Indian Economy

Government Finances

Vandhna Jain Mam
(Deputy Collector)

The government does not perform any business so it cannot earn money to spend. Hence, the government has to raise the money from the economy to enable it to spend that money in terms of requirements and national priorities. The government raises money primarily through 'taxes' and the spending known as 'public expenditure'. A policy which iffects either the manner in which the government raises resource or spends is known as fiscal policy'. The objectives of any fiscal policy of a country' are as follows:

1)To ensure that the expenditure in an economy is in terms of national priorities, to boost growth for the welfare of the people.
2)Expenditure being incurred should not lead to a price rise situation.
3)There should be efficiency in the way of resources that are raised and spent.
4)Efforts are to be made to avoid wasteful expenditure in the economy.
5)Resources being raised by the government through taxes should not create burden on the common man.
6)Taxation should be 'just and helpful in reducing income inequalities.
7)The policy should aim for overall improvement of the welfare of the economy.

In India, there is no fiscal policy by the name; however, the objectives of those are being achieved by the annual financial statement popularly known as the budget which is tabled in the parliament. Hence, budget is not merely the details of expenditure and taxes but is also a policy tool to sub-serve objectives of a fiscal policy. The budget, thus, more than a balance sheet of government receipts and expenditures presented to the parliament.

❖ Public Expenditure Of Government:-

Public expenditure is spending by the central government. Till 2016-17, Government defined broadly, there are two kinds of expenditure—one is plan expenditure, which is expenditure ear marked for investment in different areas, in the five -year plans for various sectors of the economy. These could be either capital or revenue in nature. Capital expenditure represents creation of assets in an economy and is thus desirable for growth.

For example, money spent for setting up power plant is a capital expenditure. Revenue expenditure is recurring in nature, for maintenance, etc.

The other is the non-plan expenditure which is an expenditure not covered in the five year plan but yet has to be incurred and could again be either revenue or capital. In India, non-plan expenditure is 70 per cent of the total expenditure whereas plan expenditure is only 30 per cent. The highest expenditure is non-plan revenue expenditure accounting for 63 per cent of total expenditure.

What are the components of non-plan revenue expenditure? The first is the interest payments (servicing of the loans taken by the central government both internal and external) accounting for over 25 per cent of the total expenditure. Secondly, subsidies (food, fertilizers and retail petroleum goods). Thirdly

establishment expenses of defence. Fourthly, loans to state governments/UT, establishment expenses of central government, pension to defence/central government retired personnel. Expenditure on these heads would account for over 90 per cent of non-plan revenue expenditure. These expenses are also known as consumption of the government as no assets are created.

❖ Receipts By The Government:-

The expenditure in an economy is met out of receipts by the government through various sources. The receipts could be revenue (which do not create any interest liability for the government, regularity in their receipts and not representing borrowings) and the other as capital (cither creating a liability for the government or less certain of their receipt or borrowings). Of the total receipts, 90 per cent is revenue and 10 per cent is capital receipts. The primary source of revenue receipts is tax revenue (84 per cent of total receipts). Taxes could be either direct or indirect.

How to distinguish direct tax from indirect tax? Direct tax is a tax where the subject on whom the tax has been levied is identifiable, who has to pay the tax and the tax burden cannot be shifted. Examples can be income tax, corporate taxes, wealth tax, etc. In case if the subject is not identifiable or if the burden can be shifted it is an indirect tax. Common examples are excise duty (payable by companies on manufacturing activities), customs duty (duty on import of goods), service tax (tax on services being rendered by service providers), etc.

Fifty-five per cent of the tax revenue arrives through direct taxes while 45 per cent of the revenue is from indirect taxes. The base on which the tax is applied for indirect taxes could either be on value (ad valorem) or specific on a particular attribute (length of staples in cotton). India primarily follows an ad valorem indirect tax structure.

Certain taxes are levied by the central government and at the same time it is also collected by the central government (income tax, customs duty, excise duty and service tax), certain taxes levied by the central government bur collected by the state governments (central sales tax levied on inter-state movement of goods). A few other taxes are levied and collected by the respective state governments (sales rax, octroi, municipal taxes, road tax, entertainment tax and agriculture tax).

The basis of sharing the rax revenue between the centres and the states are decided by the finance commission. The thirteenth finance commission under the chairmanship of Shri Vijay Kelkar has since submitted its report and is effective from 2010 to 2015.

There are two additional taxes—one is the surcharge which is imposed for additional revenue considerations by imposing an additional percentage on the absolute amount of tax payable. Suppose surcharge on a tax is 5 per cent and the tax payable is ₹100 then the total tax liability including surcharge would be ₹105.

The other is cess which is similar in application as the surcharge except that the amount collected by way of cess is meant solely for specific funding/cause like education cess, the amount collected would go for funding of education only.

Components of revenue receipts other than taxes are dividends received by the government from public sector, payment of interest by the state governments etc. Similarly, capital receipts of the government comprises of recoveries of loan, grants, assistance received by the government etc.

❖ Ways And Means Advances:-

An interesting characteristic of expenditure and the receipts of an economy is that, all the receipts come with a lag over a period of time like direct taxes would be by the end of each quarter while committed expenditure as to be incurred immediately.

That is, for example, if there is a temporary mismatch between governments receipts and expenditure in a financial year and to meet this mismatch the Reserve Bank of India provides temporary overdraft to the government through the 'ways and means advances'.

This overdraft facility is for a time period of 90 days and the amount of overdraft is ₹20,000 crores during April to September and ₹ 6000 crores during October to March.

