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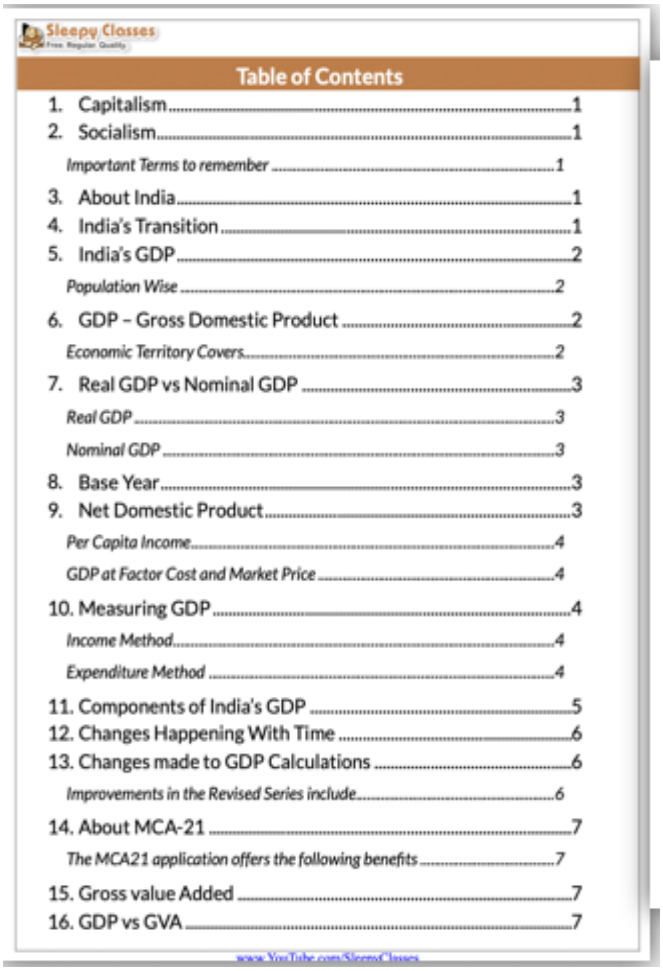
Imagine it like this:

- A Master Check List
- Some Topics

Do Cover these Concepts - 1

- GDP & Related Concepts



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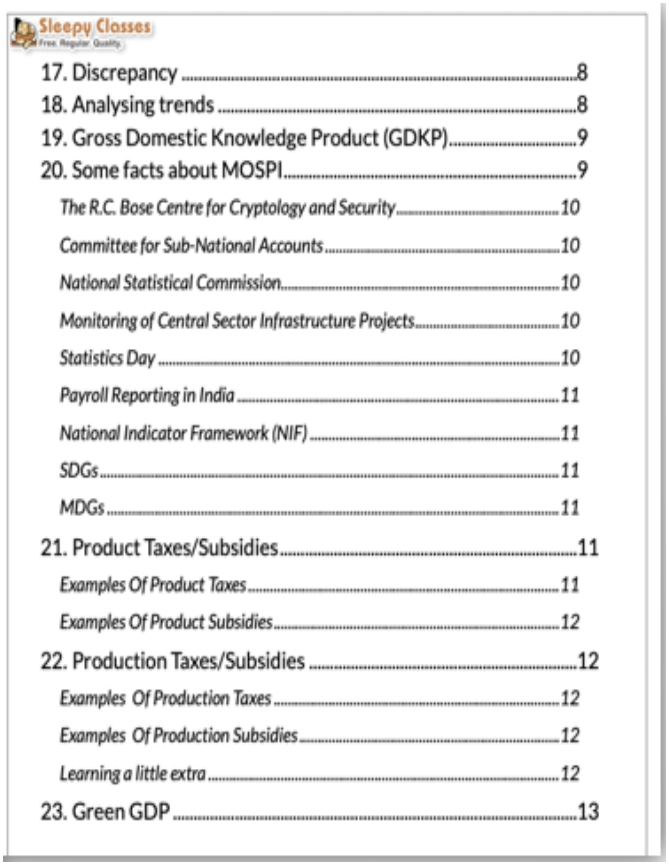

