IGST on ocean freight can't be imposed on importers, companies tell SC
They pleaded for quashing of a govt petition filed in the apex court against a Gujarat HC ruling that had declared IGST on ocean freight as violative of the Constitution

Importers have argued against the imposition of integrated goods and services tax (IGST) on ocean freight in the Supreme Court on Thursday. They pleaded for the quashing of a petition by the government filed in the apex court against a Gujarat High Court judgment that had declared IGST on ocean freight as violative of the Constitution.

Ocean freight is the cost incurred through an agreement between two foreign parties to ship goods to India. For instance, if goods are exported from Washington, the exporter concerned may enter into an agreement with a shipping line there and pay ocean freight to it.

A provision in the Central GST Act permitted levy of both basic customs duty and IGST on the cost, insurance and freight (CIF) value of goods brought into India. A government notification later also extended IGST to ocean freight on importers on the reverse charge mechanism. Under GST, service tax is usually paid by sellers of services, but where it becomes difficult for the government to receive tax from sellers, it imposes it on recipients of services. This is called the reverse charge mechanism.

Arguing on behalf of companies, Abhishek Rastogi, partner at Khaitan & Co., said Indian importers will not fall within the definition of recipient under the GST Act as the exporters of goods situated outside India are liable to pay ocean freight to the foreign shipping line.

He said only the recipient can be burdened with the tax on liability of services which draw GST.

Companies such as Gujarat Petrochem are respondents to the case in the Supreme Court.

Additional Solicitor General N Venkataraman, on the other hand, argued that the levy is not extra territorial and that it is not a case of double taxation. Last year, the Gujarat High Court had declared imposition of IGST on ocean freight as violative of the Constitution.

The court had said the levy and collection of tax on ocean freight was not permissible under the law.

Budget 2022: No major surprise expected in income tax slabs
The upcoming Union Budget 2022 is unlikely to bring any tweaks in the existing income tax rates.

The thinking in the government and among Budget makers is that, given the continued uncertainty around Covid-19 and its impact on household income and savings, any change in tax rates could be counter-productive.

“If the existing rates are changed, while some sections of taxpayers may benefit, others may see a rise in their income tax liabilities, since the government will also have to ensure that there is minimal revenue foregone. The view is that perhaps the populace is not ready for big changes in tax rates,” a top official told Business Standard .

Officials point towards the recently announced goods and services tax (GST) rate hikes for footwear and textiles. In order to rectify the inverted duty structure for these two sectors, GST was raised to 12 per cent effective from January 1, 2022. While experts praised the move, there was public criticism on social media and a section of the clothing industry decried it, saying that only a small group of the sector had an inverted duty structure.

“Even GST rate hikes to correct the inverted duty structure led to some backlash. This could happen in the case of direct tax rates as well, which shows that the time is probably not right for any changes,” the official said.

>Budget makers feel households yet to recover fully; Omicron variant adds to uncertainty
>Officials say the environment isn’t conducive for major changes in tax rates
>Had it not been for Covid, govt could have gone for major I-T reforms, sources say
>While tweaks would have had some benefit, officials say, others would have had a higher tax burden
>Given the upcoming elections, political leadership is likely to favour no changes in rates

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India's retail inflation rises to three-month high of 4.9% in November
India’s retail inflation rate rose to a three-month high of 4.91 per cent in November from 4.48 per cent in the previous month, despite the Centre and states reducing taxes on petrol and diesel.

This was primarily because of a rise in food inflation to 1.87 per cent from 0.85 per cent over this period, even as prices of vegetables, except for some items such as tomatoes, continued to fall. Besides this, a surge in input prices prompted companies to increase prices of their products and services as demand strengthened.

Though the consumer price index (CPI)-based inflation rate has not reached alarming levels yet, staying well within the Reserve Bank of India’s (RBI’s) target range of 2-6 per cent for the fifth straight month in November, experts cautioned that it could rise further, particularly in services, when demand improves.

ICRA Chief Economist Aditi Nayar said, “With input price pressures forcing producers to raise prices in many sectors, the November inflation accelerated slightly faster than we had expected, shrugging off the favourable base effect and the cut in fuel taxes.”

