GOVERNMENT APPROVED SETTING UP OF AN “EMPOWERED GROUP OF SECRETARIES (EGOS) AND PROJECT DEVELOPMENT CELLS (PDCS)” IN MINISTRIES/DEPARTMENTS FOR ATTRACTING INVESTMENTS IN INDIA

GROWTH TRAJECTORY OF DIRECT TAX COLLECTION & RECENT DIRECT TAX REFORMS

DRAFT FRAMEWORKS FOR SALE OF LOAN EXPOSURES AND SECURITISATION OF STANDARD ASSETS
## CONTENTS

### COMMERCE AND INDUSTRY

<table>
<thead>
<tr>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>SHRI PIYUSH GOYAL ASKED NPC TO LEVERAGE ITS STRENGTHS FOR EXPANSION OF ITS ADVISORY &amp; CAPACITY BUILDING SERVICES; ONLINE REVIEW MEETING OF NATIONAL PRODUCTIVITY COUNCIL HELD</td>
<td>3</td>
</tr>
<tr>
<td>GOVERNMENT APPROVED SETTING UP OF AN “EMPOWERED GROUP OF SECRETARIES (EGOS) AND PROJECT DEVELOPMENT CELLS (PDCS)” IN MINISTRIES/DEPARTMENTS FOR ATTRACTING INVESTMENTS IN INDIA</td>
<td>4-5</td>
</tr>
</tbody>
</table>

### FINANCE

<table>
<thead>
<tr>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>CLARIFICATION ON NOTIFICATION NO. 26/2020-CUS DATED 02.06.2020 REGARDING BASIC CUSTOMS DUTY ON IMPORTS OF LENTILS (MASUR)</td>
<td>6</td>
</tr>
<tr>
<td>GROWTH TRAJECTORY OF DIRECT TAX COLLECTION &amp; RECENT DIRECT TAX REFORMS</td>
<td>7-10</td>
</tr>
</tbody>
</table>

### RBI

<table>
<thead>
<tr>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>FINANCES OF FOREIGN DIRECT INVESTMENT COMPANIES, 2018-19: DATA RELEASE</td>
<td>11</td>
</tr>
<tr>
<td>DRAFT FRAMEWORKS FOR SALE OF LOAN EXPOSURES AND SECURITISATION OF STANDARD ASSETS</td>
<td>12</td>
</tr>
</tbody>
</table>
MINISTRY OF COMMERCE & INDUSTRY

Shri Piyush Goyal asked NPC to leverage its strengths for expansion of its Advisory & Capacity Building services; Online review meeting of National Productivity Council held

Union Commerce and Industry Minister Sh. Piyush Goyal took an online review meeting of National Productivity Council (NPC), an autonomous organization of DPIIT. Shri Som Parkash, Minister of State in the Ministry of Commerce and Industry and other Senior Officials of DPIIT were present in the meeting.

Shri Goyal acknowledged that National Productivity Council, an organization set up in 1958, has been rendering expert services in the areas of Consultancy and Capacity Building in the domains of Energy, Environment, Business process and Productivity improvement. He said that it can further leverage its strength and work more closely with Industry, SMEs and other organizations in the Government, Public as well as the Private Sector.

The Minister said that successful experience of NPC in implementing Lean Manufacturing in MSME sectors needs to be leveraged for expanding schemes to benefit more MSMEs. Similarly, the recent estimation study of plastic litter into riverine and marine eco-system needs to be expanded to other cities, with the objective of making India plastic free. It was also decided that the current scheme of “Training and certification of competent persons for Boiler Certification” needs to be reviewed with an objective of bringing in more efficiency. The CIM called for enhancing NPC’s revenue to the tune of Rs. 300 Crores by 2024 through expansion of its Advisory & Capacity Building services to public and private sectors.

In order to bring in more synergy among the offices of Commerce & Industry Ministry, it was recommended that all these offices should be co-located in the same city. The Minister further desired that NPC should try to replicate the Delhi Police Model of Automated Transfer & Posting System, developed by NPC, for other Government Organizations, including Railways. He also emphasized that NPC could render its services to Indian Railways which is largest government employer in the country.
MINISTRY OF COMMERCE & INDUSTRY

Government approved setting up of an “Empowered Group of Secretaries (EGoS) and Project Development Cells (PDCs)” in Ministries/Departments for attracting investments in India

The Union Cabinet under the leadership of Hon’ble Prime Minister Shri Narendra Modi has given its approval for setting up of an “Empowered Group of Secretaries (EGoS) and Project Development Cells (PDCs) in Ministries/Departments of Government of India for attracting investments in India”. This new mechanism will reinforce India’s vision of becoming a US$ 5 trillion economy by 2024-25.