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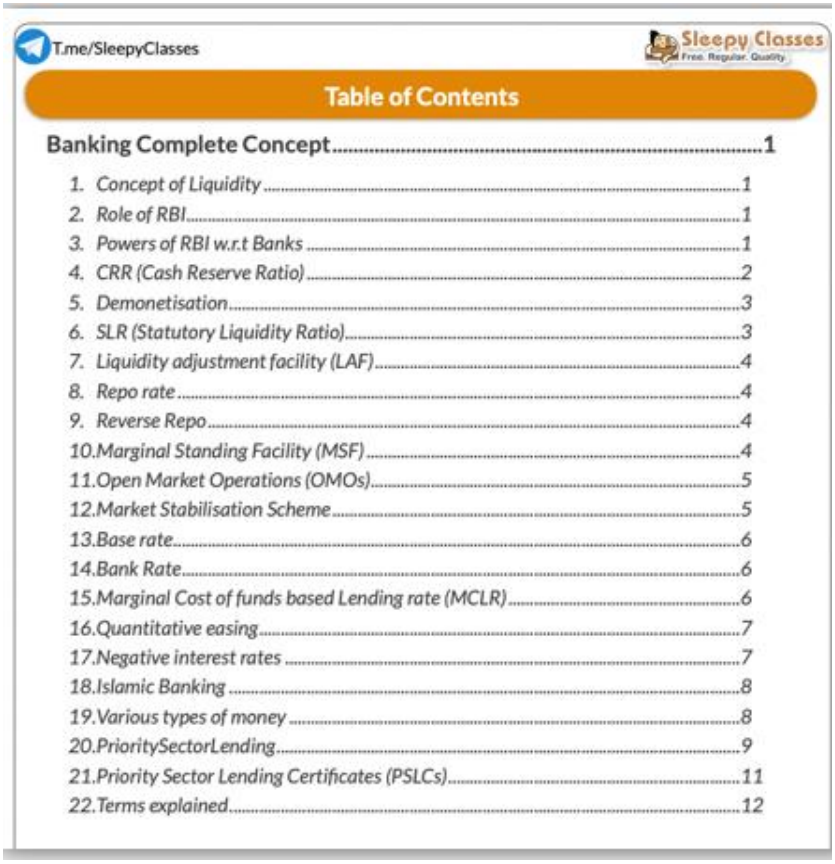
Do Cover these Concepts – 2

- Banking



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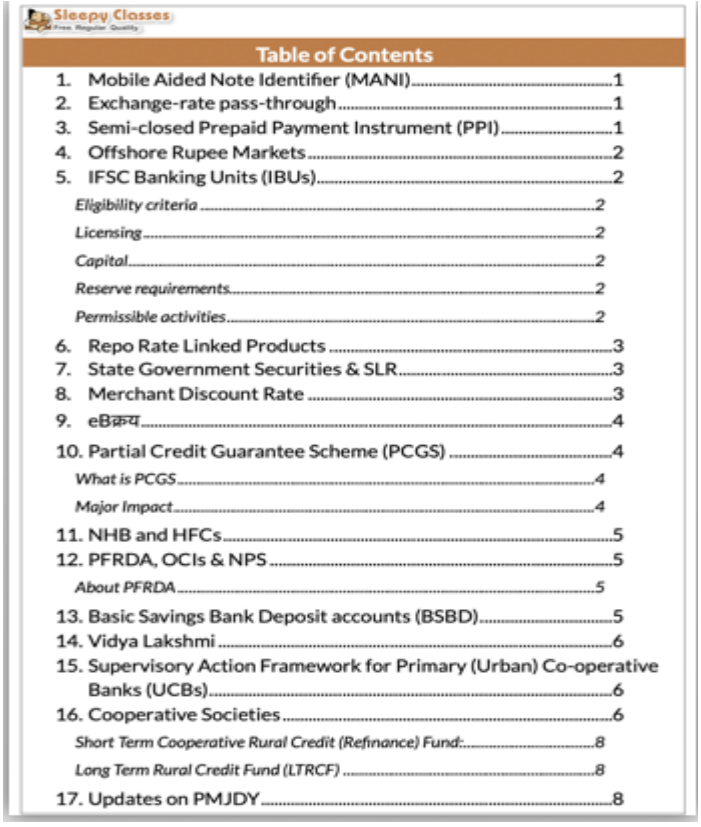

