

# Opinion

TUESDAY, FEBRUARY 26, 2019



## INFORMAL EMPLOYMENT DATA

Bibek Debroy, head of PM's economic advisory panel

We don't have very good data on economy and jobs because India is majorly an informal economy. There is a large degree of self-employment... so, the only way I can get satisfactory data is through employment surveys of the kinds that the NSS undertakes

## Taxman agrees GST evasion by builder can't be tackled

Government finds evidence of rampant GST evasion by big realty firms, but recent changes are aimed at ratifying this

**D**EPENDING ON HOW much builders across the country cut GST rates on under-construction housing—from 12% to 5% in the case of normal housing and from 8% to 1% in the case of affordable housing—the market for real estate should get a big fillip; indeed, the reactions of most builders over the weekend, when the proposal was announced, suggested that large cuts would be made in the retail prices. It would, though, be prudent to look at the actual cuts over the next few weeks since it is possible that builders will argue that, as they are being denied input tax credit, the cut is revenue-neutral for them; indeed, since some tax officials have said the move is revenue-neutral for the government, the same logic should apply to builders as well. Indeed, a recent analysis done by the GST authorities of the country's top builders suggested as much when it pointed out that most builders were claiming very high input tax credit, possibly using fake invoices. In Mumbai, for instance, the study showed builders who should have been paying a 10.8% GST, on average, were paying a much lower 2.1%. The reduction, then, could well become the next source of litigation following action by the anti-profiteering authorities, if the price cuts are seen as too small.

By opting for a lower GST without giving builders the option of input tax credit, in effect, the taxman has accepted that tracking down the evasion in the sector is impossible. Given how the real estate sector is such a big source of black money, it is unfortunate that the GST Council has opted for this route. GST functions on the principle of one person's tax becoming a credit for the next person and so on... allowing GST without input tax credit means the government will no longer be tracking the funds/materials flow across the sector. The government has done this earlier also, in the case of restaurants—each time such carve-outs are accepted, the government makes the GST system that much weaker; indeed, in doing so, the GST system of checks and counter-checks is, in effect, being replaced by the simple sales tax system.

What makes the capitulation all the more unfortunate is that, with the number of top builders at less than 150-200, tracking their purchases wouldn't really have been that difficult. Indeed, when the GST authorities did their tax evasion study for the top 88 builders, they clearly collected a lot of information; this could have been used to confront the real estate firms and to unearth their tax evasion. Indeed, given how GST officials are visiting traders and industry/service sector firms of a certain size to check if they have a GST registration, surely this can be done for builders as well; even if a builder constructs just one reasonable-sized building in a year, this will mean a turnover of more than ₹15-20 crore, a turnover that is far above the floor limit below which firms do not have to pay GST. In the past, partly because of teething problems in the GST's IT system—the system wasn't able to take the load of the number of invoices that needed to be uploaded at the same time—and later, because the government was keen to avoid antagonising taxpayers, it decided not to operationalise the system's *brahmastra*, that of invoice-matching. If invoice-matching is not operationalised this time around—this is due from July 1—and if restaurant- or construction-type carve-outs are increased or even maintained at the current level, the present low-level of compliance is unlikely to improve in a hurry.

## Address real e-tail issues

Much of the draft e-commerce policy is about data storage

**O**NE WOULD HAVE expected the draft e-commerce policy paper to have dwelt more on e-retailing per se, especially since the rules and regulations pertaining to the use and storage of data are pretty much taken care of with the government working on a data protection bill. There is little dispute that individual consumers own their data and have privacy rights and that corporations must store data locally in India. We are also agreed that cross-border data flow must be regulated. Reiterating this *ad nauseam* doesn't really add value to the debate. Instead, the government needs to focus on the e-retailing piece; by its own estimate, the B2C segment is tipped to grow to around \$200 billion by 2026 while B2B e-commerce is estimated at around \$300 billion. As we have seen, in the absence of any momentum on Make-in-India, e-commerce is the sector that is throwing up thousands of job opportunities at all levels, from techies to delivery boys.

The government has chosen to crack down on e-retailers funded by FDI; in its December 26, 2018 policy, it barred exclusive tie-ups between marketplace e-commerce firms and vendors using their platform. If a vendor—WS Retail or Cloudtail Solutions, for instance—sells more than 25% of its merchandise through an e-commerce marketplace, it would be deemed to have an inventory model in which FDI is prohibited. The 25% cap is not new but the responsibility of adhering to this norm now rests entirely with the platform. The objective, ostensibly, is to prevent e-commerce firms from influencing the prices of products. Coming as it does, ahead of the general elections, the changes appear to be aimed at placating and protecting local retailers, large and small. But if the government wants to protect very small retailers, like *kiranas*, it should not be allowing large organised local brick-and-mortar retail players either. And what sense, by this logic of protecting small players, does it make to allow FDI in the food sector, even if the e-tailer is pursuing an inventory model?

