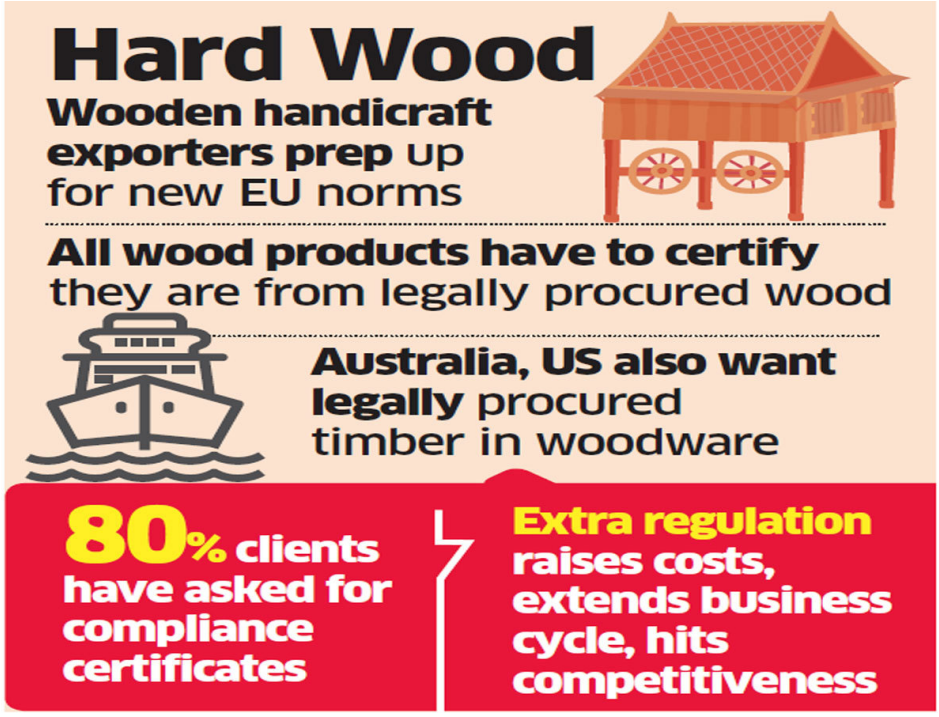
Although exporters are complying with the demands, they are likely to seek exemption from the Convention on International Trade in Endangered Species of Wild Fauna and Flora.

require disclosure of the source of timber to discourage illegal logging globally.

Over the past two months, at least 80% of buyers in the EU, Australia and the US have asked for certificates declaring the source of the wood used in handicrafts and if any species was endangered while procuring it, exporters said.

"Wood consumers in the EU are conscious of the environmental aspect and want wood to come from legal sources because in Asian countries, there is illegal procurement of wood without any traceability," said Rakesh Kumar, executive director of the Export Promotion Council for Handicrafts.

Australia and the US have gone a step ahead, asking for proof of due diligence, he said, on the basis of their laws such as Australia's Illegal Logging Prohibition Act and the US Lacey Act.



About 35% of India's wooden handicraft exports go to the EU and 45% are dispatched to the US. Exports of wooden handicrafts grew 9% to Rs 4,267.37 crore in 2017-18. In the first six months of 2018-19, these shipments grew 33% to Rs 2,619 crore. "We expect all our overseas buyers to ask for such compliance," Kumar said.

Although exporters are complying with the demands, they are likely to seek exemption from the Convention on International Trade in Endangered Species of Wild Fauna and Flora. As per international norms, official permits are required to export handicrafts made of sheesham and rosewood.

"This is weighing heavy on the Indian wood-based handicraft exporters considering the

exporters,' said a person aware of the details.

Moreover, the norms indirectly cover others types of wood such as mango, babool and acacia as well. The other types of wood in India include ebony, neem, salwood, khair and poplar.

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Goods and Services Tax (GST) was rolled out on July 1, 2017.

The Finance Ministry on Sunday extended the deadline for filing summary sales return GSTR-3B for the month of September by five days to October 25.