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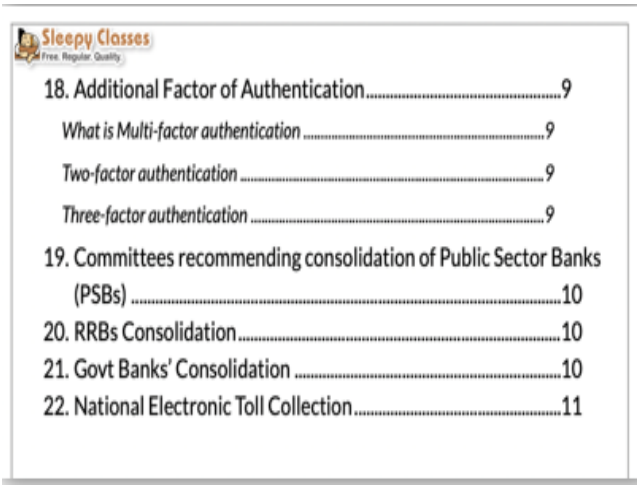

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Do Cover these Concepts – 3

- Government Finance (aka Public Finance)

Any Constitutional Obligation?

- Yes.
  - Article 112 – Annual Financial Statement
  - Article 113 – Demand for Grants
  - Article 110(a) – Finance Bill

Components of a Budget

- Primarily can be divided into:
  - Revenue Budget
  - Capital Budget
- Or can be said to be consisting of:
  - Receipts
  - Expenditures

Annual Financial Statement

Demand for Grants

- Article 113: Expenditure from CFI included in AFS be voted by the Lok Sabha in the form of Demands for Grants.
- Each demand gives separately the total of:
  - Voted Expenditure
  - Charged Expenditure
- Also,
  - Revenue Expenditure
  - Capital Expenditure

Expenditure & Receipts

- Basics
- Revenue Account
  - Tax Receipts
  - Non-Tax Receipts
- Tax Receipts
  - Direct Tax
  - Indirect Tax

Deficits

- Fiscal Deficit:
  - It is the difference between the Revenue Receipts plus Non-debt Capital Receipts (NDCR) and the total expenditure.
  - FD is reflective of the total borrowing requirements of Government.
- Revenue Deficit:
  - It refers to the excess of revenue expenditure over revenue receipts.
- Effective Revenue Deficit:
  - It is the difference between Revenue Deficit and Grants for Creation of Capital Assets.
- Primary Deficit:
  - It is measured as Fiscal Deficit less interest payments.