Inflation had a high base of 6.93 per cent in November
The Union government’s move to cut petrol prices by Rs 5 a litre and diesel prices by Rs 10 a litre from November 4, and a cut in value added tax by several state governments, had softened inflation in these items. While inflation in petrol fell to 23.78 per cent in November from 27.28 per cent in the previous month, that in diesel moved down to 22.45 per cent from 31.76 per cent over this period.

Food items have the highest weighting of 39.06 per cent in the CPI, and as such contributed to around one-sixth of the total inflation in November. However, vegetables continued to see deflation even as the rate of price fall declined from 19.43 per cent in October to 13.62 per cent in November. But, tomatoes saw inflation zooming up to 31.35 per cent in November from a deflation of 8.36 per cent in the previous month and 45.57 per cent in September.

Core inflation, which excludes food and fuels, remained sticky, rising to 5.9 per cent in November from 5.8 per cent in October. It has been at least 5.5 per cent for over a year now, and 5.9 per cent was the highest. Core inflation represents the structural part of retail inflation.
The services sector saw high inflation as health witnessed a price rise of 7.3 per cent, recreation 7.6 per cent, and transport and communication 10 per cent.

CARE Ratings Chief Economist Madan Sabnavis said this was a concern as the services sector was gradually opening. Higher costs, he said, would affect the wallet of customers. Of late, telecom companies have increased their charges, which is getting reflected here, he said.

India Ratings chief economist Devendra Pant said inflation in health, transport and communications had turned structural. “Supply shortages are further aiding higher inflation, which cannot be termed as transitory,” he said.

Madhavi Arora, lead economist at Emkay Global Financial Services, said she remained watchful of the pass-through of impending cost push pressures in core goods inflation and cost push via imported energy inflation. The re-opening-led demand revival in select contact-sensitive household services could pressure core services inflation ahead. “We see inflation averaging 5.4-5.5 per cent, which is higher than the RBI’s estimates,” Arora said.

The RBI’s monetary policy committee has pegged inflation at 5.3 per cent for the current financial year.

Vivek Rathi, director of research at Knight Frank India, said considering the high inflationary expectations, the RBI would be watchful of the inflation level.

Digitization of payments would democratise credit, says Nilekeni
Digitization of payments, in tandem with the adoption of Aadhaar across India, will lead to steady democratization of credit to small businesses and users in the country, said Nandan

Nilekani, co-founder and chairman of Infosys Ltd and founder-chairman of UIDAI.
Speaking at the Mint Annual Banking Conclave on Wednesday, Nilekani explained how the adoption of Aadhaar can transform lending and make instant loans available for many more users.

“Aadhaar and UPI (unified payments interface) are helping transactional efficiency, migrating to high-volume, low-cost and small ticket-size transactions. This leads to expanding the market, as well as social inclusion. What these are now doing is also creating a digital footprint. For example, when a small retailer sells or buys something digitally, there is a footprint of that transaction. Invoice details of digital purchases are uploaded automatically to the GST (goods and services tax) portal to file taxes. Hence, as more consumers and small businesses transact digitally, they create digital footprints," Nilekani said.

These footprints, he said, have helped the Reserve Bank of India establish India’s Account Aggregator (AA) system in September.

“What AA does is empower consumers and small businesses to get access to financial services. They can get their bank statements, GST, TDS (tax deducted at source) and other data and request an AA to securely share this with lenders. This process will dramatically democratize lending, as for the first time, this is removing the knowledge asymmetry that is dissociated from small borrowers. They can borrow efficiently, quickly and at low cost—in near real-time," Nilekani said.

“Many banks are already embracing this, and I expect all banks to get on board," he further added.

However, Nilekani warned that lenders must be prepared to switch to lower operating margins to bring about this change.

“You’d go from low volume, high cost and high-value transactions to very high volume, very low cost and small-ticket transactions. This is key to market expansion. You have to lower the transaction cost to be able to reach a wider set of people," he added.

Talking about the AA model, Nilekani said that the use of artificial intelligence and Big Data could help bring more individuals and businesses into the fold of the formal economy.