So, making it harder for companies like Flipkart—funded by PEs—will not necessarily help smaller retailers but will certainly help the bigger Indian players. Some of these big local retailers have investments by Foreign Portfolio Investors (FPI). The fact is that, all this while, the government looked the other way when e-retailers like Flipkart were attracting FDI through parent companies based out of Singapore, even though it was not strictly kosher. Again, wanting to regulate advertising charges on search engines and social media platforms is regressive. Pricing should be market-determined as it is for print media in India where new firms and small enterprises find it harder to reach out to large numbers of consumers. Sadly, in election season, populism seems to be driving policymaking, not sound economic logic.

## KashmirSalve

Modi finally condemns violence against Kashmiris, this should help cure Tathagata Roy-style lack of sense

**M**ORE THAN A week after cases of attacks and intimidation against Kashmiris across the country were reported, prime minister Narendra Modi finally spoke up against such targeting. This followed the Supreme Court's censure of the states where such incidents were reported. Speaking at a rally in Rajasthan, Modi said that what was happening to Kashmiris in the rest of India "should not happen in this country" and that India's fight is for Kashmir, "not against Kashmiris". The statement, though quite late in coming, was necessary to bring about an end to the violence against Kashmiris since the Pulwama attack, because, the deafening silence from the BJP's top leadership on the attacks could only have been seen as a tacit sanction of the same.

Adding further fuel to the alienation from India many Kashmiris feel, several senior members of the BJP and the Modi administration—before the PM spoke out against the violence—either made statements in favour of the violence or dismissed it altogether. A few days after the Pulwama attack, Meghalaya Governor Tathagata Roy, a senior BJP leader, called for an economic boycott of Kashmir and Kashmiris. If Roy's blatant violation of the Constitution, while occupying a Constitutional post, wasn't enough, a day later, Union human resource development minister Prakash Javadekar flatly denied that Kashmiris had been harassed at all. What should not be tolerated is Roy-style brazen calls for harming fellow citizens which risks distancing Kashmir and its citizens further from the nation. Given Roy occupies a Constitutional post, the Modi regime would do well to match intent with action and recommend his removal to the President. Modi's statement, though late, is the salve the Kashmiris and the rest of the nation require. It should set India on a path towards ending the violence and animosity that afflicts the country in matters relating to Kashmir, and that would be the true cure for the rabid hate that is drowning good sense.

## REAL IMPACT

DENIAL OF INPUT TAX CREDIT WILL PUSH UP COSTS FOR REALTORS. ALSO, THIS WILL SLOW THE FORMALISATION OF THE SECTOR BY CLOUDING THE TRACEABILITY OF PURCHASES BY BUILDERS

# GST cuts for real estate may push up prices

**T**HE STEEP REDUCTION proposed in the GST rates on real estate has led to considerable euphoria among builders and consumers. The sector that has had its fair share of challenges in recent times, with a slowdown in sales, delayed bank loan repayments, working capital issues, compliance with RERA, etc., now appears to have one challenge less, as low GST rates are being considered as the panacea for many of the issues facing the sector. The 33<sup>rd</sup> meeting of the GST Council, held on February 24 2019, has proposed to lower the rate of GST from 12% to 5% in the case of normal housing and crash the rate on affordable housing from 8% to 1%, from April 1, 2019. In both the cases, there would be no Input Tax Credit (ITC) eligibility for the builders after the lower rates come into force.

In order to put things in perspective, we need to bear in mind that GST is applied only on under-construction apartments where the payment is normally made in installments, leading to a tax inference of the builder providing a service to the home buyer. This payment of GST is in addition to the stamp duties levied by each state, as these were not subsumed into GST. Sale of apartments in buildings that have obtained an Occupancy Certificate (OC) does not attract GST and the buyer would be paying only the stamp duties and related charges. It is therefore clear that, after the introduction of GST in July 2017, there was a distinct preference for completed apartments compared to under-construction apartments. In addition to paying only stamp duties and related charges, home buyers were also assured of immediate possession and hence the market saw a shift to completed apartments. This, however, did not aid builders, who were used to the buyers financing their working capital by making construction-linked payments. The lower rate of GST of 5% on under-

construction apartments can now possibly revive that market and ease some of the working capital pressures of builders. From an indirect tax standpoint, most countries move from a sales tax system to a VAT system and, from there, to a GST system. The GST system is, at present, considered to be the ultimate frontier from an indirect tax perspective. The key feature in the GST system is the ability of each supplier of goods and services to obtain ITC on the basis of the GST paid by their vendors. This is a feature that is normally absent in a sales tax system where the tax is levied usually at the first stage of emergence of a product or, in some cases, at the last stage. GST is a multi-stage value added tax system where each entity pays GST only on the value added by it, considering ITC of the taxes paid up to the preceding stage. The denial of credit with a lower rate of GST of 5%/1% in respect of under-construction apartments goes against the basic architecture of a good GST system.