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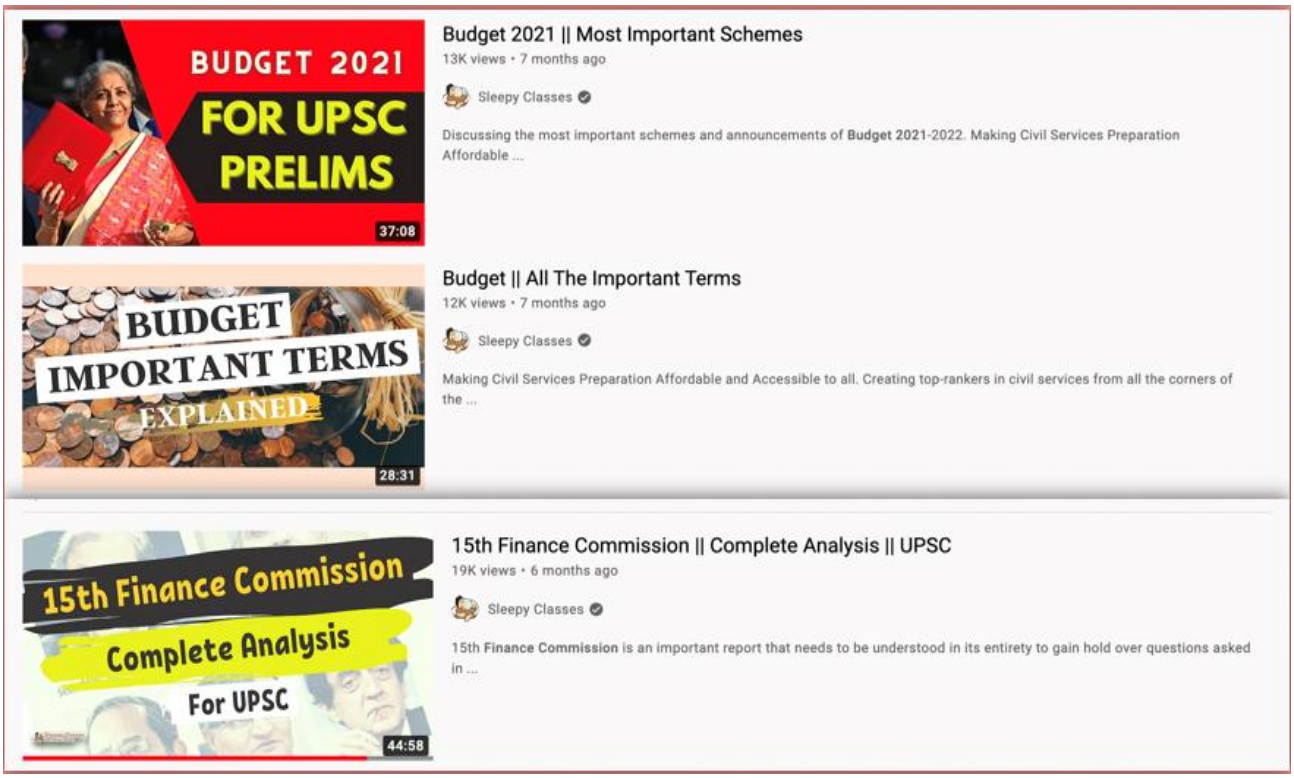

Some Topics in Details

Regulations Review Authority 2.0

- The **Reserve Bank of India** established the Regulations Review Authority (RRA) 2.0 in May 2021.
- The authority is to function for a period of one year.
- The RRA will review the regulatory prescriptions internally.
- It will also review the regulatory prescriptions by seeking suggestions from regulated entities and stakeholders.
- It will work towards easing the implementations of the regulatory prescriptions.
- Deputy Governor Rajeshwar Rao has been appointed as the head of RRA.
- It will work in reducing the compliance burden on regulated entities.
- This is to be done by streamlining the reporting mechanism, removing paper-based submission of returns wherever possible and revoking obsolete instructions.
- Earlier, RRA was set up in 1999-2000.

Countercyclical Capital Buffer

RBI decides not to activate countercyclical capital buffer:

- RBI in February 2005 had put in place CCyB guidelines with the overall objective of strengthening the banking sector.
- It was envisaged that the CCyB would be activated as and when the circumstances warranted.
- The framework envisages the credit-to-GDP gap as the main indicator, which may be used in conjunction with other supplementary indicators like credit-to-deposit ratio, industrial outlook assessment survey, interest coverage ratio, and asset quality.