❖ Nature Of Government Budget:-

Thus, so far we have discussed the expenditure and receipts. What happens if expenditure exceeds receipts? It would result in a deficit or otherwise in a surplus and if both match then balanced.

What is good for an economy—a deficit, surplus or a balanced budget? To answer this question, a few aspects should be understood. There is a difference between personal and government budget and that being in a personal budget, spending is strictly in accordance with income. However, in a government budget, it is important to understand that expenditure is seen first and the reason for receipt is because of the need for spending in the economy. That is, a government budget by its very structure is deficit-oriented.

Only in an economy where receipts surpass spending can there be a surplus or the government scales-down spending to match the receipts. This could drag down growth as lesser expenditure is taking place. More so in India, given the inflexibility to bring down non-plan expenditure, any reduction in expenditure would imply lesser capital expenditure and expenditure on social sector.

A balanced budget is good only if the budget is seen as a balance sheet or a statement of accounts of the government of India. A better thing can be a balanced budget multiplier which is an incremental increase in expenditure in any given year is met out of incremental increase in receipts in a given year.

❖ Nature Of Deficits:-

Different components of expenditure and receipts are explained for a better understanding of deficits in the budget.

	Receipts	Rs. in Crores		Expenditure	Rs. in Crores
1.	Revenue receipts	90,000	4.	Non-Plan revenue expenditure a) (Interest payment)	90,000 (50,000)
2.	Capital receipts (of which market borrowings of the government)	10,000	5.	Non-Plan capital expenditure	25,000
			6.	Plan capital expenditure	50,000
			7.	Plan revenue expenditure	100,00
3.	Total receipts (1+2)	1,00,000	8.	Total revenue expenditure (4+7)	1,00,000
			9.	Total capital expenditure (5+6)	75,000
			10.	Total expenditure (8+9)	1,75,000

From the above example, we acquire to know various kinds of deficit.

1) Budgetary deficit is total receipts (3) less total expenditure (10) ₹ 75,000 crores).
2) Fiscal deficit is total receipts (but excluding government market borrowings) less total expenditure (₹85,000 crores).
3) Revenue deficit is revenue receipts (1) less revenue expenditure (8) (₹ 10,000 crores).
4) Primary deficit is fiscal deficit less interest payments (4a) (₹35,000 crores) (A negative sign before the deficit would indicate surplus).

Since economies have begun targeting the fiscal deficit, usage of budgetary deficit has been discontinued. Of the remaining three, fiscal, revenue and primary which can be said to being potentially most dangerous? ‘It is not the fiscal but the revenue deficit. As revenue deficit implies borrowing money for meeting the consumption of the government and not to create assets. Borrowings per se are not bad as long as assets get created and the assets can service the borrowings.

In India, 70 per cent of the fiscal deficit is accounted for by revenue deficit. The primary deficit, on the other hand, tests for the sensitivity of interest payments towards fiscal deficit or how far the interest payments are responsible for the fiscal deficit.

A high primary deficit would mean that fiscal deficit is on account of factors other than the interest payments and structural in nature. A low primary deficit indicates that the high fiscal deficit is on account of interest payments, which is the case in India.

Hence we started by saying that the nature of government budget is deficit-oriented but too much of deficit is also bad as it contributes to inflation. It is difficult to say as what could be the ‘safe* level of fiscal deficit.

A basic thumb rule is it should be under 3 per cent of GDP with a balanced budget multiplier. There are various compulsions of the government which make expenditure control difficult especially given their responsibilities for socio-welfare schemes, infrastructure development, etc.

Still the government in line with the above had set definite time frame for reducing the fiscal and revenue deficit under the Fiscal Responsibility and Budget Management Act (FRBMA) for gradual reduction of revenue deficit by 0.5 per cent every year to be brought down to zero by 2007-2008. In respect of fiscal deficit the aim was to reduce it by 0.3 per cent every year beginning from 2004 to 2005. Clearly, the targets have not been achieved.

The global crisis initiated during 2007 required a fiscal stimulus package to ensure that the Indian economy does not slip into a recession and a conscious decision taken to relax the FRBMA provisions until the situation is improved. If the expenditure needs are inflexible and deficits have to be checked the only way is to augment the receipts and this is where the government has focused through tax reforms with the taxes being a major source of receipts for the government as it offered great potential. There is a need to increase the tax to GDP ratio which is presently around 10 per cent especially given the growth of the economy there should be proportionately larger increase in tax revenue.

❖ Tax Reforms; Indirect Taxes:

It was mentioned previously that indirect taxes contribute about 45 per cent of the tax revenue. A major source of indirect taxes is excise duty which is payable on value of manufacturing activities in the economy. Excise duty like other indirect taxes by its inherent structure is regressive in nature.

For example, the excise duty on salt is 10 per cent on a factory price of ₹10 which means the retail price for a packet of salt is ₹11 with an excise of ₹ 1 per packet going to the government. The price of ₹11 is being paid by a person who is earning ₹5000 per month and also even by a person whose earning is ₹1,00,000 per month. The tax burden is higher on the people with lower income and that is what is meant by regressive.

Secondly, multiple excise structure with multiple rates giving rise to different interpretation on tax payable giving scope for evasion, litigations and revenue loss to the government.

The third issue in excise is the cascading effect of taxes. For example, Maruti buys tyres from MRF company. The purchase price of tyres from MRF would have a component of excise duty, which becomes the input price for Maruti and excise duty has to be paid on the frill value of car. This is known as the cascading effect, that is, taxes increase the manufacturing cost and get again taxed.

