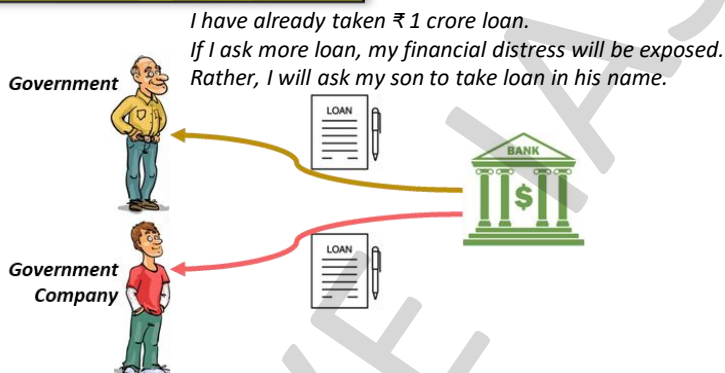


### Off-budget borrowings



#### Off-Budget borrowing (Extra-budgetary borrowings)

- ❖ Loan taken by a public institution, but which is **not reflected in budget**
- ❖ It is usually done to keep **fiscal deficit** numbers low (so that credit rating can be maintained)
- ❖ It can be used **for any purpose** like constructing roads, giving subsidies, administrative expenses, etc.
- ❖ This method is used by **both Centre & State**, through govt company / agency / Special Purpose Vehicle, etc.

#### Example

- ❖ Government said FY2018 fiscal deficit was **3.46%**
- ❖ CAG said it will be **5.85%** if extra-budgetary resources are also included

#### Did you know?

- As per **Article 293** State govt cannot take loan, without Centre's consent, if it already owes loan to Centre
- But, State govt doesn't need Centre's consent to guarantee loans/advances/bonds issued by its entities
- This is one of the reasons why some states use off-budget borrowings

#### Contingent liabilities

- It is a potential liability that may occur in the future,
- e.g. if govt entity fails to repay loan, govt will have to repay it

### Ways & Means Advances



#### G-sec or State Development Loan

Need money to buy House.  
Will return in 8-10 years.

Long term loan



#### Ways & Means Advances

Need money for Goa trip.  
Will return in 2-3 months.

Short term loan



#### Ways and Means Advances

- Facility for **Centre and States** to borrow from RBI, for temporary mismatch in cash flows
- Must be repaid within **3 months** (as per Section 17(5) of RBI Act 1934)
- Introduced in **1997** by abolishing ad-hoc Treasury bills
- They are **not part of FRBM**

#### Special WMA aka Special Drawing Facility

- Given against G-sec held by State
- Given at 1% less than repo rate

#### Normal WMA

- Given after state exhausts SDF limit
- Given at repo rate

## Dollarization

ET THE ECONOMIC TIMES

### Cryptos will lead to financial instability, dollarization of the economy, says RBI Governor

Last Updated: Aug 23, 2022, 08:22 PM IST

**Dollarization** can have different contexts:

- Countries using dollar as **currency**
- Use of Dollars in international **transaction**
- Central banks holding US dollars in **forex reserves**

**De-dollarization** Opposite of dollarization, i.e. reducing dominance of dollar

**Economic Sovereignty** Cryptos can end economic sovereignty, as RBI's monetary policy will become ineffective if it has no control on money supply.

**Did you know?**

- In 2000, **Ecuador** switched to US Dollar
- In 2009, **Zimbabwe** allowed Dollar, Pound, Yen, Yuan, Rupee, etc as currency (discontinued in 2019)
- Indian rupee is legal tender in **Nepal** and **Bhutan**

Business Standard

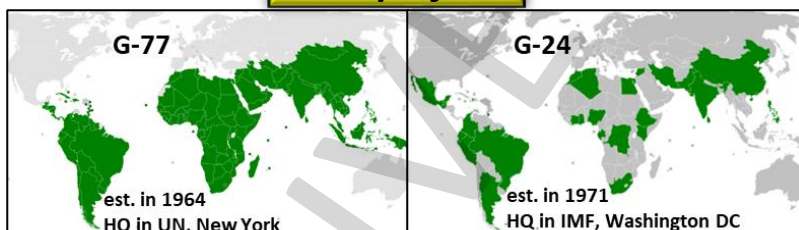
### India won't make sovereign commitment on future digital services tax

May delay implementation of global tax deal

4 min read Last Updated : Aug 18 2022 | 12:23 AM IST

In a move that could delay the implementation of a global tax deal, India and other developing countries under the G24 grouping have objected to the proposal of making sovereign commitments to not introduce any future digital services tax like equalisation levy. The developing countries are of the view that any commitment to not enact future measures should be in the nature of political commitments only.