Aim of the countercyclical capital buffer regime is two-fold

- It requires banks to build up a buffer of capital in good times which may be used to maintain flow of credit to the real sector in difficult times.
- Restricting the banking sector from indiscriminate lending in the periods of excess credit growth that have often been associated with the building up of system-wide risk.

In the backdrop of the 2008 global financial crisis, the Group of Central Bank Governors and Heads of Supervision (GHOS), the overseeing body of the standards set by the Basel Committee, had envisaged introduction of a framework on countercyclical capital measures.

Significant Economic Presence

Income Tax Dept sets threshold for Significant Economic Presence

- The Income Tax Department notified a threshold for Significant Economic Presence (SEP).
- SEP was introduced vide Finance Act 2018 and was defined to mean transaction in respect of any goods, services or property carried out by a non- resident in India, including the provision of download of data or software in India, subject to payment threshold to be prescribed; or systematic and continuous soliciting of business activities or engaging in interaction with such number of users as may be prescribed, in India through digital means.
- India adopted SEP to address challenges of taxing the digital economy way back in 2018, the 'prescribed threshold' has been defined after a long wait and makes the provisions governing SEP functional with effect from April 1, 2022.
- Notably, SEP can trigger irrespective of whether the agreement for transaction or activity has been entered in India, whether the non-resident has a residence or place of business in India, whether the non-resident renders services in India.

- The provisions of Significant Economic presence enlarge the scope of income of non-residents that accrues or arises in India, by establishing a 'business connection' of foreign entities in India.
- The income attributable on account of 'significant economic presence' of a foreign entity in India is taxable in India.
- However, "a non-resident can still take shelter under the tax treaties since India's existing treaties contain the conventional concept of permanent establishment (PE) for taxing business profits of a non-resident and the inclusion of SEP in the Act will not be read into the tax treaties unless they are amended.
- Though the residents of treaty countries can claim the beneficial provisions of treaty, non-treaty jurisdictions and non-residents not eligible for treaty benefit, may have review their position on taxability and compliances.

IPO Grey Market

- An IPO grey market is an unofficial market where IPO shares or applications are bought and sold before they become available for trading on the stock market.
- The IPO grey market is also termed a parallel market or an over-the-counter market.
- Since it's unofficial, inevitably, there are no regulations that govern it.
- The Securities and Exchange Board of India (SEBI), stock exchanges, and brokers have no part to play in it.
- These transactions are undertaken in cash on a one-on-one basis.
- Start-ups, Spin-off companies, delisted companies also may be traded in the grey market.
- Thus, there are no guarantees. All transactions are undertaken on the basis of trust and carry counter-party risk.
- One thing to note here is that the grey market is an unofficial market, not an illegal market.

What is Grey Market Premium and Kostak Rate?

- The Grey Market Premium (GMP) refers to the premium that investors are willing to pay over the issue price—the price at which IPO shares are offered for sale before they are officially listed on the stock market.
- The GMP could give an indication about how the IPO might trade on its listing day.
- The Kostak Rate, meanwhile, relates to an IPO application.

- So, the rate at which an investor buys an IPO application before the listing is termed the Kostak rate.

How does Grey Market work?

- Two ways:
    - You can either trade IPO shares in the grey market or you can trade IPO applications in the grey market.

How IPO applications are traded in the IPO grey market?

- Similar to when shares are traded in the IPO grey market, even the trading of IPO applications includes buyers and sellers.

Why do investors trade in the Grey Market?

- An excellent opportunity for investors to purchase a company's shares even before they are listed.
- If an investor wishes to exit the IPO before it is listed, the IPO grey market is an avenue.
- If an investor has missed the deadline for the IPO application or wishes to buy more shares than they can approach the IPO grey market.

What is in it for the companies?

- A great way to know how the demand for their shares is and how the company's share might perform once it is listed.

G-secs & Retail Direct Scheme

G-secs: RBI unveils retail direct scheme

- The Reserve Bank of India (RBI) in February 2021 had said it will open up **government bonds for small investors** under 'RBI Retail Direct'.