A similar step was taken in the past in case of restaurants, where an 18% rate was brought down to 5% without input tax credits. However, in case of restaurants, a majority of the key inputs such as grains, pulses, vegetables, milk, etc., in any case did not attract GST. Hence, the resultant input tax credit loss was quite low. The key inputs used by the real estate sec-



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tor are cement, steel, tiles, bath fittings, etc. These attract GST at varying rates with cement taxed at 28% and most of the other items taxed at 18%. The denial of credit could actually increase the cost for builders and they may seek to pass on the same in the form of a base price increase. There have been various estimates of the quantum of input tax credit

available by builders, but, depending on the proportion of land cost, etc, it could be in the range of 6-8% of the project cost. Any input tax credit loss may now get added to the base price of the apartment with a lower GST, provided the same does not violate the anti-profiteering provisions.

We have already seen a real estate player like Pyramid Infriatech approach the Delhi HC for relief in an anti-profiteering matter that was prompted by a complaint that the benefits were not being passed on to the buyers of apartments. In the present situation, where the GST rates have been lowered, but the input tax credit has been denied, it should not so happen that an increase in the base rate to overcome the loss of credit in the hands of the builder is considered to be a method of circumventing Section 171 of the CGST Act dealing with anti-profiteering.

The denial of ITC to builders also means that introducing traceability of purchases by the sector, which would have led to the

rapid formalisation of the sector, would now take a backseat. Most of the sectors covered by the GST now have a very clear traceable purchase/sale, input/output chain, which can be tracked by the tax authorities. Any breakage or leakage in the chain can be detected by using the data provided by businesses as part of the return filing requirements. The real estate sector, which is a large consumer of manufactured products such as cement, steel, tiles, and sanitary fittings, etc, could have been tracked as part of the input tax credit availing process. However, the fact that builders would not be eligible for ITC would mean that the sector cannot be tracked like other sectors, even if we have additional requirements such as having to purchase major inputs from registered dealers.

It is also necessary to consider the transition issues that would emerge once the new rates come into force on April 1. Home buyers who have booked an under-construction apartment and have paid a few installments would now be considering delaying further payments until the new rates come into effect. This may not be very helpful if the builder has already issued an invoice before the effective date. Builders could have to forego the proportionate ITC that is relatable to the work completed after the effective date in addition to losing the ITC on those apartments that are sold after the effective date. It is essential to provide clarity on these and other transition issues and all stakeholders would hope that the committee tasked with detailing the transition provisions in respect of under-construction apartments adopts a pragmatic approach.

The real estate sector, being a large employment generator and a sector with multiple linkages to many critical parts of the economy, has been in need of revitalisation. The GST rate reductions have the potential to fire up the sector once again, however, it is also necessary to take care of the issues that are expected to emerge on account of these reductions.

## Misreading China's strength

With ample policy space to address the current trade slowdown, China's leadership has no need to abandon its longer-term strategy

STEPHEN S ROACH

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**US PRESIDENT DONALD** Trump's administration has underestimated China's resilience and strategic resolve. With the Chinese economy slowing, the US believes that China is hurting and desperate for an end to the trade war. But with ample policy space to address the current slowdown, China's leadership has no need to abandon its longer-term strategy. While a cosmetic deal focused on bilateral trade appears to be in the offing, the sharp contrast between the two economies' fundamental underpinnings points to a very different verdict regarding who has the upperhand. Yes, the Chinese economy has weakened significantly in the past few months. But, contrary to US perceptions that this is due to its successful tariff strategy, China's downturn has been largely self-inflicted. It was initially brought on by a deleveraging campaign aimed at neutralising the mounting risks of debt-intensive economic growth. To their credit, Chinese policymakers have moved aggressively to avoid the dreaded Japan syndrome—not just a debt overhang, but also a profusion of zombie companies and related productivity challenges.

Largely as a result of this effort, credit growth has moderated from around 16% at the start of 2016 to about 10.5% in late 2018. This has had marked repercussions for China's once-powerful investment engine, the largest component of the economy, which has slowed from 20% growth in late 2013 to about 6% in late 2018. Meanwhile, the effects of US tariffs are only just starting to bite. While exports to the US fell by about 3% y-o-y in December 2018 and January 2019, shipments to the rest of the world have continued to expand, owing largely to resilience in emerging markets, especially Asia. To the extent that exports may have been front-loaded ahead of both the Lunar New Year holiday and potential further increases in US tariffs, some fallback can be expected. While that could temper near-term prospects, it is hard to pin the slowdown of the past few months on exports. To hedge its risks, China has been quick to exploit its intrinsic advantage: much

greater policy flexibility than Western economies, which have largely hit their limits on fiscal and monetary stimulus. Cutting reserve requirements five times in the past year has led to higher bank lending and a pick-up in credit growth in early 2019, which should support an improvement in overall economic activity by mid-year.