## Group of 24



**G-24** (currently 28+1 members as China is special invitee)

- ❑ formed in 1971 as a chapter of G-77
- ❑ For developing countries to coordinate on international monetary and development finance issues
- ❑ It is not an organ of IMF, but IMF gives it secretariat services

**For digital service tax, please see 2022 class-1 pg-2,3**

## Withholding Tax

**Withholding tax** aka Retention tax

- It is deducted by the payer of the income.
- It is similar to Tax Deducted at Source.

**Royalty:** Money paid to owner of a product, patent, technology for its use.

**Revenue sharing vs Profit sharing:**

- Revenue sharing is done irrespective of costs.
- Profit sharing is done after deducting costs.

**Note:** Royalty & license fee are usually based on Revenue sharing.

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### Withholding tax on royalty fees doubles to 20%

BUSINESS / TNN / Updated: Mar 25, 2023, 04:08 IST

MUMBAI: The **Finance Bill** passed by the **Lok Sabha** on Friday has increased the withholding tax rate under the Income Tax (I-T) Act on royalties and fees for technical services (FTS) paid to non-resident entities from 10% to 20%.

**Withholding tax** on payment of 'Royalty' and 'Fee for Technical services' to non-resident entities:

**Situation earlier:**

- **If DTAA is not used:** 10%
- **If DTAA is used:** rate given in DTAA, which is mostly 10%
- Since DTAA did not make any difference, most companies did not use it

**Situation now:**

- Finance Act 2023 has increased rate from 10% to 20%.
- Hence, now more MNCs will use DTAA to save tax.

moneycontrol

### Payments by Google India to Ireland outfit not royalty, not subject to withholding tax: ITAT

OCTOBER 21, 2022 / 10:14 PM IST

**Background** (not important for Prelims)

- Between 2008-2013, Google sent ₹ 1,457 crore to Ireland.
- **Govt** - money was **royalty**, hence tax must be withheld and paid in India.
- **Google** - money was business profit. So, tax need not be paid in India.
- ITAT has now ruled in favour of Google.

**For Prelims, remember:**

- India has DTAA with Ireland
- Withholding tax is applicable on royalty

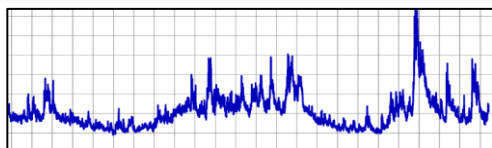
I read I forget, I see I remember

See explanation of this PDF on **YouTube** [www.youtube.com/c/allinclusiveias](https://www.youtube.com/c/allinclusiveias)



## Windfall Tax

- ❖ **Windfall**: fruit blown down from tree by wind
- ❖ **Windfall profit**: unusually high and unexpected profit
- ❖ **Windfall tax**: tax on windfall profit



## Tobin Tax

aka Financial Transactions Tax

- Originally defined as a tax on spot currency conversions
- It aims to discourage short-term speculative currency trading.
- It can stabilize markets by reducing excessive fluctuations.

## DTAA

### DTAA or Double Taxation Avoidance Agreement

- ❑ Agreement between two countries to avoid levying taxes twice on same income.
- ❑ India has DTAA with approx 90 countries (China, USA, UK, France, UAE, Mauritius, Singapore, etc)

### Income Tax Act 1961 protects taxpayers from double taxation.

- ❑ Section 90 (**bilateral relief**) is for taxpayers who paid tax to a country with which **India has DTAA**
- ❑ Section 91 (**unilateral relief**) is for taxpayers who paid tax to a country with which **India does not have DTAA**
- ❑ Thus, India gives relief to both kinds of taxpayers.
- ❑ Rates vary from country to country.

