

No KYC for Kisan Vikas Patra but interest payment to face TDS

The government will not insist on know your customer (KYC) guidelines on Kisan Vikas Patra (KVP), a post office savings instrument product that is being reintroduced after an over two-year hiatus, but interest payments above the prescribed threshold will be subject to tax deduction at source.

"There will be no KYC but interest payment would face TDS (tax deducted at source)," the official told ET.

Small savers, however, may be spared as only interest outgo above Rs 10,000 will be taxed. "In rural areas, where the unbanked population is still high, it will bring small savers into the organised channels instead of chit funds and such schemes....The convenience of picking up the instrument from the nearest post office is huge," said D K Pant, chief economist, India Ratings.

Another official said proceeds from the instrument will not be handed out in cash, unlike in the past, but transferred to a post office savings account. The popular Kisan Vikas Patra (KVP) was phased out in 2011 over fears of money laundering, as anyone could invest in the saving instrument and no questions were asked about the source of income.

The government is reintroducing it this year with the aim of bringing the savings of farmers into the formal channels. "Kisan Vikas Patra was a very popular instrument among small savers. I plan to reintroduce the instrument to encourage people, who may have banked and unbanked savings, to invest in this instrument," Finance Minister Arun Jaitley said in his budget speech.

The earlier UPA government had discontinued issuance of KVP from December 1, 2011 following the recommendations of the Shyamala Gopinath committee, which was set up to review small savings schemes.

The committee had suggested closure of KVP saying "it is prone to misuse being a bearer-like instrument." In 2009-10, the gross collection under the scheme was over Rs 20,000 crore.

The total amount outstanding at the end of February 2012 in the scheme was Rs 1.56 lakh crore, making it one of the most popular savings instrument. The government has possibly revived this scheme despite its known infirmities to tap into the rural savings that are more likely to go into gold, something that the country is keen to avoid after its recent brush with a current account deficit crisis.

The new government has identified financial inclusion and access to formal financial channels as a priority area and the reintroduction of KVP is seen as furthering this objective.

The government, however, will make some modifications to curb its misuse. TDS at 10% will ensure that the government gets some share of returns.

It will also mandate that the maturity proceeds go to a savings account, diluting its bearer nature, which made KVP almost a cash equivalent. "KVP was a very liquid instrument and offered lot of flexibility to a farmer...One could en-cash it as and when needed just like ready cash," the second official said.

This will also ensure that savings remains in the formal financial channels for the longest possible time.

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