By contrast, the US economy is more of a short-term momentum story. Thanks to the outside tax cuts of late 2017, economic growth picked up to about 3% in 2018, nearly one percentage point faster than the anaemic 2.2% pace of the prior eight years. But with fiscal stimulus fading, GDP growth should follow suit—consistent with the Congressional Budget Office's latest projection of just a 2.3% rise in 2019. Risks of an even weaker outcome are mounting. The rebound in US equity prices in early 2019 has not offset the sharp decline in late 2018, which took a heavy toll on household wealth and consumer confidence, prompting an outside decline in retail sales in December. With jobless claims starting to inch higher, the housing sector already weak, the global economy on increasingly shaky ground, and the Federal Reserve having limited ammunition, the US economy's resilience looks increasingly tenuous.

The likelihood of contrasting economic growth trajectories—a policy-induced improvement in China and a policy-constrained slowdown in the US—reinforces a more serious mismatch of longer-term fundamentals. China's domestic savings rate in 2018, at 45% of GDP, was nearly two and a half times the US rate of 18.7%. Although China's saving rate has fallen from its 2008 peak of 52%, as consumer-led rebalancing has prompted a shift from surplus saving to saving absorption, it still has a cushion that the US would die for.

Moreover, fully 85% of America's gross saving goes toward replacement of obsolete and worn-out capital stock. Adjusting for depreciation, the US had a net national saving rate of just 3% in 2018—less than half the 6.3% average

in the final three decades of the twentieth century and even further below the net saving position of China, where the capital stock is considerably newer and in less need of replacement. These saving disparities underscore a critical difference in the investment underpinnings of both economies' growth potential. China's investment was 44% of its GDP in 2018, more than double the 21% share in the US. And, given America's aging capital stock, the disparity between the capacity-enhancing net investment positions of the two economies is even wider. That underscores China's relative advantage in funding its longer-term growth imperatives such as urbanisation, investment in infrastructure, human capital, and research and development, and the shift to indigenous innovation.

Moreover, the savings gap between America and China is likely to widen further in the years ahead, as seemingly chronic US budget deficits push domestic savings even lower. A further complication is that, in funding its limited investment potential, the US will require equally chronic current-account deficits to augment depressed domestic savings. And, of course, with the current-account deficit comes an outside multilateral trade deficit—underscoring the weakest link of the pending trade deal: reliance on a bilateral Chinese fix for a far more insidious deficit problem with over 100 trading partners. In the end, economic strength is relative. The US economy's current strength appears fleeting. Its short-term resilience is already faltering and, in view of worrisome long-term fundamentals, may fade further. China is in the opposite position: today's short-term weakness should run its course by mid-year, against a backdrop of relatively solid longer-term fundamentals. This reality will come as a rude awakening to US negotiators, who are misreading China's strength and the hollow benefits of a cosmetic trade deal.

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## LETTERS TO THE EDITOR

### Karachi Bakery

Those who took the law into their hands forced the manager of Karachi Bakery to cover the name 'Karachi' just because it has a 'Pakistani' connotation. Though the men did not resort to vandalism, they had their way by forcing the owner to display a Tricolour inside and cover the name 'Karachi' with a banner. The bakery has since clarified that founder Khanchand Ramnani had migrated to India during Partition and the outlet is an Indian company based out of Hyderabad

— Ravi Chander, Bengaluru

### Aftermath of Pulwama

What has been most disquieting is that Kashmiri students and traders have come under attack in India. Meghalaya Governor Tathagata Roy, with a rabid communal bent of mind, insinuated that Kashmiris are the fifth column and deserve to be treated differently from other compatriots. Had he got his marching orders, Narendra Modi's speech on the protection of Kashmiris would have made greater sense. Thankfully, jingoism, belligerence and sabre-rattling, tried by right-wing politicians, find no resonance among the common people. Dialogue is the only way to resolve the Kashmir dispute and normalise India-Pakistan relations. We need to assert our basic humanity and say that the life of each human being, be it that of a militant or a member of the forces, is precious. Steps need to be taken to change the conditions that incubate militancy in the Valley. The deeply disquieting ways used by the security forces to eliminate militants from the Valley actually breed more militants. It is important that India and Pakistan should see each other as neighbours and not as adversaries. It is time we put humanity above nationalism and religion and resolve conflicts to live in peace