### Note:

- India imposed 6% equalization levy through Finance Act 2016, and not through Income Tax Act
- Therefore, companies could not claim tax credit in their home country under DTAA (see 2018 PYQ on page-2)

## Mauritius Route

[https://en.wikipedia.org/wiki/Mauritius\\_route](https://en.wikipedia.org/wiki/Mauritius_route)

ET THE ECONOMIC TIMES

### Adani rout puts spotlight on billions flowing through Mauritius

Mar 09, 2023, 06:38 AM IST

The tiny island of **Mauritius** spent years trying to clean up its image as a base for murky money launderers and **shell firms**. The **short-seller** allegations against billionaire **Gautam Adani** are once again reviving questions about the country's role as a tax haven for India's tycoons.

### Prelims 2010

A great deal of Foreign Direct Investment (FDI) to India comes from Mauritius than from many major and mature economies like UK and France. Why?

- India has preference for certain countries as regards receiving FDI
- India has double taxation avoidance agreement with Mauritius
- Most citizens of Mauritius have ethnic identity with India and so they feel secure to invest in India
- Impending dangers of global climatic change prompt Mauritius to make huge investments in India

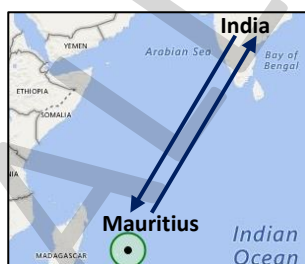
Outlook India  
<https://www.outlookindia.com> › Business

### Why Mauritius Has Everything To Do With The Stockmarket ...

03-Feb-2022 — Because of its **reputation** as a tax haven, a claim that is officially denied, Mauritius has been a favourite destination for much of the black ...

### Answer as per this article:

Mauritius is favourite destination for black money generated in India by powerful politicians and industrialists



### Round tripping

- ❑ **Send money** outside India, then **bring it back** to India.
- ❑ **Multiple shell companies** are involved in such transactions.
- ❑ **Purpose:**
  - Tax avoidance
  - Hide identity of real owner of money
  - Money laundering (make black money white)

I read I forget, I see I remember | See explanation of this PDF on [www.youtube.com/c/allinclusiveias](https://www.youtube.com/c/allinclusiveias)



## Swiss bank

**The Indian EXPRESS**  
JOURNALISM OF COURAGE

### Everyday Economics: What are Swiss banks and how do they work?

New Delhi | Updated: February 23, 2022 12:32 IST NewsGuard

A whistleblower has **leaked information** on more than \$100 billion held in 30,000 accounts of Zurich-headquartered Credit Suisse, one of the world's most iconic banks — a lot of which is suspected to be dirty money of human rights abusers, fraudsters, and businesspersons who have been put under international sanctions.

#### **Background (not important for Prelims)**

- 1713:** Swiss govt made laws prohibiting bankers from giving information about their customers.
- 1934:** Swiss Banking Act made it a crime to reveal details of customers without their consent.
- Since then, **secrecy** has become defining feature of Swiss banking.
- Credit Suisse and UBS** control about 50% of all banking assets in Switzerland.

#### **Automatic Exchange of Information:**

- Exchange of information between countries without having to request it, mainly **to reduce tax evasion**.
- In **2017**, Switzerland started sharing data under AEOI with many countries.
- Guidelines for AEOI are framed by Paris based **OECD**.

**The Indian EXPRESS**  
JOURNALISM OF COURAGE

### Second year in a row, Indian funds in Swiss banks rise; at 14-yr high in 2021

By: ENS Economic Bureau

New Delhi | Updated: June 17, 2022 05:45 IST NewsGuard

#### **India-Switzerland AEOI:**

- First data shared in 2019. Shared every year since then.
- Data is shared **only for tax purpose**, and kept in custody of **CBDI**.
- Details of account holders is **not made public**.
- As per latest data, Indians have **₹ 30,000 crore** in Swiss Banks.
- Data does not include money held by Indians in name of any **third-country entities** (e.g. money held by an Indian in a company registered in Mauritius)

#### **Test yourself:**

- Switzerland is the **only** country with whom India has AEOI? **No**
- India is the **only** country with whom Switzerland shares info under AEOI? **No**



#### **Switzerland**

- **Landlocked** country in Europe
- **Bordered by:** Italy, France, Germany, Austria, Liechtenstein
- **Official languages:** German, French, Italian, Romansh

<b>Capital</b>	<b>Largest city</b>	<b>Member of EU</b>	<b>Mountain ranges</b>
None (de jure) Bern (de facto)	Zurich	No	Alps and Jura