With this extension, businesses which wish to claim Input Tax Credit (ITC) benefit for July 2017-March 2018 period can do so till October 25.

The Central Board of Indirect Taxes and Customs (CBIC), under the Finance Ministry, said trade and industry had expressed apprehension relating to October 20 due date for claiming ITC under GST for July 2017-March 2018.

"With a view to give some more time for the same, the last date for furnishing GSTR-3B for the month of September, 2018 is being extended up to 25th October, 2018," the CBIC tweeted.

The GSTR-3B of a particular month has to be filed by the 20th day of the subsequent month. The deadline for September return filing was October 20.

"The extension of the said due date also implies that the last date for availment of ITC for the period July, 2017 to March, 2018 also gets extended up to October 25, 2018," the Finance Ministry later said in a statement.

Businesses had expressed concern about the October 20 deadline, saying there would be trouble in reconciling their sales returns with the purchase returns filed by their suppliers.

Since the ITC is availed on the basis of summary sales return or GSTR-3B filed, hence the deadline for ITC claims and GSTR-3B have been kept same.

Goods and Services Tax was rolled out on July 1, 2017.

"The ministry further said that for those taxpayers who have been recently migrated from erstwhile tax regime to GST regime, the last date for availing ITC for the period July, 2017 to March, 2018, is December 31, 2018 or the date of filing of annual return whichever is earlier," the statement added.

PwC India Partner and Leader (Indirect Tax) Pratik Jain said while the businesses which could not file the return by October 20 can avail of the extension, this does not really help most large companies which would have already filed their returns by working overtime.

"Since there is no facility for amendment of the return, these companies can not claim the credit which they might have missed," he said.

AMRG & Associates Partner Rajat Mohan said the date extension comes as a shock for compliant payers, whereas it would be a tax bonanza for late filers, non-filers and tax evaders.

"It seems that government has given a date extension (after expiry) only for lifting public

Jain said the government should at least extend the due date till November 20 so that credit can be claimed in October return. "This is extremely critical as amount of credit at stake is huge in many cases," he added.

EY Tax Partner Abhishek Jain, however, said: "This extension of five days would provide some breather to the industry players, most of whom were struggling to avail the FY 17-18 GST credits by October 20."

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input tax credit

ET Bureau | Updated: Oct 18, 2018, 11.24 PM IST

The GSTR-3B of a particular month has to be filed by the 20th day of the subsequent month.

NEW DELHI: The last date for filing of return for availing input tax credit for 2017-18 is Saturday as the government has turned down corporate India's plea for an extension.

The finance ministry, however, clarified that filing of details by suppliers and the facility to view it did not impact taxpayers' ability to avail input tax credit (ITC).

"It is clarified that the furnishing of outward details in Form GSTR-1 by the corresponding supplier and the facility to view the same in GSTR-2A by the recipient is in the nature of taxpayer facilitation and does not impact the ability of the taxpayer to avail the ITC on self-assessment basis in consonance with the provisions of the Section 16 of the Act," the ministry said in a statement on Thursday.

The statement said the apprehension that ITC can be availed only on basis of reconciliation between Form GSTR-2A and Form GSTR-3B for September 2018 is "unfounded" as the exercise can be done thereafter also. Tax experts said the government should allow for rectification of the return form at least once after the due date considering that hundreds of crores of rupees are at stake.

"While the press release says reconciliation between GSTR 2A (vendor's invoices) and GSTR 3B is not needed, the law does clearly state that input credit will not be allowed unless vendors have paid tax and filed their returns," said Pratik Jain, national indirect taxes leader at PwC.

Section 16(4) of Central GST Act says a registered person shall not be entitled to take ITC in respect of any invoice or debit note for supply of goods or services or both after the due of the furnishing of return under Section 39 for the month of September following the end of financial year to which such invoice or debit note pertains, or furnishing of annual return, whichever is earlier.

Industry bodies CII, Assocham and ICAI had represented for extension of the October 20 deadline.

"Businesses will still need to be cautious on the credit availed for the previous fiscal as ineligible credits would need to be reversed with interest in future as there is no change in Section 16(4)," said M S Mani, partner at Deloitte India.