— G David Milton, Maruthancode

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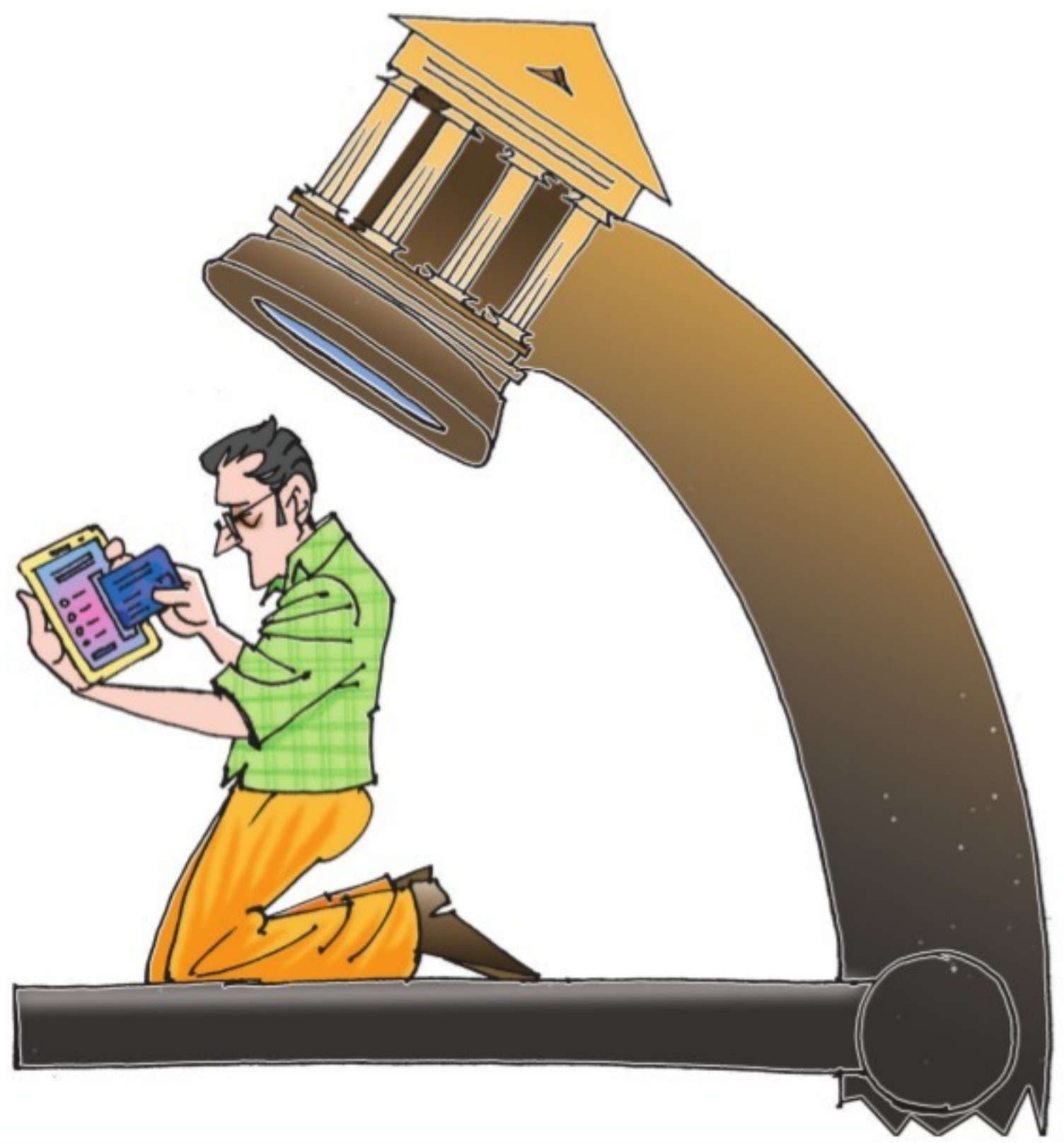


ILLUSTRATION: ROHNIT PHORE

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● **E-WALLETS**

# Death by a thousand KYCs

The use of CKYCR (KYC Registry) will solve the problems currently facing e-wallets, who are staring at the March 1 deadline for offline KYC compliance.

