

Not much to bank on

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The change

Clear roadmap on banking reforms, tax concessions on bad loan provisioning and digital transactions figured on the top of the sector's wish-list. But all the Budget had to offer was some clarification on the tax front to ensure smoother resolution of stressed assets under IBC. As has been the case every year, the Centre has once again increased the agriculture lending target to Rs. 11 lakh crore from the record level of Rs. 10 lakh crore in the previous Budget. Exemption of interest income on deposits with banks and post offices from Rs. 10,000 to Rs. 50,000 for senior citizens should augur well for banks, as it would prevent flow of deposits outside the system into other financial instruments. But given that senior citizens mostly prefer bank deposits, this seems unlikely to have a very big impact.

Background

Saddled with huge bad loans and rising provisions, the banking industry has been demanding tax concessions on bad loan provisioning for a while. There was heightened expectation of it being granted in this Budget, given the elevated provisioning requirement for cases referred to the National Company Law Tribunal (NCLT) under the IBC. But the Budget did not pay heed to banks' request this time around, too. It did, however, offer some more clarity on the MAT provisions on notional profit arising out of debt waiver under the IBC.

As per the circular issued by the Central Board of Direct Taxes (CBDT) recently, companies under the IBC will be allowed to set off loss brought forward, including unabsorbed depreciation from the book profit for the purpose of levy of MAT under Section 115JB of the Income Tax Act. The legislative amendment enabling these changes has been brought in the Budget as expected.

Also, according to current tax regulations, benefit of setting off carry forward losses can be given only if the shareholding does not change (by more than 49 per cent). In the Budget it has been clarified that such restrictions will not apply in case of change of shareholding with regard to a resolution plan under IBC.

The verdict

Given that the Centre had already announced its mega bank recap plan of Rs. 2.1 lakh crore sometime back, expectations ran high on a clear roadmap to jump-start banking reforms in the sector, which the Budget has failed to address.

Also while the Budget has clarified on certain tax provisions with respect to IBC cases, it does not entirely address banks' issues. MAT tweak, for instance, still does not satisfy the demand from the industry of full waiver of such notional gain irrespective of brought-forward losses. Also the removal of restrictions in case of change of shareholding under IBC is also provided an opportunity of being heard, which has been given to the Principal Commissioner or Commissioner. This leads to a lot of ambiguity regarding cases already approved under NCLT.

Net on net there will be no significant impact on banking stocks from the Budget in the near- to medium-term. Given that PSU banks continue to be weighed down by bad loan provisioning, no tax relief on this count is marginally negative for them.

Takeaways

- ***Agri lending target increased by 10 per cent***
- ***Clarity on MAT provisions for IBC cases***
- ***Setting off carry forward losses available for IBC accounts even if shareholding changes***

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