What's the RBI Retail Direct scheme?

- Individual investors can open Retail Direct Gilt (RDG) Accounts with RBI to buy government bonds.
- The bonds on offer are government securities (G-Secs) issued by the central government, state development loans that are bonds issued by state governments, and sovereign gold bonds issued by the central government but whose price is linked to gold.
- You can buy, sell before maturity, hold till maturity, earning regular interest.

How does this scheme work?

- The investor has to open an account with the central bank on a dedicated portal, using a one-time password sent to his or her email address or mobile number.
- The investor needs to have a savings account with a bank in India, a permanent account number and an officially valid document such as a driving licence, voter's identity card or Aadhaar.
- Non-resident Indians are also allowed to invest in some government bonds.
- Investors can link their bank accounts to the retail direct scheme and pay for their purchases through net banking or unified payments interface.

How do retail investors buy bonds on this system?

- You can buy government bonds in primary auctions, where the central and state governments sell their securities in the debt market.
- RBI has allowed retail investors to go for 'non-competitive bidding'.
- This means you can submit bids without specifying a price.
- The bonds get allotted to you at a price established by competitive bidding among institutions.

What's the tax position on government bonds?

- Unlike small saving schemes of the Union government such as the Public Provident Fund or National Savings Certificate, there are no special tax benefits on direct purchase of government bonds.
- The interest on such bonds is taxed at your slab rate.
- Holding the same bonds indirectly through a mutual fund can be more tax-efficient.
- The interest accruing from the bonds with the mutual fund gets added to its net asset value and you do not get taxed until you redeem the units.

What if one wants to exit before maturity?

- The minimum investment size for government securities has been set at ₹10,000 by RBI in this odd lot segment.
- You can sell bonds on NDS-OM before maturity.
- But liquidity in this 'odd lot' segment tends to be poor.

Gig Economy

- Gig economy is a labour market characterised by the prevalence of short-term contracts or freelance work as opposed to permanent jobs.
    - Alternative work arrangements in the gig economy have the potential to absorb more women and increase their participation in the workforce with some amount of reskilling.
    - A boost in use of digital technology and increased acceptance of virtual working for sales and distribution jobs, could open opportunities for women to enter fields where interactions are managed through apps and phone calls.
    - To safeguard the interest of both employers and employees, some labour laws and regulations are required in the changing world of work.

RTGS, NEFT Payment Rules

RBI changes RTGS, NEFT payment rules

- RBI authorised non-bank payment system providers (PSPs) to participate in centralized payment systems (CPS) such as its Real Time Gross Settlement (RTGS) and the National Electronic Fund Transfer (NEFT) System.
- RBI authorised non-bank PSPs, viz. PPI issuers, card networks and white label ATM operators shall be eligible to participate in CPS as direct members.
- Non-banks with direct access to CPS will be allotted a separate IFSC that can open a current account in its Core Banking System (e-Kuber) with the Reserve Bank, maintaining a settlement account with RBI.

Digital Payment Index

RBI's Digital Payment Index

- The new index is based on 5 parameters including:
    - Payment enablers (weight 25 per cent).
    - Payment infrastructure-demand-side (10 per cent).
    - Payment infrastructure-supply side (15 per cent).
    - Payment performance (45 per cent).
    - Consumer centricity (5 per cent).

- The base year has been taken as March 2018 and it is expected to be published on a semi-annual basis with a lag of four months.
- RBI's newly constructed digital payment index has risen sharply by 30.2 per cent in 2020-21 signalling the 'rapid adoption and deepening of digital payments in India.

Factoring

What is factoring?