It'll also help make the KYC process easier for consumers and other regulated entities. Following the Aadhaar judgment, regulators are wary to make public database accessible to commercial operators. But data protection risks associated with CKYCR are far less than the Aadhaar database or offline KYC

**A**CCORDING TO ONE estimate, the market share of e-wallets in India is said to have fallen by 40-50% from October 2017 to March 2018. Though e-wallet transactions have continued to grow in terms of volume in the last year, they have been far outstripped by the Unified Payments Interface in terms of market share. The future looks bleak for e-wallets with one payments operator predicting that e-wallets could cease to exist in a few years. This is a dramatic shift for an industry that was once regarded as the future of fintech in India. The regulatory burden imposed by the Reserve Bank of India's Know Your Customer (KYC) guidelines is widely cited as the cause for this reversal of fortunes.

Carrying out offline verification of all their customers—a requirement of the KYC guidelines—has been costly to all e-wallets. But it has been especially difficult for smaller e-wallet operators who do not have the wherewithal to invest in a capital- and resource-intensive compliance process. News reports suggest that most e-wallet operators verified just a fraction of their user base to date. The fast-approaching March 1 deadline for offline KYC compliance increasingly seems like a cliff's edge from which the sector may not recover. The use of the Central KYC Registry (CKYCR) is a readily available solution to many of the sector's woes. With adequate data protection safeguards, the CKYCR could allay the existential fears confronting e-wallets.

## KYC requirements

RBI's Master Direction on Pre-Paid Instruments (PPI Rules) issued in October 2017 made the KYC process mandatory for e-wallets. Rules on KYC are contained in the Know Your Customer Direction, 2016 (KYC Regulations), issued under the Prevention of Money Laundering Act, 2002. KYC Regulations require regulated entities to identify customers when they open an account or in certain specified cases. With the aim of curbing money laundering, KYC Regulations initially applied only to banks, financial institutions and other 'regulated entities'. The PPI Rules, issued in response to concerns over e-wallets being used to launder money, also clarified that e-wallets fall under the category of other regulated entities. This, in effect, required e-wallets to comply with KYC Regulations.

Of all the regulations in the PPI Rules, KYC obligations have proved to be particularly cumbersome, especially after the Aadhaar judgment. Before this judgment, e-wallets had the option of carrying out e-KYC using biometrics. E-wallet operators could first verify the Aadhaar number and then verify biometrics within a year. The one-year window gave e-wallets flexibility and time to comply with KYC requirements. Since the Supreme Court prohibited the use of Aadhaar for commercial use, e-wallets no longer have this option. The recent amendment of the Prevention of Money Laundering (Maintenance of Records) Rules will only make this problem worse. Rule 9(15) of these rules enabled regulated entities to perform e-KYC using Aadhaar. The amendment, in compliance with the Aadhaar judgment, has limited e-KYC to those individuals receiving benefits or subsidies from the government. The effect of both these changes means that for a majority of their users, e-wallets will have to perform offline KYC before March 1.

The source of this regulatory uncertainty is that unlike the other Master Directions rules, KYC Regulations were framed with offline regulated entities in mind. For banks and financial institutions, physically verifying the authenticity of

customers does not impose too much of a burden. This is because their businesses are based on customer contact on a regular basis and they have the capital to invest in the expensive KYC compliance process. In the case of e-wallets, KYC upended their main value proposition, which is the convenience of a purely online relationship.

## The possible solution

Media reports suggest that even the biggest e-wallet operators have verified only 70% of their user base. Close to 18 months after the PPI Rules were issued, the low verification figures paint a bleak picture for the future of the sector. As e-wallet operators face up to the looming deadline, there is a technology-based solution within the KYC framework to make the KYC process simpler and less cumbersome. KYC data collected by all entities in the financial sector is currently stored in the CKYCR. Designed with interoperability in mind, data in the CKYCR is stored in a standard format and can be used across sectors. However, access to CKYCR data is currently restricted to government agencies and regulators pursuant to the Prevention of Money Laundering Act, 2002.

Allowing regulated entities to use the CKYCR to cross reference new customers against existing entries in the registry is the logical next step for the registry. In addition to reducing the burden on regulated entities, a truly interoperable CKYCR will also make the KYC process easier on the customer. Currently, KYC must be completed separately when an account is opened with every regulated entity. So, a customer opening three bank accounts will have to go through the KYC process three times. This is despite the fact that KYC information is stored in a centralised database after the first registration. The CKYCR, thus, offers a faster, cost-effective and customer-friendly means of KYC compliance.

## Data protection safeguards

There are obvious data protection concerns in making the CKYCR interoperable. However, the advantage offered by a centralised database is that there can be different levels of access to the data. In addition, the customer need not share his/her unique CKYCR identifier with the regulated entity to perform a KYC verification. Unlike Aadhaar (which offered similar KYC functionality), the CKYCR does not contain biometric information, reducing potential data protection risks.

