Right Click: PMO Steps in to Solve Ecomm's Grouse

High-level meeting held to discuss taxation, marketplace curbs & offline-online feud

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New Delhi: The Prime Minister's Office is looking to address complaints by ecommerce companies that the current rules are too restrictive pending the drafting of a longer-term plan for the key job-generating sector by a NITI Aayog committee.

A meeting of top officials was held at the PMO on Thursday to discuss a range of issues including taxation, marketplace curbs and the offline-online conflict.

"There are a number of issues confronting the sector, including foreign investment, taxation," said a government official who attended the meeting. "The idea was to take a stock."

The government has already set up a committee under NITI Aayog chief executive officer Amitabh Kant to review the ecommerce policy and issues faced by companies.

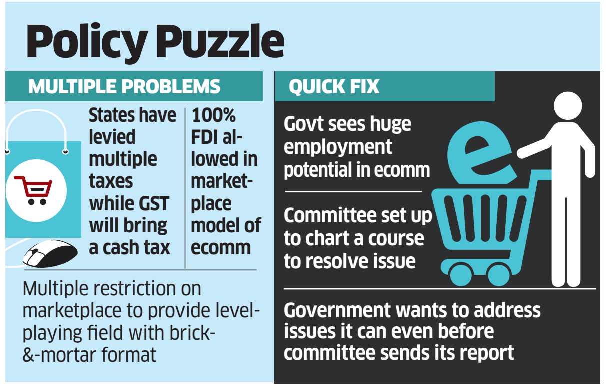
The PMO was drawn into the matter after ecommerce players approached several departments with multiple issues and in the absence of a single nodal ministry.

BRICKS AND MORTAR

The Department of Industrial Policy and Promotion (DIPP) had issued a press note in March laying down a new foreign direct investment (FDI) framework for ecommerce aimed at creating a level playing field vis-à-vis brick and mortar businesses. It allows 100% FDI in the marketplace model through the automatic route but such entities are not allowed to influence prices by offering discounts. Moreover, a single vendor cannot account for more than 25% of sales on an online marketplace.

Taxation has emerged as a major irritant for ecommerce sector along with restrictions imposed by state govts

On the other hand, offline retailers met finance minister Arun Jaitley last week to press their case and raise the issue of unfair competition from online players through what they described as predatory discounting.



TAX ISSUES

Taxation has emerged as a major irritant for the ecommerce sector along with restrictions imposed by state governments.

States like Gujarat have imposed a separate entry tax on goods sold on online portals while others want to impose value added tax on top of the Centre's service tax.

The ecommerce companies say they only facilitate sales and are not sellers themselves so they should only face service tax. States such as Uttar Pradesh even require consumers to file declarations with the state VAT department for goods above ₹5,000.

The NITI Aayog committee is expected to submit its report in a month's time, spelling out a clear framework and bringing about predictability in the overall sectoral policy.

Morgan Stanley estimates India's ecommerce market will swell to $119 billion by 2020. The government sees ecommerce as having a huge potential for job creation by providing market access to small entrepreneurs and businesses that would find setting up physical retail establishments too expensive.

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UNAUDITED FINANCIAL RESULTS
FOR THE QUARTER AND HALF YEAR ENDED 30TH SEPTEMBER, 2016

(₹ in lacs)

PARTICULARS	FOR THE QUARTER ENDED 30.09.2016	FOR THE HALF YEAR ENDED 30.09.2016	FOR THE QUARTER ENDED 30.09.2015
	(Unaudited)	(Unaudited)	(Unaudited)
Total income from operations	13,698,77	27,550,95	12,001,01
Net Profit/(Loss) for the period (before tax, exceptional and/or extraordinary items)	477,44	2,829,64	2,920,78
Net Profit/(Loss) for the period before tax (after exceptional and/or extraordinary items)	477,44	2,829,64	2,920,78
Net Profit/(Loss) for the period after tax (after exceptional and/or extraordinary items)	319,08	1,874,61	1,915,64
Paid-up equity share capital (Face value ₹2/- per share)	477,95	477,95	475,59
Reserves (excluding Revaluation Reserve) as shown in the Audited Balance Sheet of the previous year	52,688,34 (As on 31st March, 2016)	52,688,34 (As on 31st March, 2016)	44,202,41 (As on 31st March, 2015)
Earnings per Share (Face value ₹2/- per share) (for continuing and discontinued operations) (₹) (not annualised) - Basic - Diluted	1.34 1.33	7.85 7.81	8.06 8.00