“Credit using data will fuel more consumption, as well as production. A lot of this will require Big Data and AI, as it’ll require sophisticated algorithms to figure out who is a deserving candidate and who’s a fraud. We will hence see a big push on lending. This is part of a larger process of formalization of the economy," he said.

He also added that the scope of AA is wide and is an already accepted model that awaits adoption. “AA is already approved by the Financial Stability and Development Council (of the finance ministry). The first usage of AA may be with credit, but it will soon extend to personal finance, wealth management and so on."

Nilekani also called on service providers to build consumer-facing portals that are digital-first. “Consumerization of the user experience is very important. As more people use smartphones and experience the ease of use of everyday apps, they will expect the same experience from financial services. So, if we are to attract and retain them, we have to give them an app as simple, intuitive and digital-first as everything else."

Finally, he also spoke about factors that banking providers in the digitization journey should be aware of.

“We will see a shift to the cloud, in combinations of public and private cloud models. This will require a whole new micro-services architecture for banks to implement technologies quickly. Cybersecurity will be increasingly important—as we expose more of our systems to the internet," he said.

Maintain exposure to fixed income and gold
The end of the calendar year is a good time to do a thorough check of your financial portfolio. What makes this exercise crucial this year is the change in monetary policy stances of all the major global central banks.

Rebalance out of equities
The run-up in equity markets may have made your portfolio overweight on equities. “Though the equity markets have corrected slightly in recent weeks, this is still a good time to sell

some of your equity holdings and return your portfolio to its long-term strategic asset allocation," says Ankur Kapur, managing partner, Plutus Capital, a Sebi-registered investment advisory firm.

Over the past year, mid- and small-cap funds have far outperformed large-cap funds (see table). This would have made your portfolio overweight on the mid- and small-cap side, so rebalancing may be required here as well to reduce portfolio risk.

Rebalancing through selling must be undertaken if you will require the money within five years. If not, try to bring your portfolio back to its long-term asset allocation by investing fresh money in underperforming assets.

Maintain global exposure

Even though domestic funds may have outperformed international funds in 2021, maintain exposure to the latter. "Allocation to global funds is important so that your portfolio is not completely reliant on one geography. Investing globally will also provide you access to asset classes and themes not easily available in India. Don't be guided by shortterm performance in this matter," says Thomas Meichl, head of advisory, Kristal.AI.

Stick to quality stocks

Those who have invested in commodity stocks have witnessed strong gains in recent months. "Commodity stocks are driven by global demand-supply factors. Getting the timing right in them is difficult," warns Kapur.

Many millennials start off by investing in good-quality companies. "As greed takes over, they deviate into penny stocks. This should be avoided as it could lead to huge losses," says Nishant Kohli, founder and director, Mudra Portfolio Managers.

The high liquidity and low interestrate scenario is set to change. "A portfolio comprised of quality stocks will decline less during a correction and recover faster afterwards," says Kapur. With valuations at elevated levels, Kohli suggests adopting avalue-oriented strategy.

Fixed income for capital preservation

With growth back on track but inflation proving to be less transient than estimated, global central banks are set to tighten monetary policy. The Reserve Bank of India is also expected to reduce surplus liquidity in the banking system, which could result in a gradual uptrend in rates at the shorter end of the yield curve.

With equities having yielded high returns over the past 18 months, mean reversion is inevitable. Investors need to allocate money to fixed-income instruments, including debt funds, for capital preservation (though returns may not be high even in 2022).

Match your investment horizon with the duration of the fund. "The yield curve is steep. Investors will get compensated for risk at the long end of the yield curve," says Dhawal Dalal, chief investment officer-fixed income, Edelweiss Mutual Fund. He says investors need to extend their horizon and invest in the 5-10-year segment to earn positive real returns.

He further adds: "Opt for an appropriate target maturity fund based on your investment horizon for predictability of return and indexation benefit." Kohli suggests sticking to shorter duration funds (for those with a shorter horizon) and floater funds. Longer-duration funds must be avoided by those having a shorter horizon.