Government is determined to put in place an investment friendly ecosystem that strongly supports the domestic investor as well as FDI and will boost the economy manifold. DPIIT proposes strategic implementation of an integrated approach that will eventually bring about synergies between Ministries/Departments and among the Central and State Governments in our investment and related incentive policies.

In the midst of current ongoing COVID-19 pandemic, India is presented with an opportunity to attract FDI inflows into the country especially from large companies which seek to diversify their investments into new geographies and mitigate risks. Also, ramping up production across product lines will help to serve big markets in the US, EU, China and elsewhere. The proposal aims to take advantage of these opportunities from the global economic situation to make India among the largest players in the global value chain.

In order to provide support and facilitation to investors for investing in India and to boost growth in key sectors of the economy, an Empowered Group of Secretaries (EGoS) is approved with the following composition and objectives:

- Cabinet Secretary (Chairperson)
- CEO, NitiAayog (Member)
- Secretary, Department for Promotion of Industry and Internal Trade (Member Convenor)
- Secretary, Department of Commerce (Member)
- Secretary, Department of Revenue (Member)
- Secretary, Department of Economic Affairs (Member)
- Secretary of Department concerned (to be co-opted).
Objectives of EGoS:

- To bring synergies and ensure timely clearances from different departments and Ministries.
- To attract increased investments into India and provide investment support and facilitation to global investors.
- To facilitate investments of top investors in a targeted manner and to usher policy stability & consistency in the overall investment environment.
- To evaluate investments put forward by the departments on the basis of their (i) project creation (ii) actual investments that come. Further, these departments would be given targets for completion of various stages by the Empowered Group.

A ‘Project Development Cell’ (PDC) is also approved for the development of investible projects in coordination between the Central Government and State Governments and thereby grow the pipeline of investible projects in India and in turn increase FDI inflows. Under the guidance of the Secretary, an officer not below the rank of Joint Secretary of each relevant central line Ministry, who will be in-charge of the PDC will be tasked to conceptualize, strategize, implement, and disseminate details with respect to investable projects.

PDC will have the following objectives:

- To create projects with all approvals, land available for allocation and with the complete Detailed Project Reports for adoption/investment by investors.
- To identify issues that need to be resolved in order to attract and finalise the investments and put forth these before the Empowered Group.

The Decision will make India a more investor-friendly destination and give a fillip to the mission of Aatmanirbhar Bharat envisioned by Hon’ble Prime Minister by handholding and further smoothening investment inflows into the country. This will give a boost to the economy and open up immense direct and indirect employment potential in various sectors.
Clarification on Notification No. 26/2020-Cus dated 02.06.2020 regarding Basic Customs Duty on imports of Lentils (Masur)

Notification No. 26/2020-Cus dated 02.06.2020 has been issued changing the Basic Customs Duty (BCD) rate on Lentils (Masur) w.e.f 2nd June, 2020. Certain clarifications have been sought on the period of applicability of the changes.

It is clarified that as per the above notification, the basic customs duty on imports of Lentils (Masur) has been reduced as below:

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<tr>
<th>Description</th>
<th>From</th>
<th>To</th>
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<tbody>
<tr>
<td>Lentils (Masur) [HS 0713 40 00] imported from any country other than USA</td>
<td>30%</td>
<td>10%</td>
</tr>
<tr>
<td>Lentils (Masur) [HS 071340 00] originating in or exported from USA</td>
<td>50%</td>
<td>30%</td>
</tr>
</tbody>
</table>

The reduced customs duty rate shall apply during the period from 2nd June 2020 to 31st August 2020. With effect from 1st September 2020, the rate as indicated in column (2) of the Table above shall apply.
MINISTRY OF FINANCE

Growth Trajectory of Direct Tax Collection & Recent Direct Tax Reforms

There are reports in a certain section of media that the growth of direct taxes collection for the FY 2019-20 has fallen drastically and buoyancy of the direct tax collection as compared to the GDP growth has reached negative. These reports do not portray the correct picture regarding the growth of direct taxes. It is a fact that the net direct tax collection for the FY 2019-20 was less than the net direct tax collection for the FY 2018-19. But this fall in the collection of direct taxes is on expected lines and is temporary in nature due to the historic tax reforms undertaken and much higher refunds issued during the FY 2019-20.