Bipin Sapra, partner at EY, said the finance ministry's clarification still requires the industry to take the credit before due date for filing of September return by October 20 on the basis of invoices available with it. "Even if the reconciliation can be substantially allowed, it seems the vendors will not be able to change 3B returns. Hence, the due date for rectification should also be accordingly changed," he said.

Sachin Menon, national head, indirect tax, KPMG in India, said, "The government release

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returns. Being the first year of GST, even to figure out missing invoices through reconciliation ... is time consuming and hence industry expects government to be lenient."

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1 Can salary paid for services by head office to its branch offices in other states attract GST?

2 Trade war: Government sees space for Indian exporters in US

3 Woodcraft Exporters to face EU traceability norms

4 Finance Ministry extends deac September GST returns to Oct

The sustained drive by the Commercial Taxes department against fake ITC claims and a spate of recent arrests have created fear in errant businessmen.

BENGALURU: Sections of dealers in Bengaluru have reversed their input tax credit (ITC) claims worth Rs 17.45 crore after realising that they made their claims based on fake GST invoices, Karnataka Commercial Taxes Commissioner M.S.Srikar said.

The sustained drive by the Commercial Taxes department against fake ITC claims and a spate of recent arrests have created fear in errant businessmen. Those who have made ITC claims either by mistake or with an intention to cheat the government are reversing them fearing that we will get at them with use of technology and physical inspections, Srikar told ET.

We are initiating strict legal action to recover all taxes from fraudulent dealers, and on those registered dealers indulging in bill trading leading to fraudulent ITC claims.

In one such case, the special court for economic offences in Bengaluru has remanded city-based businessman Mangilal to judicial custody after he was found to be running a business in the name of a dead woman, and issuing fake GST invoices in order to claim ITC from the government.

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NBFCs must be regulated at par with banks: Rajnish Kumar, SBI

ET Now | Updated: Oct 17, 2018, 04.29 PM IST

Don't see any systemic problem in NBFCs: Rajnish Kumar, SBI

HIGHLIGHTS

- There should not be too much concentration of power in SBI.
- The problem is not with NBFC sector as a whole.
- For SBI, March 2018 was the peak of NPA recognition.

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*NBFCs were filling the gap in absence of lending by PSUs. We need to come back and that is what we are doing and this is the opportunity to lend fresh and buy back the portfolios from NBFCs, **Rajnish Kumar**, Chairman, **SBI,** tells **Supriya Shrinate** of ET Now in an exclusive interview.*

Edited excerpts:

What is your view on the liquidity situation?

The liquidity with the mutual funds definitely needs an improvement because the reverse flow which has started with the corporates withdrawing, that money needs to come back or some liquidity support has to come from Reserve Bank of India or government. That may help the sector give the confidence and all these rumour mongering can be set to rest.

Are NBFCs and HFCs going to cede space for banks like yourselves?

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2 Trade war: Government sees space for Indian exporters in US
3 Woodcraft Exporters to face EU traceability norms
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How much?

That is very difficult to predict. What happened was a vacuum was created by the absence of lending by the public sector banks and that was filled by NBFCs to a large extent rather than private sector banks. We need to come back and that is what we are precisely doing and that is the opportunity to lend fresh and buy back the portfolios from NBFCs also.

As India's largest banker, there is a lot of fear in the market still. There seems to be an asset-liability mismatch as far as NBFCs are concerned. This is a big asset bubble waiting to burst. How wide and deep are the risks with people having referred to accounting frauds and things like that?

One is about NBFCs. It is very wide. In NBFCs, you include even HDFC, LIC Housing Finance, you include PNB Housing Finance, endless. You also include power finance, REC, HUDCO. Everybody comes under NBFCs. The problem is not with the sector as a whole. Second, there is not much of an issue with the underlying assets and recovery. There may be an exception.

Does this mean a more nuanced approach because there are NBFCs that accept deposit and they need to be in a different sort of regulation versus those who do not. What is your personal view on this?