Note:

1. Information relating to Total Comprehensive Income and Other Comprehensive Income is not furnished as Ind AS is not yet made applicable to banks

2. The Bank has presented mark-to-market gain or loss on foreign exchange and derivative contacts on gross basis as against the erstwhile policy of presenting the same on net basis. Consequent to the change, the balance of other assets and other liabilities is higher by ₹5,900.59 crores and ₹3,800.25 crores as on 30th September, 2016 and 30th September, 2015 respectively. The aforesaid change in presentation has no impact on the profit of the bank for the period ended on 30th September, 2016 and 30th September, 2015.

3. The above is an extract of the detailed format of Quarterly / Annual Financial Results filed with the Stock Exchange under Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. The full format of the Quarterly / Annual Financial Results are available on the website of the Bank (www.axisbank.com) and on the Stock Exchange websites (www.nseindia.com and www.bseindia.com).

For and on behalf of the Board

Place: Mumbai
Date: 25th October, 2016

www.axisbank.com

SHIKHA SHARMA
MD & CEO

GST Impact on Banking & Financial Services Sector

A CONSUMER CONNECT INITIATIVE

Sector seeks single return compliances

Financial services sector is facing serious cost escalations and compliance challenges under the proposed format of GST

Financial services were the focus of the Mumbai edition of 'GST Decoded' on October 18. To evaluate the impact of the GST on the financial services sector, PwC organised a panel discussion in Mumbai. This initiative was supported by The Economic Times.

The panel comprised Anubhav Agarwal, Executive Director, Group Tax India Country Controller, UBS Securities India Pvt. Ltd.; Ketan C Doshi, Managing Director, Pay Point India Network Pvt. Ltd.; Devesh Pandya, Chief Financial & Compliance Officer, ITZ Cash Card Ltd.; Chetan Desai, Sr. Executive Vice President, Group Tax Head, Kotak Mahindra Bank Ltd.; Bipin Rajadhyakshya, Sr. Vice President-Taxation and Legal, ICICI Prudential Life Insurance Company Ltd.; Bhavin Shah, Financial Services Tax Leader, PwC and Denis McCarthy, Executive Director and Global GST Expert, PwC. The discussion was moderated by T K Arun, Editor -Opinion, The Economic Times.

The picture that emerged from the discussion is one of a compliance nightmare if the proposals on the table right now are implemented as operational law. Most of the problems can be traced, essentially, to three factors: the multi-location nature of both providers and consumers of financial services, making state-wise allocation of business tough; the likely accumulation of input tax credits that cannot be utilised; and, the time available to configure complex IT systems to comply with the tax.

This trimmed down set of problems makes two brave assumptions. One is that the gross injustice and absurdity of securities transactions being taxed on the value of the securities traded are obvious enough to warrant amendment of the proposal. The second one is that the idea of taxing intra-firm inter-state supplies of services will be dropped on similar grounds. So, the solution to the likely travails of the financial services industry in the GST regime is rather straightforward: tax financial services solely under Integrated GST (IGST), rather than jointly under state GST and Central GST. This stands to reason because IGST has been devised to deal with inter-state supplies and is levied by the Centre and shared with and among the states.