This fact becomes more apparent if we compare the gross collection (which removes anomalies created by the variation in the amount of refund given in a year) after taking into account the revenue foregone estimated for the bold tax reforms undertaken, discussed below, which have a direct impact on the direct taxes collection for FY 2019-20. It may also be noted that in FY 2019-20, amount of total refunds given was Rs. 1.84 lakh crore as compared to Rs. 1.61 lakh crore in FY 2018-19 which is a 14% increase year-on-year.

I. **Reduction in corporate tax rate for all existing domestic companies**: In order to promote growth and investment, the Government has brought in a historic tax reform through the Taxation Laws (Amendment) Ordinance 2019 which provided a concessional tax regime of 22% for all existing domestic companies from FY 2019-20 if they do not avail any specified exemption or incentive. Further, such companies have also been exempted from payment of Minimum Alternate Tax (MAT).

II. **Incentive for new manufacturing domestic companies**: In order to attract investment in manufacturing sector, the Taxation Laws (Amendment) Ordinance 2019 has drastically reduced the tax rate to 15% for new manufacturing domestic company if such company does not avail any specified exemption or incentive. These companies have also been exempted from payment of Minimum Alternate Tax (MAT).

III. **Reduction in MAT rate**: In order to provide relief to the companies which continue to avail exemption/deduction and pay tax under MAT, the rate of MAT has also been reduced from 18.5% to 15%.

IV. **Exemption from income-tax to individuals earning income up to Rs. 5 lakh and increase in standard deduction**: Further, to provide complete relief from payment of income-tax to individuals earning taxable income up to Rs. 5 lakh, the Finance Act, 2019 exempted an individual taxpayer with taxable income up to Rs. 5 lakh by providing 100% tax rebate. Also, to provide relief to the salaried taxpayers, the Finance Act, 2019 enhanced the standard deduction from Rs. 40,000 to Rs. 50,000.
The revenue impact of these reforms have been estimated at Rs. 1.45 lakh crore for Corporate Tax and at Rs.23,200 crore for the Personal Income Tax (PIT). Tax buoyancy on gross direct tax collection after adjusting the revenue foregone for the above mentioned tax reforms is as under:

(Rs. in crore)

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<tbody>
<tr>
<td>Corporate Tax</td>
<td>7,69,301</td>
<td>6,78,398</td>
<td>1,45,000</td>
<td>8,23,398</td>
<td>7.03</td>
<td>7.20</td>
<td>0.98</td>
</tr>
<tr>
<td>Personal Income Tax (PIT)</td>
<td>5,28,373</td>
<td>5,55,322</td>
<td>23,200</td>
<td>5,78,522</td>
<td>9.49</td>
<td>7.20</td>
<td>1.32</td>
</tr>
<tr>
<td>Total</td>
<td>12,97,674</td>
<td>12,33,720</td>
<td>1,68,200</td>
<td>14,01,920</td>
<td>8.03</td>
<td>7.20</td>
<td>1.12</td>
</tr>
</tbody>
</table>

Therefore, by removing the effect of the extraordinary and historic tax reform measures and higher issuance of refunds during the FY 2019-20, the buoyancy of total gross direct tax collection comes to 1.12 and almost 1 for Corporate Tax and 1.32 for Personal Income Tax. These buoyancies indicate that the growth trajectories of both the arms of direct taxes, i.e., Corporate Tax and PIT are intact and are rising steadily. Further, the higher growth rate in direct taxes as compared to growth rate in the GDP even in these challenging times proves that recent efforts for the widening of the tax base undertaken by the Government are yielding results.