In fact, for the purposes of KYC, the CKYCR can be made interoperable without any sensitive personal information being shared. The only plausible risk may be of purpose limitation. Both the data protection rules framed under the Information Technology Act and the proposed data protection law provide that data collected from a customer can only be used for the purpose to which he or she consented to. However, checking for a CKYCR match is not purpose limited as the customer would have consented to using of his/her data

for verification. Merely matching the unique identifier also means that after the first verification, the data is more secure than an offline KYC verification.

The use of the CKYCR will solve the problems currently facing e-wallets in India. It will also help make the KYC process easier for consumers and other regulated entities. Following the Aadhaar judgment, regulators are understandably wary to make a public database accessible to commercial operators. However, the data protection risks associated with the CKYCR are far less than the Aadhaar database or offline KYC. With sufficient safeguards, the CKYCR will help reduce the onerous demands of compliance on regulated entities. A sector that is currently on death's door can be revived with a simple tweak of the existing framework.

**CKYCR will help reduce the onerous demands of compliance on regulated entities. A sector (e-wallets) that is on death's door can be revived with a simple tweak of the existing framework**

● **BIT BY BIT**

# Unfolding a new chapter

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Are the first foldable phones ushering in a new segment in smartphone industry?

**E**VER SINCE THE FIRST iPhone, well over a decade ago, the smartphone segment has evolved, mutated and stagnated. The plateau in technology had become so evident across devices that users started holding on to phones longer. There just isn't enough to interest them to push for an early update.

But things could change with what Samsung announced in San Francisco last week. DJ Koh, Samsung Electronics's president and CEO of IT & Mobile Communications Division, called it the "next chapter in mobile innovation," big enough to change "what's possible in a smartphone." Within days, Huawei followed up with its Mate X, which looks at the fold from a whole new perspective.

Although there has been at least one other foldable device before it, Samsung's new Galaxy Fold can well be called the start of a whole new category. Samsung says its foldable phone is meant for those who "want to experience what a premium foldable phone can do, beyond the limitations of a traditional smartphone."

So, the Galaxy Fold is a somewhat old-looking smartphone, which unfolds to present a stunning 7.3-inch screen inside powered by an Infinity Flex Display—a hinge under it that cannot be seen. In contrast, the Mate X looks like a regular smartphone from the front with a 6.3-inch display. It has a display at the rear, too, and when you bring that up front, the two screens combine to offer an 8-inch tablet. So, while you literally have to open the Galaxy Fold to get a better experience, on the Mate X you need to unfold only if you need a larger screen for something.

Bigger phones are still well under wraps, though official launch dates have been announced. And both can potentially change the way we work on a smartphone, especially with multitasking. The Galaxy Fold, for instance, offers three-app multitasking for the first time ever. But then I'm wondering why we never wanted that on a tablet with a larger screen where it would have been a more logical feature to have.

A lot of what the Galaxy Fold will do will be based on what Samsung calls App Continuity. So, if you, let's say, watch a Facebook video on the small front screen of the folded phone, you can watch the Galaxy Fold to watch the video in full screen—in what should be a seamless experience. Huawei, too, will need to have something similar. That certainly has the potential, at least for a certain set of users. And if you spoil that experience, it also has the potential to ruin this segment itself.

Despite the bunch of engineering fetes going into these devices, analysts like Jeff Fieldhack of Counterpoint fear that the early versions will be clunky and compromised. He says while the fluidness of the tablet mode in the Galaxy Fold is nice and better than the versions seen at CES 2019, but the device appears to be "severely girthy and compromised." And the phones will be niche for a while—the \$1,980 price tag of the Galaxy Fold and the costlier Mate X (almost \$2,600) ensure that. Frank Gillett, vice-president at Forrester Research, says Samsung needs to deliver on the promised folding phones in order to maintain leadership. But we need to wait and see how the production challenges are taken care of.

With the Mobile World Congress in Barcelona this week, we can safely expect a bit more one-upmanship from rival brands. Those still not close to a product they can sell, will at least try and tease something to keep users happy. There will be more gimmicks that hardcore technology. For now, we know that companies are perfecting the hinge, figuring out what is the best way to make use of this form factor.

Meanwhile, there is one question everyone seems to have missed: Does the user really want a foldable smartphone?

**But there is one question everyone seems to have missed: Does the user really want a foldable smartphone?**

**E**XPERTS REMAIN CLUELESS as to how the various giveaways announced in the Interim Budget will get financed. Their doubts are justified given that the slippages in fiscal deficit targets are averted only by tweaking the denominator, assuming more robust revenue growth and by allowing significant off-budget financing. At the end of the day, as usual, the lack of fiscal space might force the axe on capex.