The government has tried to address the issue by reducing the slabs of excise duty only and lower excise duty on essentials or mass goods to minimize the regressive character. With regard to the cascading effect, the best way to prevent it is by introducing value added tax VAT) which is a tax on the value additions at each stage of production rather than on the finished goods. Provided the federal structure both centre and state government VAT would have to be at both levels.

An initiation was made with the government by first introducing the modified value added tax (MODVAT) scheme which allowed partial adjustment of duties on capital goods purchased, however, it was restrictive in nature. The government replaced MODVAT with a wider scheme of input credit for the excise duties

inputs (raw materials, capital goods and services) purchased for direct use in production known as central value added tax (CENVAT) at the central level during 2004.

A major reform has been at the state level with the replacement of sales tax with state VAT. The credit for this goes to Shri. Asim Das Gupta the then Finance Minister, West Bengal and can be hailed as a landmark in tax reforms.

'Why' it is a major reform? First to make all the state governments to agree for the replacement of sales tax with a state VAT. The sales tax regime was very complicated with different sales tax rates for same products in different states. A state VAT required one product one tax rate' across all states and to drive a consensus for this was herculean effort as some states would stand to gain and others would tend to lose.

If in a particular state sales tax was a high of say 24 per cent but the consensus under a state VAT was only 12.5 per cent for that good clearly there would be revenue loss for that state government. State VAT made effective from 1 April 2005 has the following salient features:

(1) State VAT is not a new tax but only a change in the way of collecting tax from the final stage to the value addition stage.

(2) This allows for set-off of duties from the tax payable but against original invoices/ challans of the tax paid on the inputs purchased.

(3) There would be a uniform 4 per cent state VAT on 270 mass-consumed goods across all states, a uniform VAT of 12.5 per cent on 280 goods and 1 per cent on gold and silver ornaments across all states.

(4) Those with a turnover of ₹ 5 lakh and less would not be liable for any VAT, from ₹ 5 to 50 lakh a composite tax but with no set-off. Vat is payable for turnover exceeding Rs. 50 lakhs.

The state VAT has helped in checking tax evasion by introducing a 'bill culture, transparency in tax administration and collection, increased revenue for the state government. Further, as part of deeper reforms, the government is proposing to integrate taxing of goods and services at differential rate separately into one tax with one tax rate as goods and services tax (GST) with both the centre and states taxing concurrency as the central government GST (CGGST) and the state government GST (SGGST).

This would considerably simplify the indirect tax regime, enlarge the tax base for larger resource generation and thus lower GST rate resulting in lower prices does of goods and services but also in ensuring the revenue for the government not to suffer, the government proposes to implement the GST regime as soon as there is broad based consensus with the states and technology put in place. Reforms in indirect taxes are commendable and the government' s proposal of propelling to GST would place India with an efficient indirect tax regime at par with other mature economies of the West.

❖ Tax Reforms;Direct Taxes:-

Direct taxes as seen earlier contribute 55 per cent of the tax revenue and it is a better way of taxation as it is progressive in nature and based on 'ability to pay', higher the income, progressively, more the tax

rate leading to greater revenue with least burden on the masses or those with low income. Direct taxes particularly income tax is progressive and in contrast to other taxes which are regressive in nature.

The progressivity of income taxes in periods of inflation pushes people up the tax bracket, as pay packets get inflated due to inflation resulting in higher taxes paid and reduced spending by the individuals. On one hand, the coffers of the government fills up because of people moving up the tax bracket and on the other there is a reduced spending. This phenomenon is known as 'Fiscal drag'.

How many people do you think are tax payers in the economy?

At present, 4.0 per cent are tax payers in the Indian economy, about 37 million in a population of over one billion people. This number is low especially considering the fact that India in its growing economy, with increased income, rising middle class, the affluent class and large number joining the elite billionaire club. In comparison, the number of tax payers has only increased by 11 per cent. What are the ways through which tax payers and tax revenue can be increased? There could be three ways through which it can be increased and are as follows:

1) Increase in the direct tax rates.
2) Increase in the tax base.
3) Enforce tax compliance

❖ Increase in Tax Rate:-

Any increase in tax rate is seen negatively and resented by the people. There is also a relationship between the direct tax rate and revenue generated. Starting from a low tax rate and gradually increasing it, is positively related and increases tax revenue. However, beyond a level, any increase in tax rates becomes counter-productive as it lowers tax revenue rather than in increasing it. This is popularly known as the 'Laffer curve'.

An economy being on the Laffer curve implies that any increase in tax rates would lower the tax revenue and on the contrary lowering of tax rate would lead to increased revenue for the government. It is widely believed that India is on the Laffer curve with limited prospects of raising taxes.

This is because high tax rates lead to tax evasion, non-disclosure of income and generation of black money (taxes not paid). All efforts are made to minimize the incidence of taxes legally and illegally. It serves as a disincentive in the economy leading to lowering of income and the output. Hence, raising tax rates is not an option available in India.

❖ Increase in Tax Base:-

Tax base refers to that threshold level of income on which taxes become applicable. India has an exemption level, that is, if income is less than ₹ 2.5 lakh per annum taxes are not payable. So one way could be to lower the exemption level so that more people are drawn in the tax net and thereby an increase in tax payers and tax revenue.