Gold as a hedge

Gold, the safe-haven asset, disappointed in 2021 as economies got back on track and equities soared. Two factors will influence gold's price in 2022. "Gold has traditionally served as a hedge against inflation. This will have a positive impact on gold demand and prices. But a tighter policy by the US Fed could cause the dollar index to appreciate. Gold prices have a negative correlation with the dollar," says Naveen Mathur, director-commodities and currencies, Anand Rathi Shares and Stock Brokers. Though returns from gold may not be high in 2022, investors must maintain a 10-15 per cent allocation to it. "It will act as a portfolio diversifier and hedge your losses whenever equities tank," says Mathur.

Is your term cover adequate?

Check your insurance portfolio to ensure your family is adequately protected. "People up to 35 years should have a sum assured about 20-25 times their annual income. Between 35 and 40, the sum assured can come down to 20 times. Between 40 and 45, it can decline to 15 times. At 55, even 10 times coverage is good enough as income levels are up by then," says Indraneel Chatterjee, cofounder, Renewbuy. Those who have got married, had children, or bought a house should hike their sum assured. While buying a term cover, compare claim settlement ratios and the time taken by insurers to settle claims.

Check quantity and quality of health cover

Check whether your health cover is adequate. "People living in metros should have a base cover of ₹ 10 lakh, supplemented by a super top up of ₹ 90 lakh," says Nayan Ananda Goswami, head-group business and retail sales and service, SANA Insurance Brokers.

Also check the quality of your policy. Senior citizens should ensure they don't have a policy with co payment requirement (unless they wish to reduce the premium). Also, ensure that the waiting period for pre-existing diseases is minimal. In the wake of the Covid crisis, the cost of consumables had become a big issue. "Nowadays, many policies cover this cost as part of their base policy or as a rider," says Goswami. This is a good feature to have.

Though their returns have been low, fixed income will preserve capital, while gold will provide hedge against equity market volatility

EQUITIES HAVE OVERWHELMINGLY OUTPERFORMED DEBT AND GOLD

Returns (%)

Equity funds	YTD	3-year	5-year
Large-cap	24.7	17.3	16.2
Mid-cap	43.1	23.5	18.9
Small-cap	60.6	27.7	20.6
Debt funds			
Overnight	3.1	4.1	4.9
Liquid	3	4.5	5.3
Ultrashort duration	4.1	5.8	6.3
Low duration	4.9	5.0	5.9
Money market	3.6	6.2	6.5

Gold ETF	-2.9	15	11.1

Returns are of direct, growth funds. Above one-year returns are compound annualised Source: MFI Explorer

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Partnership firm can file consumer complaint

Rajkumar Goyal and Ashok Kumar Mangla were partners of Shree Jagdamba Stone Crushers. They approached Sudhir Gensets to purchase a generator set. The company failed to provide a generator set of the specifications mentioned in the order, and instead supplied another type of genset whose specifications did not meet their requirements.

Since the generator was of no use, they requested the company to replace it with another one that would conform to the specifications given. As the company did not pay any heed, the firm and its partners approached the District Forum with a complaint against Sudhir Gensets and its chief executive officer cum managing director, Sudhir Seth.

The District Forum observed that the generator set was lying idle because it did not meet the required specifications. It held that the supply of an incorrect generator set with different specifications constitutes an unfair trade practice. It ordered Sudhir Gensets to refund ₹ 11,50,000 which had been paid for its purchase. It also ordered interest of 12 per cent to be paid from February 3, 2006, till the date of its purchase. Additionally, it awarded ₹ 1.5 lakh as compensation and ₹ 5,000 towards litigation cost.

Sudhir Gensets appealed against the order. The Haryana State Commission, which reappraised the evidence, concurred with the decision of the District Forum. It confirmed the Forums order and dismissed the appeal as being without merit.

The company then filed a revision petition questioning the correctness of the orders passed against it. The National Commission noted that both the District Forum as well as the State Commission had given a concurrent finding that the generator set which had been supplied was lying idle as it did not conform to the correct specifications. The National Commission ruled that this was not merely unfair but was also a deceptive act, and it was rightly held to be an unfair trade practice.