NBFCs play a very significant role and quite a few of them they have done well in the SME space and the affordable housing space, in overall meeting the credit requirements. There should not be any regulatory arbitrage in my view. If banks are strongly rerated, so is the need for a strong regulation as far NBFCs are concerned. Any NBFC which has a problem, can create a systematic risk. I strongly feel that NBFCs need to be regulated at par with how a bank would be regulated.

At one level don't you think that IL&FS has been given a very long rope. Banks lends to infrastructure and when that fails, you are culpable. As far as IL&FS kind of company is concerned, NHAI is being made to pay. From a banking point of view, is that a little bit of a step-motherly treatment?

No I do not agree with your analysis, honestly, because if you look at the project funding, if IL&FS is paying for any of the projects, then they would be classified as NPAs. So there is no special dispensation. I have financed 13-14 of them and if anyone is not performing as part of the project funding, there will be default and the account will be put under SMA-0, 1, 2 and whatever is the asset class.

Now the question is how we resolve the resolution. The approach to resolution of IL&FS cannot be on safety. I strongly believe that whatever the government did was what was needed to be done and now with the new board in place, there is a much more confidence in the market itself. As far as resolution is concerned, the board has to be prepare a resolution plan and then when resolution plan is ready, then people will act on that resolution.

At the IMF summit, former RBI governor YV Reddy said RBI should be more worried about the risk control potential of large institutions like LIC, HDFC and SBI. Do you agree with this and how would you defend your position in that sense?

We bought this equity way back in mid 90s and we have 6%, of course LIC has 25%. Forget about IL&FS. In any board, there are independent directors, whole-time directors

note of that. Whether everything is public or not is a different matter, but the responsibility of the board is the same which is for any other company where there are problems.

So you do believe there are risk control mechanism that needs to be perhaps reviewed of banks like yourselves just yet?

No. I invest in an account and so I have an investment policy. At that stage, we control. But for any board member in any company, what happens there on and this is not a question about IL&FS alone. This is a question which can be asked for any board you are present in and you cannot treat IL&FS board differently.

Whatever is the responsibility of any board towards corporate governance or agenda items, whether the right questions were asked or not, that will be all subject matter of record. But in any company and I am not defending the IL&FS position, the responsibility of the management and the whole-time directors is definitely much more…

Is the worst of NPA behind us? We keep hearing that the worst is behind us and then something else comes up. How many more painful quarters of provisioning till we say things will begin softening from here?

My version is that I will stop saying that worst is over.

But how many more quarters of painful provisioning?

What I believe is and I am telling you more from State Bank perspective is I have a better idea about State Bank because each bank's lending practices may defer. The NPA recognition has happened last year. March 18 was the peak and after that we have started seeing the declining trend in the new NPA formation. The provision coverage ratio in last one year, June 18 to June 17, all banks have increased their provision coverage ratio. At State Bank of India, we have increased provision coverage ratio by 1100 bps.

SBI says it expects Rs 30,000 crore this fiscal from the IBC process. Two questions there, are you on track or could that number actually be higher given that there is a lot of interest in some of resolutions that are on the table?

It is going to be differentiated through the IBC process, through a transparent price discovery and through a court adjudicated process. Even if it is not a court adjudicated, sale of assets or whatever is the security available, whatever is the cash flows or the potential cash flow available, you recover the amount. When you have exhausted all your recoveries options, whatever you were to recovery you have recovered and whatever is the remaining amount you are unable to recover or there is no possible way of recovery, then you remove it. So that is where this distinction and it is very important.

But that Rs 30,000 crore figure will likely go up this fiscal?

It should go up but Rs 30,000 crore is still a very reasonable estimate given the accounts where the resolution is in sight. It is like you have a very ripe fruit but you cannot eat it. We are waiting for that opportunity.

You have gone on record saying SBI is no longer the right candidate for looking at any bank consolidation. Do you still stick by that?

I still do because merging six banks is not a joke and I will see the benefit of the merger

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and systematically an important bank and there should not be too much concentration of power in State Bank of India.