At present, the exemption level is very low given the present inflation. Besides the inflation does not factor in cost of education, transport and property prices all of which have increased manifold in recent times creating hardships and making it difficult for the middle class to make both the ends meet. Lowering

the exemption would further burden the middle class and more so by this way it may be possible to increase the 'number of tax payers' but 'not necessarily tax revenue' as many would be marginal tax payers.

The other way to increase the tax base is to bring in untaxed sectors under the tax net. All sectors with the possible exception of the agricultural sector are already under the tax net. Agriculture being a state subject can be taxed only by the state government and not by the central government. Thus, like increasing tax rate, even increasing tax base is not a feasible option for raising direct tax revenue in India.

❖ Ensuring Tax Compliance:-

This is to ask the question that, is every person who ought to pay taxes is paying his/her taxes in terms of existing laws and the second are the people who are not paying should actually be paying taxes. This is what is meant by tax compliance. The government has made an initiation by making the income tax return form user friendly and easy to fill up by an individual and it is known as 'Saral'.

The problem in India is that of tax compliance with lot of leakages, large-scale tax evasion and black money. It is estimated that over 40 per cent of GDP is black money which is circulating in the economy on which no taxes are paid.

❖ Goods And Services Tax; Progressive Tax Regime:-

India's biggest tax reform since independence, Goods and Services Tax (GST) came into force from the midnight of 1st July 2017 after 17 tumultuous years of debate, unifying more than a dozen central and state levies.

GST is a win-win situation for the entire country. It brings benefits to all the stakeholders of industry, government and the consumer. It will lower the cost of goods and services, give a boost to the economy and make the products and services globally competitive. GST aims to make India a common market with common tax rates and procedures and remove the economic barriers thus paving the way for an integrated economy at the national level.

By subsuming most of the Central and State taxes into a single tax and by allowing a set-off of prior-stage taxes for the transactions across the entire value chain, it would mitigate the ill effects of cascading, improve competitiveness and improve liquidity of the businesses.

GST is a Destination Based Tax. It follows a multi-stage collection mechanism. In this, tax is collected at every stage and the credit of tax paid at the previous stage is available as a set off at the next stage of transaction. This shifts the tax incidence near to the consumer and benefits the industry through better cash flows and better working capital management.

1) GST is largely technology driven. It will reduce the human interface to a great extent and this would lead to speedy decisions.

2) GST will give a major boost to the 'Make in India initiative of the Government of India by making goods and services produced in India competitive in the National as well as International market. Also all imported goods will be charged integrated tax (IGST) which is equivalent to Central GST + State GST. This will bring equality with taxation on local products.

3) Under the GST regime, exports will be zero-rated in entirety unlike the present system where refund of some taxes may not take place due to fragmented nature of indirect taxes between the Centre and the States. This will boost Indian exports in the international market thus improving the balance of payments position. Exporters with clean track record will be rewarded by getting immediate refund of 90% of their claims arising on account of exports, within seven days.

4) GST is expected to bring buoyancy to the Government Revenue by widening the tax base and improving the taxpayer compliance. GST is likely improve India's ranking in the Ease of Doing Business Index and is estimated to increase the GDP growth by 1.5 to 2%.

5) GST will bring more transparency to indirect tax laws. Since the whole supply chain will be taxed at every stage with credit of taxes paid at the previous stage being available for set off at the next stage of supply, the economics and tax value of supplies will be easily distinguishable. This will help the industry to take credit and the government to verify the correctness of taxes paid and the consumer to know the exact amount of taxes paid.

6) The taxpayers would not be required to maintain records and show compliance with a myriad of indirect tax laws of the Central Government and the State Governments like Central Excise, Service Tax, VAT, Central Sales Tax, Octroi, Entry Tax, Luxury Tax, Entertainment Tax, etc. They would only need to maintain records and show compliance in respect of Central Goods and Services Tax Act and State (or Union Territory) Goods and Services Tax Act for all intra State supplies (which are almost identical laws) and with Integrated Goods and Services Tax for all inter-State supplies (which also has most of its basic features derived from the CGST and the SGST Act).

❖ Salient Features of GST :-

The salient features of GST are as under:

1) The GST would be applicable on the supply of goods or services as against the present concept of tax on the manufacture or sale of goods or provision of services. It would be a destination based consumption tax. This means that tax would accrue to the State or the Union Territory where the consumption takes place. It would be a dual GST with the Centre and States simultaneously levying tax on a common tax base. The GST to be levied by the Centre on intra-State supply of goods or services would be called the Central tax (CGST) and that to be levied by the States including Union territories with legislature/Union Territories without legislature would be called the State tax (SGST)/ Union territory tax (UTGST respectively.

2) The GST would apply to all goods other than alcoholic liquor for human consumption and five petroleum products, viz. petroleum crude, motor spirit (petrol), high speed diesel, natural gas and aviation turbine fuel. It would apply to all services barring a few to be specified. The GST would replace the following taxes currently levied and collected by the Centre:
   a) Central Excise Duty
   b) Duties of Excise (Medicinal and Toilet Preparations)
   c) Additional Duties of Excise (Goods of Special Importance)

d) Additional Duties of Excise (Textiles and Textile Products)
e) Additional Duties of Customs (commonly known as CVD)
f) Special Additional Duty of Customs (SAD)
g) Service Tax
h) Central Surcharges and Cesses so far as they relate to supply of goods and services

3) State taxes that would be subsumed under the GST are:
   a) State VAT
   b) Central Sales Tax
   c) Luxury Tax
   d) Entry Tax (all forms)
   e) Entertainment and Amusement Tax (except when levied by the local bodies)
   f) Taxes on advertisements
   g) Purchase Tax
   h) Taxes on lotteries, betting and gambling
   i) State Surcharges and Cesses so far as they relate to supply of goods and services