The company argued that it was not challenging the order on merits, but on the law point of whether a firm could be a consumer and was entitled to file a consumer complaint. It also argued that the compensation awarded was unreasonably high and arbitrary.

The National Commission rejected the technical objections since these had never been raised before the District Forum. It observed that the generator set was not purchased for resale, but for self -employment and to earn a livelihood. So, a consumer complaint would be maintainable even though the goods in question might be put to commercial use.

As regards the quantum of compensation, the National Commission observed that the interest rate was on the higher side and there was no justification for awarding an additional lumpsum compensation. So, by its order of December 3, 2021, delivered by Dinesh Singh and Karuna Anand Bajpayee, the National Commission modified the order. It set aside the compensation of ₹ 1.5 lakh and ordered that the refund of ₹ 11,50,000 would carry an interest rate of 9 per cent instead of the 12 per cent awarded by the District Forum. The order for payment of litigation cost was also maintained.

The writer is a consumer activist

Accounting bodies to get powers to act against erring firms

The federal government on Friday moved an modification Invoice to empower the three accounting our bodies — the CA Institute, the Firm Secretaries Institute and the Value Accountants Institute — to take disciplinary motion in opposition to erring companies, a long-pending demand of the skilled our bodies.

It, nonetheless, diluted the illustration of the skilled our bodies within the composition of the respective Disciplinary Committees.

Thus far, these skilled our bodies may solely act in opposition to their members and never in opposition to the companies they represented. The brand new Invoice — The Chartered Accountants, the Value and Works Accountants and the Firm Secretaries (Modification) Invoice 2021 — launched within the Lok Sabha by Finance Minister Nirmala Sitharaman on Friday requires each agency to get itself registered with the Institutes involved.

The Councils of the Institutes must keep a register of companies with the main points of pendency of any actionable data or grievance or imposition of penalty in opposition to them. Additionally, the Councils are to be empowered to take away a agency from the Register of Companies if it has been debarred from enterprise any exercise or actions referring to the occupation of a chartered accountant in apply beneath any regulation or by any competent courtroom.

For fast disposal of disciplinary instances, the Invoice specifies a time restrict of 270 days.
Vital change

One of many vital adjustments is revamping the composition of the Disciplinary Committee and the Board of Self-discipline — a transfer seen by consultants as a blow to the skilled institutes because it takes away their powers to information the outcomes in disciplinary mechanism.

Per the Invoice, the Presiding Officer of the Disciplinary Committee can be a non-member of the Institute, which might imply that the Presidents of those our bodies can now not be the Presiding officer.

From the present scenario the place the five-member disciplinary committee consists of three Institute nominees, together with the President, and two authorities nominees, the Invoice moots a shift to 2 Institute members and three non-members together with the Presiding

Officer appointed by the federal government.
The blow has, nonetheless, been softened by permitting the collection of the Presiding Officer from a panel advisable by the Council of the Institutes.

What ICAI says

Reacting to the provisions of the Invoice, the Institute of Chartered Accountants of India (ICAI) President, Nihar Jambusaria, advised *BusinessLine* that the federal government had, by and huge, thought-about their suggestions. “The modification Invoice will additional make the functioning of the ICAI extra cohesive and end in strengthening the company governance and high quality of preparation and reporting of key statutory paperwork,” he added.

Empowering the CA Institute to take motion in opposition to the erring companies, a long-standing demand of the ICAI, is a progressive provision, he mentioned.

On the disciplinary committee revamp, Jambusaria, nonetheless, admitted that this was not one of the best consequence for the CA Institute and added that the ICAI has already written to the Ministry of Company Affairs looking for a re-look on the provision significantly with regard to the composition of Disciplinary Committee and the Board of Self-discipline.

“We would like the present composition of three+2 (three Institute members and two authorities nominees) to proceed as an alternative of the proposed 2+3 components (two Institute nominees and three non-Institute members). Even when this isn’t acceptable, it could be higher if authorities does a rethink on the presiding officer being a non-member of the institute. The Presiding Officer must be a member of the institute and a chartered accountant for the disciplinary mechanism to work effectively,” he added.