You are talking very contrary to concentration of power. Is this whole effort to merge banks, a weak bank, a stable bank, a small bank and a stable bank, the right way to go forward? This is not a decision coming from the banks' boards. Is this the way forward?

This was the recommendation made in 1992. So it has been almost 26 years. Somewhere you have to make some beginning because 21 public sector banks are just too many. We need a couple of strong large public sector banks because of the economic growth as well as the social banking objectives in this country, but do we really need 21? If we do not need 21, then somewhere, the beginning has to be made.

It is not coming from the banks themselves then?

Yes, the government also is the majority shareholder.

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View: Let the rupee depreciate-Why RBI did the right thing in not trying to prop it up artificially

View: Let the rupee depreciate-Why RBI did the right thing in not trying to prop it up artificially

By *Arvind Panagariya*, TOI Contributor | Updated: Oct 17, 2018, 06.31 PM IST

With the exchange rate fixed at 4.76 rupees per dollar during the 1950s, the rupee was overvalued relative to foreign currencies.

An episode from the 1950s illustrates that a failure to use the exchange rate as an instrument of macroeconomic adjustment can be costly. With the exchange rate fixed at 4.76 rupees per dollar during the 1950s, the rupee was overvalued relative to foreign currencies. This made India's goods expensive relative to foreign goods and resulted in the import bill consistently exceeding export revenues. The gap had to be covered by running down scarce foreign exchange reserves. By early 1958, the reserve almost ran out.

Rather than devaluing the rupee to properly align the prices of domestic and foreign goods, the then government resorted to what is known as foreign exchange budgeting. Beginning with the second half of 1958, every six months the finance ministry began preparing a detailed budget of how the expected foreign exchange revenues over the following six months would be allocated across different ministries.

That process multiplied the complexity and cost of investment licensing: No licence for investment in a project could now be given unless the finance ministry allocated foreign exchange necessary to buy foreign machinery and inputs. With high inflation making Indian goods progressively more expensive relative to foreign goods, export revenues shrank and import demands expanded leading to progressive tightening of import controls.

It took India another three decades to accept that the exchange rate was a key tool of macroeconomic adjustment. With reforms launched in 1991, it adopted a flexible exchange rate system with the Reserve Bank of India (RBI) intervening in the foreign exchange market only to smooth out short-term fluctuations. As a result, value of the rupee has changed from Rs 17.50 per dollar in 1990 to Rs 74 today. This depreciation has been crucial to maintaining both overall macroeconomic stability and robust growth during these years.

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2 Trade war: Government sees space for Indian exporters in US
3 Woodcraft Exporters to face EU traceability norms
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became necessary, begin by noting that the post-1991 opening up of our capital account was initially limited to foreign direct investment (FDI) and equity investment. But this changed in recent years with the government opening the door wider and wider to financial capital flows. These flows are far more liquid than FDI and equity investments and can enter and exit the country fast in response to changes in interest rates abroad.

Following the 2008 global financial crisis, interest rates in the United States progressively fell, leading foreign investors to move more and more funds into Indian debt. Since these funds helped keep the interest rate on the government debt low, the government found it attractive to progressively liberalise the cap on them. In parallel, Indian corporates also sought and got progressively greater access to lower-interest external commercial borrowings (ECBs).

As long as interest rates in the United States remained low, these capital inflows produced a happy outcome for the government, foreign investors investing in Indian debt and Indian corporates borrowing abroad. Steady inflows of capital also kept the rupee from depreciating, which ensured high dollar returns to foreign investors and low rupee cost of servicing ECBs for Indian corporates.

But an upward turn in the interest rates in the United States recently jolted this happy equilibrium. Not only did the availability of foreign financial capital suddenly dry up, several years of accumulated investment in Indian debt sought to exit. Foreign institutions that could recall loans given to Indian corporates did so as well. Some foreign investors in Indian equities also sought exit to earn the higher interest rates at home.

These exits required the conversion of massive volumes of rupees into dollars over a short period. That put downward pressure on the value of the rupee. The only way that RBI could have maintained the original value of the rupee was by selling as many dollars from its reserves as demanded by exiting investors at the original exchange rate.