Furthermore, the assertion that inspite of the tax reforms, the investment has not been picking up is not correct and is without appreciation of the reality of the business world. The setting up of new manufacturing facilities requires various preliminary steps like acquisition of land, construction of factory sheds, setting up of offices and other infrastructures, etc. These activities cannot be completed in just a few months and the manufacturing plants cannot start manufacturing goods from the next day of the announcement of reforms. The tax reforms were announced in September, 2019 and the results are expected to be visible in the next few months and in years to come. The outbreak of COVID-19, may further delay this process but the growth in production due to these tax reforms is bound to happen and cannot be stopped.
The Government is committed to provide a hassle free direct tax environment with moderate tax rate and ease of compliance to the taxpayers and also to stimulate the growth by reforming the direct taxes system. Some of the recent steps taken in this direction, apart from those discussed above, are as under:

I. **Personal Income Tax** - In order to reform Personal Income Tax, the Finance Act, 2020 has provided an option to individuals and co-operatives for paying income-tax at concessional rates if they do not avail specified exemption and incentive.

II. **Abolition of Dividend Distribution Tax (DDT)** - In order to increase the attractiveness of the Indian Equity Market and to provide relief to a large class of investors in whose case dividend income is taxable at the rate lower than the rate of DDT, the Finance Act, 2020 removed the Dividend Distribution Tax under which the companies are not required to pay DDT with effect from 01.04.2020. The dividend income shall be taxed only in the hands of the recipients at their applicable rate.

III. **Vivad se Vishwas** - In the current times, a large number of disputes related to direct taxes are pending at various levels of adjudication from Commissioner (Appeals) level to Supreme Court. These tax disputes consume a large part of resources both on the part of the Government as well as taxpayers and also deprive the Government of the timely collection of revenue. With these facts in mind, an urgent need was felt to provide for resolution of pending tax disputes which will not only benefit the Government by generating timely revenue but also the taxpayers as it will bring down mounting litigation costs and efforts can be better utilized for expanding business activities. Direct Tax Vivad se Vishwas Act, 2020 was enacted on 17th March, 2020 under which the declarations for settling disputes are currently being filed.

IV. **Faceless E-assessment Scheme** - The E-assessment Scheme, 2019 has been notified on 12th September, 2019 which provides for a new scheme for making assessment by eliminating the interface between the Assessing Officer and the assessee, optimizing use of resources through functional specialization and introducing the team-based assessment.

V. **Faceless appeals** - In order to take the reforms to the next level and to eliminate human interface, the Finance Act, 2020 empowered the Central Government to notify Faceless Appeal Scheme in the appellate function of the department between the appellant and the Commissioner of Income-tax (Appeals).

VI. **Document Identification Number (DIN)** - In order to bring efficiency and transparency in the functioning of the Income Tax Department, every communication of the Department whether it is related to assessment, appeals, investigation, penalty and rectification, among other things, issued from 1st October, 2019 onwards are mandatorily having a computer-generated unique document identification number (DIN).

VII. **Pre-filling of Income-tax Returns** - In order to make tax compliance more convenient, pre-filled Income Tax Returns (ITR) have been provided to individual taxpayers. The
ITR form now contains pre-filled details of certain incomes such as salary income. The scope of information for pre-filling is being continuously expanded by pre-filling more transactions in the ITR.

VIII. **Encouraging digital transactions** - In order to facilitate the digitalisation of the economy and reduce unaccounted transactions, various measures have been taken which include reduction in rate of presumptive profit on digital turnover, removal of MDR charges on prescribed modes of transactions, reducing the threshold for cash transactions, prohibition of certain cash transactions, etc.

IX. **Simplification of compliance norms for Start-ups** - Start-ups have been provided hassle-free tax environment which includes simplification of assessment procedure, exemptions from Angel-tax, constitution of dedicated start-up cell etc.

X. **Relaxation in the norms for Prosecution** - The threshold for launching prosecution has been substantially increased. A system of collegium of senior officers for sanction of prosecution has been introduced. The norms for compounding have also been relaxed.

XI. **Raising of monetary limit for filing of appeal** - To effectively reduce taxpayer grievances/litigation and help the Income Tax Department focus on litigation involving complex legal issues and high tax effect, the monetary thresholds for filing of departmental appeals have been raised from Rs. 20 lakh to Rs. 50 lakh for appeal before ITAT, from Rs. 50 lakh to Rs. 1 crore for appeal before the High Court and from Rs. 1 crore to Rs. 2 crore for appeal before the Supreme Court.

