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theirview

Four years of a changing fiscal landscape

The GST council has grown from its initial role of spectator to a more confident body, where future reform directions are looked into by qualified subsets of its membership

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The Narendra Modi government has consistently signalled its commitment to the path of fiscal consolidation over its four years in office since May 2014. Against that backdrop, three fiscal events stand out very sharply. Each has decisively altered the fiscal landscape of the country.

The foremost was the nationwide goods and services tax (GST) introduced on 1 July 2017. The Constitutional amendment needed was moved in December 2014, but merely carried forward a process first adumbrated with the 1991 reforms. As the culmination of a move that had cross-party support, the GST should not have been problematic, but the process stumbled badly at the start, and still has not stabilized.

Two key problems afflicted the new tax, the successful resolution of which is still only dimly visible. The first is the ever-present tension between having to ensure that tax credits claimed are taxes that have actually been paid, and having a reporting system that the typical business unit can actually comply with. The initial structure had a complex reporting system, and an untested information technology (IT) platform which was unable to auto-populate across taxpayer accounts in the manner it was meant to. A simplified interim system was introduced which will remain in place for the next five months, followed by an experimental six months with the final structure proposed. The second problem with the GST was a highly differentiated rate structure by pre-tax price on the same product, or by differences at the four-digit level, which merely opened up evasion loopholes.

GST can improve only if the system continually learns from its mistakes. A proposal at the 4 May meeting of the GST council, to reduce rates by 2% for digital payments on business to consumer (B2C) supplies subject to a ceiling of Rs100 per transaction, will move the system back towards the kind of complexity we were trying to get away from. I hope this proposal will be rejected by the GST council.

The GST, with all its flaws, has had a few positive consequences. It has helped make paying taxes (of any kind) a mainstream rather than a marginal phenomenon. It would have done that even better had the roll-out been smooth. Even so, the spread of consciousness that paying taxes is an obligation underpinning citizenship rights has been a most valuable outcome of GST, and is not measured just by the number of GST registrants (now at 10.6 million) nor the rise in registered income-taxpayers to over 69 million currently.

The e-way bill documenting interstate movement of goods introduced from 1 April 2018 (and even of within-state movement in 20 states already), has placed commercial flows on a formal documented basis, which has multiple advantages in addition to its principal objective of disabling spurious input tax credit claims. The e-way bill has been the most successful of the initiatives of the GST council, perhaps because the IT platform for it was handled smoothly by the National Informatics Centre (NIC). The NIC has handily outperformed the private corporate entity to which the main GST IT platform was outsourced (there seem to have been no penalties in that contract for delivery failure).

The GST council, the first formal body that brings together the Centre and all states on a focused fiscal issue, has grown from its initial role of spectator to a more confident body, where future reform directions are looked into by qualified subsets of its membership. This is another happy outcome of the GST process.

Other than the GST, there are two stand-out fiscal developments of the last four years, with lasting consequences. One, in Union budget 2016, was acceptance of the long-standing demand of military pensioners for Orop (one rank one pension), calling for parity with civilian pensions in indexation to salaries and inflation over time. The Orop demand remains only partially fulfilled and a vigorous agitation continues for adjustment every year instead of every five years.

The civilian retirement age is uniformly set at roughly 15 years or so to life expectancy after a service life of 30 years at least. By contrast, military retirement ages vary by rank. *Jawans* are eligible to retire 10 years after they enter service, which could be as early as age 20. A retirement age of 30 implies a pensionable duration of 45 years to life expectancy. Some thought needs to be devoted to dovetailing retiring military personnel into paramilitary forces, which have higher retirement ages, so as to contain the consolidated salary and pension bill of defence and internal security. At the same time, higher disability provisions for wounded veterans and augmented family pensions for soldiers killed in action will compensate for the higher risk of military service.

HINDUSTAN TIMES

If the combined military salary and pension bill climbs to the point where it crowds out weapons and ammunition with which to defend the country from external attack, the whole purpose of having a standing military is defeated.

The third major fiscal development has been the rise in statutory flows from the Centre to states from 32% to 42% of the Centre's tax revenues, starting from the fiscal year 2015-16, on the recommendation of the fourteenth finance commission. Although tempered by the folding in of previous Plan flows to states from the Centre, statutory flows are inflexible in a way Plan flows are not. These issues are up for review before the fifteenth finance commission. The very mention in their terms of reference of the need to re-examine the statutory provision in light of the Centre's defence and other obligations has led to an uproar among states.

What with the renewed climb of oil prices, these are testing fiscal times.

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