- Under the factoring business, an organisation (factor) takes over the receivables of another entity (assignor) on the basis of bill discounting.
- The arrangement involves receivables against a sale of goods or service by a seller to be sold to the factor at a discount, thereby making him liable for future debt collection from the buyer.
- In the interim, the factor essentially provides the much-needed liquidity for the operational expenses of the client.
- The legislation aims to do away with threshold for NBFCs to get into the factoring business.
- While it widens the market for the NBFCs, small business will get access to working capital thereby contributing to the economic recovery.
- The Bill removes the 30-day time period for the factors to register the details of every transaction entered by them.
- The registering authority for such transaction is Central Registry setup under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002.
- RBI will be the regulator.

Retrospective Tax

What is retrospective tax?

- It is an additional charge on the transactions done in the past.
- It is usually charged in cases where the present-day policies differ vastly from the past and it is felt that the tax paid under the old policy was less.

When was the retrospective tax introduced?

- It was introduced by the UPA government in 2012 to impose a tax on capital gains made by companies retrospectively.
- Under the law, a company that has followed all rules in the past can still be penalised.

LLP

What is an LLP?

- A Limited Liability Partnership (LLP) is a partnership in which some or all partners have limited liability.
- It therefore exhibits elements of partnerships and corporations.
- In an LLP, one partner is not responsible or liable for another partner's misconduct or negligence.

Salient features of an LLP

- An LLP is a body corporate and legal entity separate from its partners. It has perpetual succession.
- Being the separate legislation (i.e. LLP Act, 2008), the provisions of Indian Partnership Act, 1932 are not applicable to an LLP and it is regulated by the contractual agreement between the partners.

Difference Between LLPs and Traditional Partnership Firms

Liability

- In a partnership firm, all the partners are liable for any action taken by any partner and the liability is unlimited.
- However, in an LLP, the liability extent of any partner is determined by the amount of capital that has been invested by him/her.

Legal Backing

- An LLP and a partnership firm are governed by different Acts.
- LLP is governed by Limited Liability Partnership Act, 2008 and Companies Act while partnership is governed by Indian Partnership Act, 1932. Composition
- Every LLP shall have at least two designated partners being individuals, at least one of them being resident in India and all the partners shall be the agent of the Limited Liability Partnership but not of other partners.

RoDTEP

- RoDTEP stands for Remission of Duties and Taxes on Export Products.
- It's a new scheme that has. been applicable from January 1st, 2021, formed to replace the existing Merchandise Exports from India Scheme (MEIS).
- The RoDTEP scheme works on the principle, "taxes and duties should not be exported, whereas taxes and duties on exported products should be either exempted or remitted to exporters".
- The RoDTEP will ensure that the exporters receive refunds on the embedded taxes and duties previously non-recoverable.
- The scheme was brought to improve exports which were relatively lower in volume earlier.

Need for the RoDTEP Scheme

- The US had earlier challenged India's key export subsidy programmes in the World Trade Organisation (WTO), claiming the scheme to harm the American workers.
- A dispute panel in the WTO was ruled against India, stating that the export subsidy scheme that was provided by the Government of India (GoI), violated the provisions of the WTO's norms.
- This led to the emergence of the RoDTEP Scheme, to make sure that India stays WTO-compliant.
- Rebate of State and Central Taxes and Levies (RoSCTL).
- The RoSCTL is for the export of apparel and garments.

How taxes are charged under the scheme?

- Under the RoDTEP scheme, taxes, duties and levies are charged on the exported goods at the state and local levels.
- It refunds the cumulative indirect taxes of the previous stage on the goods as well as the services used in the production of the exported product and their distribution.
- The rebate will not apply to duties and taxes that have already been exempted, remitted or credited.

Categories that will get the benefits

- The employment-oriented sectors such as gems and jewellery, agriculture, leather, marine are covered under this scheme.
- Other segments like electrical/electronics, automobiles, plastics, machinery are also getting support.

Categories that will not avail the benefits

- Export goods that have a minimum export price, restricted and prohibited goods, deemed exports, supply of manufactured goods to SEZs by domestic tariff zone units, and products manufactured or exported by units located in Special Economic Zones.

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