Such defence would have been unwise for two reasons. One, whereas the depreciation discouraged exits by effectively increasing the cost of converting rupees into dollars, a stable rupee would have led to much larger exits, heavily depleting RBI's foreign exchange reserves. And two, with private actors instead of RBI supplying dollars to exiting investors, dollars available for imports shrank. That forced much needed adjustment in the current account.

Much has been made of oil price hike in the current episode. No doubt, the price hike added to the difficulties of foreign exchange management. But it was no more than a sideshow. Absent oil price hike, the rupee depreciation would have been less but not by a wide margin.

The worst of this episode is perhaps behind us. While we did not learn from a similar episode in the summer of 2013, we must not let this repeat episode go to waste. We must reassess the wisdom of opening the economy wider and wider to financial capital inflows. Using low-cost foreign financial capital may seem attractive but this lunch is not free. Eventually, when the inflows reverse, which they inevitably do, the economy does pay for it and rather heavily.

The writer is Professor of Economics at Columbia University

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Group of ministers says GST Council to seek states' views on 'disaster tax'

ET Bureau | Updated: Oct 15, 2018, 11.45 PM IST

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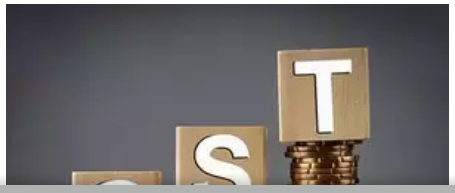
NEW DELHI: A panel of state finance ministers set up to deliberate a 'disaster cess or tax' under the goods and services tax

1 Year of GST



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The NCCD collection has come down from Rs 6,450 crore in 2016-17 to Rs 3,660 crore in 2017-18.

on the matter.

The panel was of the view that the National Disaster Relief Fund (NDRF) was not sufficient to fund natural calamities and hence the decision to take the matter of a state-specific or nationwide 'disaster tax or cess' to all the states.

Bihar deputy chief minister Sushil Modi, who heads the seven-member group of ministers, on Monday said the panel would also seek views of the attorney general on the legality of levying a 'disaster cess' or a 'disaster tax' to fund states hit by natural calamities.

Last month, Kerala had mooted a plan in the GST Council for imposition of a cess on GST on goods sold within the state to help it tide over the losses suffered due to the recent floods. Discussions with states would be centred on mechanism for creation of the fund and disbursement from the fund in cases when it is decided to levy cess or tax specific to the state hit by calamity.

Modi said in the last 4-5 years, the kitty of National Calamity Contingent Duty (NCCD) — which is a major contributor to NDRF — has been declining, especially after the implementation of GST last year. NCCD collection has come down from Rs 6,450 crore in 2016–17, to Rs 3,660 crore in 2017-18.

"Already there is section in the Constitution Amendment Bill itself which says GST Council shall make recommendations to the union and the states on any special rates or rate for a specified period to raise resources at the time of natural disaster," Modi said.

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September exports down 2.15%, trade gap at 5-month low

By *Kirtika Suneja*, ET Bureau | Updated: Oct 15, 2018, 11.41 PM IST

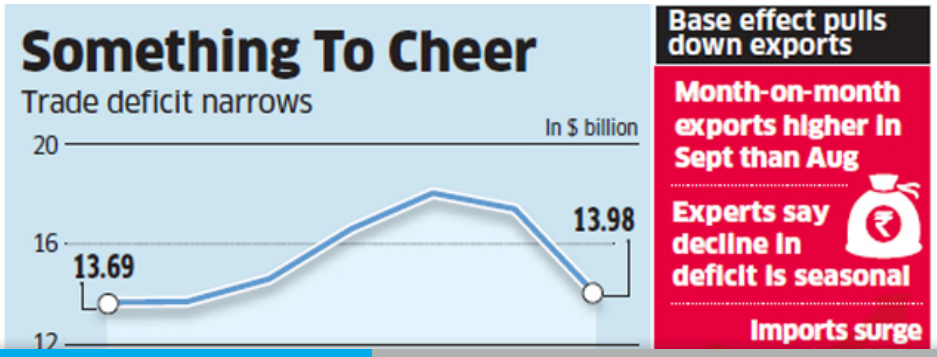
The government had hiked the customs duty on a number of items to check the rising Current Account Deficit and the slide in rupee.