L to R: Anubhav Agarwal, Ketan C Doshi, Denis McCarthy, Devesh Pandya, T K Arun, Chetan Desai, Bhavin Shah and Bipin Rajadhyakshya

In the words of Denis McCarthy, financial services and the goods and services tax may not go well together. In Australia, things have been simplified for both the government and the financial services industry by the tax being collected only by the Centre. The industry has to deal with only one layer of tax administration. This is not the only thing India could learn from Australia's experience with GST. The industry had 12 clear months, once the rules were finalized and notified, to adapt their tax, accounting and enterprise resource planning software to meet the new compliance requirements.

UBS' Agarwal raised a point that deserves the attention of policymakers. Companies that grow inorganically tend to have multiple IT systems. To tweak them all to meet complex compliance requirements is not just devilishly hard but also takes time. The April 1, 2017 deadline is just not feasible. Even an extension of three months down the line would be very, very tough. Kotak's Chetan Desai presented a number to drive home the complexity of the GST regime as conceived at present: 1,872. That is the number of returns that a large enterprise, say, the State Bank of India, would have to file in a year, registering itself in 29 states and seven Union Territories, besides with the Centre.

ICICI Prudential's Rajadhyaksha emphasised the ill-suitedness of financial services to state-wise taxation, given the multi-location nature of customers as well as of service rendition. The problem is amplified in the case of those who work as agents of banks and insurance companies, felt Devesh Pandya of Itz Cash. Paypoint's Ketan Doshi spoke for all when he said that the industry will happily pay the tax it should to one agency but the Centre and the States should own up the problem of sharing it, instead of creating a compliance mess for the industry to facilitate that sharing.

The industry has presented the problem to the government. It is expected that the government, considering its philosophy of ease of doing business, will bring in a simple compliance system for the financial services sector.

Banking, NBFC & Broking sector

- Address of the account holder mentioned in the bank records
- Other than account holder – location of the service provider

Place of supply?

- NBFC financing goods – whether location of goods or registered address or location of NBFC
- Purchase / sale of securities through branches / sub-broker / franchisee but contract note issued by main broker – whether location of main broker or branch or sub-broker or franchisee

Insurance

- Location of registered person
- Location of service receiver

Place of supply?

- Location of service provider – whether HO or branch
- Insurance of immovable property – whether location of immovable property or registered address

Default Rule

- To registered recipient – Location of service recipient
- To unregistered recipient – Address on record or location of supplier (if no address on record)

Place of supply?

- Centralised procurement and branch transfer – where is the consumption and who can avail the credit

■ Proposed place of supply rule ■ Example of the challenges faced by the sector

What They Said

GST is going to be a big game changer for the life insurance and the entire services sector but implementing changes in such a short time is challenging.

Bipin Rajadhyakshya
Senior Vice President-Taxation & Legal, ICICI Prudential Life Insurance Company Ltd.

GST should be rolled out at a centralised location and the allocation of taxes for the state should be handled by IGST mechanism.

Ketan C Doshi
Managing Director, Pay Point India Network Pvt. Ltd.

GST implementation poses a big challenge in terms of modifications to global IT systems, especially in an era of global systems, global vendors and increasing cost pressures.

Anubhav Agarwal
Executive Director, Group Tax India Country Controller, UBS Securities India Pvt. Ltd.

Financial services are geared towards a centralised type of regime wherein the servers providing the services are central. GST is proposing, conceptually, to turn this on its head.

Chetan Desai
Sr. Executive Vice President, Group Tax Head, Kotak Mahindra Bank Ltd.

A centralised (GST) system where the tax is collected centrally and pushed down to the states based on a formula will certainly result in reduced compliance costs for business, reduce administrative cost for the government and increased collections for both states and commonwealth government and also in an increase in productivity.

Denis McCarthy
Executive Director & Global GST Expert , PwC

It is critical that the GST regime be closer to the service tax regime which has been in place for so many years and with which the financial services sector is comfortable.

Bhavin Shah
Financial Services Tax Leader, PwC