4) The list of exempted goods and services would be common for the Centre and the States.
5) An Integrated tax (IGST) would be levied and collected by the Centre on inter State supply of goods and services. Accounts would be settled periodically between the Centre and the States to ensure that the SGST/UTGST portion of IGST is transferred to the destination State where the goods or services are eventually consumed.
6) Use of Input Tax Credit: Taxpayers shall be allowed to take credit of taxes paid on inputs (input tax credit) and utilize the same for payment of output tax. However, no input tax credit on account of CGST shall be utilized towards payment of SGST/UTGST and vice versa. The credit of IGST would be permitted to be utilized for payment of IGST, CGST and SGST/UTGST in that order.
7) Exports and Supplies to SEZ shall be treated as zero-rated supplies. The exporter shall have an option to either pay output tax and claim its refund or export under bond without tax and claim refund of Input lax Credit.
8) Import of Goods and Services would be treated as inter-State supplies and would be subject to IGST in addition to the applicable customs duties. The IGST paid shall be available as ITC for further transactions.

GST Council:-

The mechanism of GST Council would ensure harmonization on different aspects of GST between the Centre and the States as well as among States. It has been specifically provided that the GST Council, in its discharge of various functions, shall be guided by the need for a harmonized structure of GST and for the development of a harmonized national market for goods and services. The GST Council shall establish a mechanism to adjudicate disputes arising out of its recommendation or implementation there of.

❖ National Anti-profiteering Authority:-

National Anti-profiteering Authority under GST will be the apex body, which is mandated to ensure that the benefits of the reduction in GST rates on goods or services are passed on to the ultimate consumers by way of a reduction in prices. The National Antiprofiteering Authority (NAA) will be headed by a senior officer of the level of Secretary to the Government of India with four Technical Members from the Centre and/or the States.

NAA aims at comforting consumers that Government is fully committed to taking all possible steps to make sure the benefits of implementation of GST in terms of lower prices of the goods and services reach them. The "anti-profiteering" measures are enshrined in the GST law, which provides an institutional mechanism to make sure that the full benefits of input tax credits and reduced GST rates on the supply of goods or services flow to the consumers. This institutional framework comprises the NAA, a Standing Committee, Screening Committees in every State and the Directorate General of Safeguards in the Central Board of Excise & Customs (CBEC).

NAA work for affected consumers who feel the benefit of proportionate reduction in prices is not being passed on when they purchase any goods or services may apply for relief to the Screening Committee in the particular State. However, in case the incident of profiteering relates to an item of mass impact with 'All India ramification, the application may be directly made to the Standing Committee.

❖ Input Tax Credit:-

Taxpayer is allowed to take credit of taxes paid on inputs (input tax credit), as self-assessed, in his return. Taxpayer can take credit of taxes paid on all goods and services, other than a few items in the negative list, and utilize the same for payment of output tax. Credit of taxes paid on inputs can be taken where the inputs are used for business purposes or for making taxable supplies. Full input tax credit shall be allowed on capital goods on its receipt as against the current Central Government and many State Government practice of staggering the credit in more than one instalment. Unutilized input tax credit can be carried forward. The facility of distribution of input tax credit for services amongst group companies has been provided for through the mechanism of Input Service Distributor (ISD).

VIDYA ICS
Dedicated To Civil Services

❖ IT Preparedness:-

Putting in place a robust IT network is an absolute must for implementation of GST. A Special Purpose Vehicle called the GSTN has been set up to cater to the needs of GST. The GSTN shall provide a shared IT infrastructure and services to Central and State Governments, taxpayers and other stakeholders for implementation of GST. The functions of the GSTN would, inter alia, include: (i) facilitating registration; (ii) forwarding the returns to Central and State authorities; (iii) computation and settlement of IGST; (iv) matching of tax payment details with banking network; (v) providing various MIS reports to the Central and the State Governments based on the taxpayer return information: (vi) providing analysis of taxpayers' profile; and (vii) running the matching engine for matching, reversal and reclaim of input tax credit. The GSTN will also make available standard software for small traders to keep their accounts in that, so that

straight away it can be uploaded as their monthly returns on GSTN website. This will make compliance easier for small traders.

❖ Black Money:-

Black money has nothing to do with the colour except to convey that it is necessarily an evil. It is an unaccounted income, earned through illegal channels and put to unproductive anti-national use and conspicuous consumption. Checking black money and tax evasion are the critical aspects of tax compliance.

Black money gets generated when big transactions are performed in cash, source and end use not possible to ascertain. For example, a friend gives you cash of ₹1000. Technically, it is black money, may be not so in your case because the amount is small. However, say somebody gives ₹10 lakh in cash it is definitely black money.

In other way, all transactions where payments have to be made or received beyond a level of say ₹ 10,000 and above if done in cash is black money. Or still differently, transactions performed other than by way of cheques, drafts, credit cards, debit cards, direct transfers of money in bank accounts would be black money.

If you deposit ₹10 lakh in cash in your bank account it is black money (unless and until if you show the source from where you got it). If your father sends you a cheque of the same amount and you deposit it in your bank account it is a 'white transaction. Thus, transactions performed other than through banks and post offices would generate black money.