NEW DELHI: India's trade deficit declined to a five-month low in September even as exports contracted, providing some respite from the rising gap that has sparked concern about the current account deficit (CAD).

The gap between exports and imports, or trade deficit, declined to $13.98 billion in September from $17.39 billion in August following slower growth in imports.

Exports were pegged at $27.95 billion in September, down 2.15% from a year ago, while imports rose 10.45% to $41.9 billion, lowest in five months.

"Despite this (decline), as well as the measures unveiled so far by the government to curtail non-essential imports, we will not be surprised if the merchandise trade deficit rebounds above $17.5 billion in October 2018," said Aditi Nayar, principal economist ICRA.



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3 Woodcraft Exporters to face EU traceability norms
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India's CAD is seen at 2.8% of GDP this year against 1.9% last year.

The concern over the CAD along with rising US interest rates has caused the rupee to depreciate sharply against the dollar. The weaker rupee is expected to help exports. The government has raised import duties on some items in order to curb non-essential imports.

BASE EFFECT

The year-on-year decline in exports was largely due to the base effect of high exports last year in September. Month-on-month September exports were higher than $27.84 billion for August.

Calling this phenomenon a temporary one, commerce and industry ministry said September 2017 was "abnormally high growth month" of about 26% in dollar terms due to the imminent cut-off then for drawbacks at pre-GST rates.

"The overall exports in September were close to $28 billion, which is the minimum exports we are looking for each month so as to reach the milestone of $350 billion," said Ganesh Kumar Gupta, president, FIEO.

The major commodity groups that showed positive export growth over the corresponding month of last year are petroleum products (26.8%), organic & inorganic chemicals (16.9%), drugs & pharmaceuticals (3.8%), cotton yarn/fabrics/made-ups, handloom products (3.6%) and plastic & linoleum (28.2%).

The government said that exporters continue to be resurgent, with their realised incomes having gone up almost 10%.

October figures promise to be in line with the ongoing six-month trend, according to the statement. However, there are some risks as well, the government said.

"Global recovery is fragile and there is some element of risk from threats such as confrontational trade stances that major countries have taken," commerce secretary Anup Wadhawan told media persons.

EEPC India Chairman Ravi Sehgal said the rupee depreciation has not been of help in so far as the competitiveness of India's shipments is concerned.

"The effort is not to control imports but improve capacity utilisation and promote manufacturing-…we are doing everything within our bound rates," Wadhawan said on the government's efforts to control imports in order to curb the current account deficit.

Exporters need to diversify export basket: Prabhu

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Staffing sector seeks input tax credit on insurance cost

By *Yogima Seth Sharma*, ET Bureau | Oct 14, 2018, 11.56 PM IST

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ISF said since insurance services are used by staffing business in the course of furtherance of its outward

NEW DELHI: The staffing industry has reached out to the Goods and Services Tax (GST) Council to seek input tax credit on insurance services procured for its employees.

"We had a meeting with GST Council and have sought them to either clarify or amend the Act to remove ambiguity with regard to availability of input tax credit on insurance charges incurred on employees," Suchita Dutta, executive director of the Indian Staffing

1 Can salary paid for services by head office to its branch offices in other states attract GST?

2 Trade war: Government sees space for Indian exporters in US

3 Woodcraft Exporters to face EU traceability norms

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The industry says the benefit will encourage it to offer better social security package to workers while also reducing their cost of doing business.

ISF said since insurance services are used by staffing business in the course of furtherance of its outward supply of manpower services, it should be eligible for input tax credit.

“Allow input tax credit of GST paid with respect to health, medical, accidental and life insurance coverage for employees or notify insurance procured for employees as eligible for input tax credit with retrospective effect,” ISF said in its submission to the council on September 25.

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3 Woodcraft Exporters to face EU traceability norms

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