XII. **Expansion of scope of TDS/TCS** - For widening the tax base, several new transactions were brought into the ambit of Tax Deduction at Source (TDS) and Tax Collection at Source (TCS). These transactions include huge cash withdrawal, foreign remittance, purchase of luxury car, e-commerce participants, sale of goods, acquisition of immovable property, etc.
RESERVE BANK OF INDIA

Finances of Foreign Direct Investment Companies, 2018-19: Data Release

The Reserve Bank released on its website (https://dbie.rbi.org.in/DBIE/dbie.rbi?site=statistics#!2_46) data relating to finances of foreign direct investment (FDI) companies in India for the year 2018-19. The analysis is based on audited annual accounts of select 8,095 companies accounting for 47.5 per cent of the paid-up capital (PUC) of the FDI companies, which have reported in the Reserve Bank’s Census on Foreign Liabilities and Assets of Indian Direct Investment Companies, 2018-19. Explanatory notes to the statements are given in the Annex.

Highlights

- Sales growth of the selected FDI companies accelerated to 13.8 per cent in 2018-19 from 11.2 per cent in the previous year: the increase in sales was broad based (Statements 2 and 8).
- Despite higher growth in sales, operating profit moderated due to increase in operating and manufacturing expenses (Statements 2 and 8).
- Growth in output, measured in terms of gross value added (GVA), moderated in 2018-19 mainly due to lower GVA growth in the manufacturing sector (Statements 2 and 8).
- Nearly 40 per cent of the funds were utilised for fixed investment in 2018-19, as compared with 33.5 per cent in the previous year (Statement 6).
- Equity investment outpaced borrowing growth of the FDI companies across sectors, resulting in a decline in leverage during the year (Statement 3 and 11).
- Export intensity (measured as the exports to sales ratio) continued to decline at the aggregate level as well as across sectors (Statement 11).

Note: The Ministry of Corporate Affairs (MCA), Government of India is the primary source of these data.

(Yogesh Dayal)
Chief General manager
RESERVE BANK OF INDIA

Draft Frameworks for Sale of Loan Exposures and Securitisation of Standard Assets

The Reserve Bank has placed on its website two draft documents for public comments - the ‘Draft Framework for Securitisation of Standard Assets’ and ‘the Draft Comprehensive Framework for Sale of Loan Exposures’. These guidelines are applicable to all Scheduled Commercial Banks (excluding Regional Rural Banks); All India Financial Institutions (NABARD, NHB, EXIM Bank, and SIDBI); and, all Non-Banking Financial Companies including Housing Finance Companies.

Aimed at development of a strong and robust securitisation market in India, while incentivising simpler securitisation structures, the revised guidelines attempt to align the regulatory framework with the Basel guidelines on securitisation that have come into force effective January 1, 2018. The revisions also take into account the recommendations of the Committee on Development of Housing Finance Securitisation Market in India (Chair: Dr. Harsh Vardhan) and the Task Force on the Development of Secondary Market for Corporate Loans (Chair: Shri T.N. Manoharan), which were set up by the Reserve Bank in May, 2019.

One of the key changes relates to differential treatment for Residential Mortgage Backed Securities (RMBS) compared to other securitisations in respect of prescriptions regarding minimum holding period (MHP), minimum retention requirements (MRR) and reset of credit enhancements.

Further, the regulatory guidelines for direct assignment transactions are proposed to be separated from the securitisation guidelines and subsumed under a separate set of Comprehensive Guidelines on Sale of Loan Exposures. These comprehensive guidelines harmonise the extant guidelines on sale of loan exposures issued through various circulars, and make them consistent with the changed resolution paradigm in the form of the Insolvency and Bankruptcy Code, 2016 (‘IBC’) and the Prudential Framework for Resolution of Stressed Assets issued vide circular dated June 7, 2019.

A detailed background and summary of key changes being proposed in the two draft guidelines are given in the attached brief.

The Reserve Bank requests comments from all stakeholders on the draft frameworks. In particular, responses are sought on certain specific consultation questions, which have also been flagged in the attached brief. The comments should preferably be supported, as far as possible, by quantitative assessments.

The comments on the draft frameworks and the responses to the discussion questions may be submitted to the Reserve Bank by email latest by June 30, 2020.

(Yogesh Dayal)
Chief General Manager