Why does black money ger generated? The primary reason for the black money generation is high tax rates, complex tax laws and provisions, strict controls on transactions, large amount of cash dealing, people not having bank accounts, land and property deals in cash, need for money to get jobs performed through various government departments, donations required for admission in schools and colleges, meeting dowry needs, compulsions of social functions and also for doing illegal activities both within and outside the country.

What has the government done to curb black money? Not much except the voluntary disclosure schemes and giving amnesty for the amount disclosed and demonetization of higher denominated currencies. (Recall India had earlier ₹5000 and ₹ 10,000 notes which have now been discontinued and cease to be legal tenders.)

The government has also declared that all transactions over ₹10,000 should be done through cheques/drafts. Drafts would not be made by banks against cash exceeding ₹50,000 in one day. A permanent account number (PAN) has been issued to all tax payers and it is mandatory to quote the PAN number for all transactions over ₹50,000.

The income tax offices at the four metros have been computerized and networked, creating a database of tax payers and transactions being performed by them. All Registrar offices registering land deals, credit card companies, automobile manufactures, etc., are required to furnish information beyond a cut off level.

The government with a view to have better tax compliance, lesser tax evasion, is proposing the direct tax code which would simplify tax laws and provisions, plug leakages, raise exemption levels and consider further lowering tax rates. However, till then tax compliance will be a major constraint to further raise tax revenue for the government.

- **Demonetisation Policy; Surgical Strike on Black Money:-**

On November 8, 2016, the government announced a historic measure, with profound implications for the economy. The two largest denomination notes, Rs 500 and Rs 1000, were "demonetized" with immediate effect, ceasing to be legal tender except for a few specified purposes. At one fell stroke, 86 percent of the cash in circulation was there by rendered invalid. These notes were to be deposited in the banks by December 30, 2016, while restrictions were placed on cash withdrawals. In other words, restrictions were placed on the convertibility of domestic money and bank deposits.

The aim of the action was fourfold: to curb corruption; counterfeiting; the use of high denomination notes for terrorist activities; and especially the accumulation of "black money", generated by income that has not been declared to the tax authorities.

It followed a series of earlier efforts to curb such illicit activities, including the creation of the Special Investigative Team (SIT) in the 2014 budget; the Black Money and Imposition of Tax Act 2015; Benami Transactions Act 2016; the information exchange agreement with Switzerland; changes in the tax treaties with Mauritius, Cyprus and Singapore; and the Income Disclosure Scheme. Demonetisation was aimed at signalling a regime change, emphasizing the governments determination to penalize illicit activities and the associated wealth. In effect, the tax on all illicit activities, as well as legal activities that were not disclosed to the tax authorities, was sought to be permanently and punitively increased.

In the wake of the demonetisation, the government has taken a number of steps to facilitate and incentivize the move to a digital economy. These include: Launch of the BHIM (Bharat Interface For Money) app for smartphones. This is based on the new Unified Payments Interface (UPI) which has created inter-operability of digital transactions. The 250 million digital-haves can use their smartphone to make simple and quick payments.

Launch of BHIM USSD 2.0, a product that allows the 350 million feature phone users to take advantage of the UPI.

Launch of Aadhaar Merchant Pay, aimed at the 350 million who do not have phones. This enables anyone with just an Aadhaar number and a bank account to make a merchant payment using his biometric identification. Aadhar Merchant Pay will soon be integrated into BHIM and the necessary POS devices will soon be rolled out.

Reductions in fees (Merchant Discount Rate) paid on digital transactions and transactions that use the UPI. There have also been relaxations of limits on the use of payment wallets. Tax benefits have also been provided for to incentivize digital transactions.

Encouraging the adoption of POS devices beyond the current 1.5 million, through tariff reductions.

❖ Benefits Of Demonetisation Tax On Black Money:-

Tax on Black money : The most important way to view demonetisation is as a tax administration measure, one designed to tax holdings of black money. Of course, demonetisation of large denomination notes is not exactly the same as demonetisation of black money. Some cash holdings were perfectly "white", the fruit of income upon which taxes had either been paid or had not been applicable in the first place (agricultural income, for example).

Cash holdings arising from income that had been declared could readily be deposited at banks and ultimately exchanged for new notes. But those with black money faced three difficult choices. They could:

- Declare their unaccounted wealth and pay taxes at a penalty rate;
- Continue to hide it, not converting their old notes and thereby suffering a tax rate of 100 percent; or
- Launder their black money, paying a cost for converting the money into white.

Tax compliance: Demonetisation can also be interpreted as a regime shift on the part of the government. It is a demonstration of the state's resolve to crack down on black money, showing that tax evasion will no longer be tolerated or accepted as an inevitable part of life. Since this action has commanded support amongst the population, demonetisation shows that black money will no longer be tolerated by the wider public, either.

Demonetisation could also aid tax administration in another way, by shifting transactions out of the cash economy and into the formal payments system. With large denominations eliminated, households and firms have begun to shift from cash to electronic payment technologies.

Tax on informal savings: Beyond reducing tax evasion, demonetisation could have other far reaching effects. For example, it will channel savings into the formal financial system. Without doubt, much of the cash that has been deposited in the banking system will be taken out again, as the cash withdrawal limits are eased and the note supply improves. But some of the new deposits will surely remain in the banks, where they will provide a base for banks to provide more loans, at lower interest rates.

In the longer-term, if demonetisation is successful, it will reduce the equilibrium cash GDP and cash-deposits ratio in the economy. This will increase financial savings which could have a positive impact on long run growth.

❖ Views On Tax Compliance:-

1) Has it ever occurred why people do not want to pay taxes? Paying taxes globally is a matter of pride and joining hands with the government to provide better for the masses and improved civic amenities. Not so in India.

