Opinion

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APPROPRIATE BAROMETER

Vinay Sahasrabuddhe, BJP national vice president

"We want people to start thinking and talking about government performance and not about any sentimental issue. It is not beneficial for the country if people vote on the basis of emotional issues"

Genuine subsidy reform, or just Rahul *jumlas*?

Congress's plan unaffordable without scrapping subsidies for the 80% non-poor but it is not going to do that

ON THE FACE of things, Congress president Rahul Gandhi's election promise to give each of India's poorest 20% families ₹6,000 per month—that is, 12 times what prime minister Narendra Modi has promised to give poor farmers—is an astute political move and, more important, could represent a quantum leap in India's thinking on subsidies. In a single move, as Gandhi has said, it will eliminate poverty completely, but more important, this modified Universal Basic Income (UBI) promises an end to the corruption-ridden subsidy regime India has run for the last 70 years; Modi's Direct Benefits Transfer (DBT) has cut leakages but a large amount still remains. An obvious question, which arose even when Modi was promising the farmers ₹6,000 per year, is how much this is going to cost and how this is to be funded. Simple arithmetic tells you Gandhi's scheme will cost ₹360,000 crore, an amount that is greater than what the Central government spends on all manner of subsidies today, from food to electricity, fertilisers, water, scholarships, rations, etc.

As such, the scheme is unaffordable. If it has to be fiscally responsible, as Gandhi has said it will be, this requires all other subsidies to be removed; otherwise, Gandhi's talking of a near-doubling of the government's subsidy expenditures. So, there must be no fertiliser subsidies, no power subsidies, no subsidised rations, nothing. All of this has to be replaced by a cash transfer and the poor—or the relatively poorer segment of the population—will be free to spend their money on what they want, and because everything will be paid for at market prices, this won't distort the market either. The other possibility is that the scheme, like Modi's Ayushman Bharat cashless medical-treatment one, will be jointly funded along with the states; the states spend roughly the same amount that the Centre does on various welfare schemes.

What is important is the plan for the rest of India, beyond the bottom-most 20%. There is no logical reason to give subsidies to the better-off, but this has always been obvious and, yet, for the last 70 years, most subsidies have been grabbed by the more wealthy; even Modi's farm-income plan was an add-on to existing subsidies, not something to supplant them. Indeed, under Sonia Gandhi's influence, the UPA's National Food Security Act gave two-thirds (yes, two-thirds!) of Indians a 90-95% subsidy on the purchase of 5kg per head of rice and wheat per month. Is Rahul Gandhi saying he is willing to give up subsidies to everyone but the bottom 20%? If he is, then he has to be prepared for a backlash from this powerful group when its sops get taken away.

Also, since the average household in the bottom-most decile (D1) earns ₹129,000 per year today, and the next decile (D2) ₹178,000—D3 earns ₹224,000 and D4 ₹253,000—according to Price's ICE all-India income survey, giving a flat ₹72,000 per family means many of those currently in D3 and D4 will get pushed down in the income ladder as incomes for D1 and D2 rise; this, too, will have implications since they will resent a decline in their relative economic status. In other words, right now, the Congress party's promise is nothing but an election stunt, aimed at neutralising the BJP's gains from its income-transfer for farmers and the Balakot strikes. While it remains to be seen if the BJP will try and better this, ironically, had Modi eliminated wasteful subsidies on food procurement, fertiliser, etc, and moved to an income transfer to the poor, he could have given the poor much larger transfers several years ago; instead of now having to run down Gandhi's plan, the government would have had the upper hand. And while sweeping reform, which is what a modified UBI is, requires a commitment to eliminate all subsidies to anyone but the deserving, Modi could have claimed ownership of that as well. Whoever wins the elections, this has to be the agenda of the next government.

More GST-like Councils needed

These will help iron out political differences on key reforms

FINANCE MINISTER ARUN Jaitley's call for GST Council-like bodies to work on aligning the states' and the Union government's interests on agriculture, rural development and healthcare echoes what former chief economic adviser Arvind Subramanian talked about last January. The GST Council's success lies in how it parcels decision-making powers amongst the states and the Centre, consensus is inevitable for any change to be made. In the process, various interests, sometimes conflicting, are balanced and reform can happen. It helps iron out differences and reins in an overbearing Centre. This is a sea-change from what coordination bodies like the National Development Council and Inter State Council achieved over the past many decades. Consequently, there has been no politicising of the GST, given ruling parties/coalitions of different political persuasions must arrive at a broad consensus.