This shrinking fiscal space should prompt us to devise strategies for ensuring sustainable finance in the short and medium term, if not for the current year. This strategy should necessarily hinge on the tax-to-GDP ratio, which, for the Union and states combined, has hovered around 14-17% during the past four decades. After peaking in 2007-08, it registered a declining trend. And curiously enough, the central tax revenue is tracing a declining trend as a proportion of GDP. A stagnant ratio doesn't allow us to raise the expenditure on all sectors as a proportion of national income simultaneously.

But demand for allocations is rising every year from various sectors. The National Health Policy, 2017, calls for a rise in the public expenditure on the health sector in a time-bound manner to reach 2.5% of GDP from the current 0.7%. A long-standing demand from the education sector has been to raise the public expenditure from the current less than 3% of GDP to 6%. And doubling of farm income would definitely require massive investment. Our per-capita income level that is well below \$2,000, high incidence

# Time to reimagine fiscal space

It's time our policymakers realised that fiscal space is not a given

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of poverty and unemployment, poor infrastructure, etc, warrant a higher public expenditure. That is perhaps the reason why mobilisation of tax revenue finds a place under the United Nations Sustainable Development Goal 17.

A typical developed country mobilises about 40% of GDP as tax revenue. The OECD average is 34%. Germany, Norway, Iceland and Luxembourg are the countries where the tax-GDP ratio is above 45%. The figures for Austria, Italy, Finland, Sweden, Belgium, France and Denmark are above 40%. All BRICS countries, too, have figures higher than that of India, with Brazil leading with a figure of above 30%.

An IMF Working Paper "Tax Revenue Mobilization Episodes in Emerging Markets and Low-Income Countries: Lessons from a New Dataset" by Bernardin Akitoby et al

published in November 2018 examines 55 episodes of tax revenue mobilisation where tax policy reforms and revenue administration played a crucial role in raising the tax-GDP ratios. These episodes included an increase in the ratio by at least 0.5% over a minimum of three years.

Five countries that stand out in this report are Cambodia, Georgia, Guyana, Liberia and Ukraine. Their per-capita incomes are comparable to that of India. These economies have succeeded in raising their tax-GDP ratio significantly during the last 15 years. Three of them witnessed increases above 10 percentage points and the other two above 5 percentage points.

They achieved this feat by broadening the tax base for both direct and indirect taxes by means of revenue administration and tax policy, especially through improve-



ments in compliance and by reducing exemptions and/or eliminating tax holidays. Many countries focused on indirect taxation. Simplification and raising the efficiency was what worked for them.

The Indian economy has registered impressive growth in the new millennium. Hence, with a progressive tax system in place, the tax-GDP ratio is bound to rise. Rising inequality will only make the ratio rise faster due to bracket effect and that shifts towards a consumption basket that attracts higher tax rates. But it was not to be.

Presenting the Interim Budget, the finance minister highlighted the introduction of major tax reforms and significant increases in tax collection and tax base as important achievements of the government. The number of return filers (individuals) grew significantly from 3.04

crore in 2013-14 to 5.08 crore in 2017-18. And the number of taxpayers have risen from 4.97 crore to 7.03 crore during the same period. During this period, direct tax collection increased by 57% in nominal terms. But it had grown by 68% and 128% during the previous two quinquennia. So, the gains in tax collection are not exceptional at all, even after accounting for inflation and base effect.

The picture is not very rosy for the current year either. GST has so far not succeeded in augmenting revenue. The budgeted (2018-19) revenue under GST for the Union is ₹6,53,900 crore (excluding compensation cess), which requires a monthly collection of about ₹54,000 crore. But the average collection has only been about ₹36,000 crore. In direct taxes, too, in spite of much noise about rising number of

return filed, no extra buoyancy is seen.

In his Budget speech in February 2017, finance minister Arun Jaitley had pointed out that the tax-GDP ratio in India is very low. He had also argued, citing income tax data, that "we are largely a tax non-compliant society." Tax policy reforms that we have introduced included reduction of exorbitant rates. But probably the lesson for us is that such cuts alone do not induce compliance. Similarly, the trends are also an indication that we have not succeeded in dismantling the parallel economy to any significant extent.

Going one step further, we need to ponder why people are reluctant to pay taxes. People will definitely hesitate to part with their income if they do not get anything worthy in return. General public will be more, happy to pay taxes if they get better roads, improved public transport facilities, timely and quality healthcare, better education services, uninterrupted power supply, etc, in return. They will also own up the nation when they are treated with respect in government offices. All these require higher initial spending. Funding them will definitely be a challenge with the given fiscal space. Hence, the first steps have to be aimed at improving compliance, ensuring accountability and rooting out corruption.

Nevertheless, it is high time our policymakers realised that fiscal space is not a given. In the ultimate analysis, it is the conscious creation of a society and in India there is lot of room left for expansion of this space. Let's hope that the full Budget presented by the next dispensation will dare to reimagine the idea of fiscal space and act on it too.