2) That is, because, people doubt the intentions of the government in using it productively for the masses. Tax compliance would thus require austerity measures on the government lesser lavish spending and more responsiveness and sensitiveness towards the spending for masses.

3) Tax compliance should be top-driven. Have you ever seen any top political leader, bureaucrat going to file his income tax return at the IT office in-person. No! it is not required officially but it sends the right message

to people that how it is of high priority despite their busy schedule. Who is the first person seen as voting in an election? It is the President, Prime Minister and other top leaders. 'Why?' Just to send the right message to the people to come out and cast their vote.

4) Hence tax compliance should start right from the top. The President, PM, Chief Ministers and senior leaders all of them filing their tax returns in-person.

5) Who is the highest tax payer in the country? It is difficult to say or even more difficult to say who are the top 100 tax payers in the country. What prevents the government from honouring them at a public ceremony acknowledging their contribution to the national cause? It will transmit positive signals and encourage people to pay their taxes.

6) What if one is seen by one's friend or relative at the income tax office? It would definitely not be positive. The perception of the income tax officials has got to change from treating everyone as a tax evader to that of trust, a friend guiding and supporting the people. Let them have 'May I help you counter' at their offices for any assistance people may want. They could send out staff to assist tax payers in correctly filing their returns. It should not be difficult but could go a long way in increasing the compliance.

7) It is not difficult to find out regular tax payers, a small well-worded thank you card can be sent to them each time after they have filed their return. Today, technology support is available to generate such computerized letters. What is being meant here is that the incentive for a tax payer to pay his taxes, a mere token of appreciation can work.

8) Our policies for tax evasion can be said to be 'soft'. What is required is strong punishment for tax evaders, those generating black money uniform for all irrespective of whether political leader, bureaucrat, private organization, etc., to serve as a lesson and a source of discouragement.

While tax compliance would remain an issue, still there are some other issues which can help augment revenue to the government like completely simplified tax regime based on income at low rates with no exemptions easily enforceable and minimizing leakages.

What is a an efficient tax system? An efficient tax system should allow for raising revenue without burdening the common man. It should provide for BECN briefed as below:

B : buoyancy (raise tax revenue with increased growth of an economy rather than by changing the tax rates).

E : effectiveness (promoting tax compliance).

C : cost-effective (lower cost of collection with increased tax revenue).

N : neutral to economic decisions (not influencing location of businesses).

The present tax structure in India is still evolving and moving in the right direction of a GST for indirect taxes and direct tax code for direct taxes. While all these efforts at increasing tax compliance are appreciable there are other issues which should also get adequate attention of the government and that is cost of collection of taxes is continuously increasing. There is a requirement to arrest this trend and ensure higher collections at lower costs.

The other is given the inflexibility of expenditure, there is scope for rationalizing government expenditure by reviewing the requirement for so many ministries, merging ministries for sharper focus, abolition of vacant posts, greater austerity in government spending and small expenditure cuts wherever feasible. It is these small cuts which would make the picture larger. And for once economics should prevail over political compulsions in the larger interests of the economy.

❖ **Typical Budget in India:**

We have covered public expenditure, taxes and different kinds of deficits as part of the budgetary process. A typical budget presentation initiates with a review of the economy in terms of the Economic Survey presented in the Parliament (a few days before the budget is presented), which is followed by the expenditure proposals and finally the tax proposals which most anxiously awaited by all.

All receipts in the economy are retained in the consolidated fund of India and money can be utilized only after the budget is passed by both the Houses of Parliament, which is that Parliament provides approval for various expenditure and permits withdrawal of funds for various expenditure needs of the economy. Certain expenses can be incurred by the government without the approval of Parliament and are known as 'charged expenditure' such as meeting interest obligations, salaries and emoluments to constitutionally appointed heads such as chief justice of India, CVC, CAG, etc.

There are two other kinds of budgets interim and vote on account. Interim is a kind of budget addressed for a period less than a Rill year. Vote on account is not a type of budget strictly, but seeks approval for ongoing expenditure needs, no fresh expenditure or tax proposals. This is normally presented when the government is about to face elections or when the time period is too short even for an interim budget to be presented. In any case, the choice of the type of budget to be presently lies with the government.

In case, election dare has already been announced the election commission is empowered to restrain the government from presenting an interim budget but present a vote on account only. Traditionally, budgets are shrouded with secrecy and it lacks transparency.

There should be greater and broader participation of people from all walks of life to ensure budgets being prepared are not only of the government but also of the people.

The budgets are focused on 'outlays' or spending under different heads but no provision is made to know the outcome' of such spending. The other aspect is the outlays are not linked to the actual need. For example, the budget might propose increased outlay of say ₹100 crores on education in comparison to an increase of only ₹ 50 crores in the last budget. However, there is no mention of how much actually needs to be spent on education in total.

❖ **Merger Of Rail Budget With Union Budget:-**

- **Changes made in Budget and Budgetary Practices:**

➢ Merger of Rail Budget with Union Budget

➢ Advancement of Financial Year

- To advance its presentation by 27 days.
- To dispense with Plan-non-Plan dichotomy in expenditure.

- **Budget Presentation Date Advancement**:

The objective behind this move is to have the Budget constitutionally approved by Parliament and assented to by the President, and all allocations at different tiers disseminated to budget-holders, before the financial year begins on April 1.

- The proposal for a change in the budget presentation date was first mooted by some of the government's senior most bureaucrats as part of a 'Transforming India initiative in January 2016.

Advantages:

- In the existing system, the Lok Sabha passes a vote on account for the April-June quarter, under which departments are provided a sixth of their total allocation for the year. This is done by March. The Finance Bill is not passed before late April or early May. If the Budget is read in January and passed by February-March, it would enable the government to do away with a vote on account for the first three months of a financial year.
- Retired and serving officials say the biggest plus would be that the Finance Bill, incorporating the Budget proposals, could be passed by February or March. So, government departments, agencies and state-owned companies would know their allocations right from April 1, when the financial year begins.
- It would also help the private sector to anticipate government procurement trends and evolve their business plans.

To dispense with Plan-non-Plan dichotomy in expenditure from 2017-18:

From 2017-18 the Central Government expenditure will be classified only as capital and revenue spends.

The move is a part of the governments decision to do away with the classification of Plan and Non-Plan expenditure. In line with the government's decision to dismantle the Planning Commission, the new spending classification will come at a time when the Five Year Plan mechanism will also end. Instead, it will be replaced by a medium to long-term planning system under the NITI Aayog.

The classifications in the Union Budget 2016-17 for Centrally-sponsored schemes have already been changed to "core of the core", "core" and "optimal".

- **Improving Quality:-**

Economists have for long argued that Plan and Non-Plan classifications should be done away with and the focus should be on improving the quality of government spending by focusing on the end use of the funds. Plan expenditure, denotes the more productive use of government resources as investment in various programmes and schemes, but forms a small chunk of the total spending bill. Non-Plan expenditure, on the other hand, is the majority of the government spending and is used for interest payments, subsidies, wages and grants to States.

- **Plan/Non-Plan will help in resolving the following issues:**
  - This distinction of expenditure had led to a fragmented view of resource allocation to various schemes.
  - It had made it difficult to ascertain cost of delivering a service and also to link outlays to outcomes.
  - It had led to bias in favour of Plan expenditure by Centre as well as the State Governments and had neglected essential expenditures on maintenance of assets and other establishment related expenditures to provide essential social services.
  - The merger is expected to provide appropriate budgetary framework that will have focus on the capital and revenue expenditure

The separate Railway Budget, a 92-year-old tradition, has been scrapped by the centre. The Rail budget will be merged with the Union Budget starting next year as indicated by Finance Minister Arun Jaitley. The government is also in favour of advancing the Budget process, including the date of presentation. The Railway Budget was usually presented two days before the Union Budget.

From now onwards all the proposals regarding Railway Budget will be part of general budget, which will have a separate discussion on railway expenditure, but the functional autonomy of the Railways will be maintained. The end of a separate Budget will be a relief for the Railways, since its revenue deficit and capital expenditure will now get transferred to the Finance Ministry.

The Railways is also facing an accumulated burden of a whopping Rs. 4.83 lakh crore towards execution of 458 unfinished and ongoing projects. With the scrapping of die rail budget, the Railways will also not have to pay a special dividend to the government for getting gross budgetary support. The Railways pays about Rs. 10,000 crores as dividend a year after getting about Rs. 40,000 crores.

A committee led by Niti Aayog member Bibek Dcbroy on restructuring of the Ministry of Railways had recommended that the British-era legacy of having a separate railway budget should be phased out, merging it with the General Budget.

VIDYA ICS
Dedicated To Civil Services

This step will help raise capital expenditure in Railways which will enhance connectivity in the country and boost economic growth. Functional autonomy, distinct identity of Railways will remain as it is. The merger would also facilitate an integrated and seamless approach towards transportation strategy in the country.
It has been proposed to hold the budget session of Parliament early and present the union budget on February 1 instead of the past practice of it coming only on the last day of February.

The budgets year after year get engaged in micro issues for example taxes on tooth pastes, etc., which is not required. The budget may address broad issues of the tax rates in general rather than go into the minutest of details or should be more macro-oriented and micro-detailing done through annexures, for a better understanding of the underlying macro-issues in a budget.

Such reforms in the budgetary process itself also need to be integrated as part of the larger reforms. All the reforms in the country are around the government but not in the government.

Some Other Forms Of Budgeting:-

- **Zero-Based Budgeting - ZBB**:

This is a method of budgeting in which all expenses must be justified for each financial year. The process of this budgeting starts from a "zero base," on every financial year. Every function within the ministry or department is analysed for its needs and costs. Budget allocations are then made according to the need of ensuing financial year.

- **Outcome Budget**:

The Outcome Budget is a progress card on what various Ministries and Departments have done with the budget allocation in the previous budget. Outcome based budgeting is a practice of suggesting and listing of estimated outcomes of each programmes or schemes designed.

- **Gender Budget**:

A Gender Budget or Gender-Responsive Budget is a budget allocation that considers the gender patterns in the society and allocates the resources to implement policies and programs to help moving society towards a more gender equal society. Gender Budget disaggregates the mainstream budget according to its impacts on women and men. It visualizes the process of conceiving, planning, approving, executing, monitoring, analysing and auditing budgets in a gender-sensitive way.

- **Performance Budgeting**:

Performance Budgeting also known as Planning-Programming-Budgeting System (PPBS) is an attempt to integrate budgeting with overall planning of the country as a whole. It tries to make the planning, execution, and evaluation of government policies in a more systematic manner. The centre for PPBS is the budget; the methods used are planning and decision-making. The purpose of this budget is for ensuring a more viable economy and improved coordination among various sectors.

VIDYA ICS
Dedicated To Civil Services