GST Council-like structures can help the implementation of central schemes like Ayushman Bharat or a PM Kisan Samman Nidhi Yojana overcome adoption-hurdles in Opposition-ruled states like West Bengal, Delhi, Odisha, Madhya Pradesh, Rajasthan. Indeed, the Kisan Samman Nidhi support to farmers could be hiked if the Centre were to move away from MSP-based procurement by the Food Corporation of India and its subsidies, which benefits just a handful of states. The hiked amount could be a compensation for states benefitting from MSP and the incentive for states where significant FCI/subsidiary-led procurement doesn't occur at a scale that would make a marked difference to farmers' income to come to the negotiating table. This would be a massive fillip to rolling out key agricultural reforms. Negotiations on implementing e-NAM, *mandi* reforms (including allocating land to non-cartelised *mandis*) wouldn't get stalled by just one or two players. More welcome, as seen in the case of GST negotiations, even Opposition-ruled states will more likely be driven by reason and reform logic instead of narrow political considerations. Key beneficiaries of farm exports can collectively get the Centre to reverse restrictions on exports. They can even make it see reason on allowing GM technology given all farmers will benefit if GM crops that are proven safe are allowed instead of dogmatically, or at the behest of vested interests, blocking seed-tech or other GM technology. Similarly, on healthcare, it would be easier to replicate best practices and roll out schemes such as *mohalla* clinics if a Delhi can get a critical number of states to join forces with it. Such councils, if created, would help realise cooperative federalism, and there would be less of political volleying on schemes and reforms between the states and the Centre. This could actually be the difference between "lost decades"—a rather enduring trait of India's reforms story—and faster, more widespread development.

ShutUP

Uttar Pradesh suspending teachers for criticising govt, ruling party leaders and challenging party versions reeks of intolerance

MANY GOVERNMENTS, PAST and present, are guilty of mocking the right to freedom of expression and assaults on dissent, but under the present dispensation in Uttar Pradesh, this seems to have become institutional. As per a report in *The Indian Express*, seven teachers and a school education department officer in the state have been suspended for posts on social media and other internet-enabled platforms that criticised BJP leaders, including chief minister Yogi Adityanath and prime minister Narendra Modi, or questioned the ruling-party endorsed narrative on Pulwama/Balakot or praised Pakistan prime minister Imran Khan for trying to de-escalate tensions with India in the Balakot aftermath. In another case, the district administration in Shahjahanpur has ordered an FIR against an unpaid private college teacher for posting "objectionable comments based on communal, caste, political and religious lines *against respectable animals* (emphasis added) and politicians". That is how low the state government has sunk in its attempts to curb unfavourable opinions.

Uttar Pradesh's moves reek not just of politicisation—of Pulwama/Balakot and the armed forces—it also makes the state government look intolerant at best and tyrannical at the worst. The fact that the cases are based on WhatsApp and Facebook posts is perhaps a hint that the government is snooping on citizens and their activity online. What is really worrying, though, is that it won't even brook criticism of governance deficit—one teacher has been slapped with a show-cause notice on why action shouldn't be taken against him under the IT Act for posting "*koi bahut badi teer nahi maar diya* (you didn't pull off some spectacular feat)" after the government released his salary after six months. The state government must remember its vindictiveness and intolerance won't silence criticism of its failure to uphold its Constitutional duties.

THE REAL MAINSTREAM

UNFCCC DOESN'T HAVE THE TOOLS TO DRIVE GLOBAL COLLECTIVE ACTION TO COMBAT CLIMATE CHANGE; WE NEED NEW PLATFORMS AND IDEAS TO DRIVE TRANSFORMATION

UNFCCC @ 25: Little to show

CHANDRA BHUSHAN

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WHILE WE HAVE made enormous progress in 25 years, the world is still running behind climate change. Today, the urgency to address climate change has never been greater. But because of the work begun 25 years ago, we are also better coordinated to take it on. We have the Paris Agreement, and we have the guidelines strengthening that agreement. What we need now are results'. This is the summary of the statement that Patricia Espinosa, executive secretary of the United Nations Framework Convention on Climate Change (UNFCCC), put out on the occasion to celebrate the 25th anniversary of the entry into force of the UNFCCC.

While I agree with the sentiments of the above statement, especially the urgency to address climate change, I disagree with two points: one, the progress made by the UNFCCC so far and, two, the potential of the UNFCCC to deliver results in the future.

25 years and little to show

UNFCCC was adopted with an objective to 'stabilise greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system'. Over the past 25 years, GHG concentrations, far from stabilising, have reached record levels. The atmospheric concentration of carbon dioxide (CO_2), the main GHG, has increased from 358 parts per million (ppm) in 1994 to 412 ppm in 2018. The amount, 400 ppm, of CO_2 was last witnessed on earth about 3 million years ago.

The global temperature, too, has steadily increased from 0.25ºC above the pre-industrial era in the early 1990s to an increase of 1.1ºC in 2018. Very soon, the temperature increase is likely to hit 1.5ºC, declared recently as a guardrail by the Intergovernmental Panel on Climate Change (IPCC) to avoid catastrophic impacts of climate change. All this while the intensity and frequency of extreme weather events have significantly increased, destroying lives and livelihoods. Between 1997 and 2016, extreme weather events caused more than 500,000 deaths and economic losses of around $3.16 trillion worldwide. And, if we do not heed the warning of the IPCC's special report, *Global Warming of 1.5ºC*, these numbers would seem minuscule 10 years from now.

> The fact is that combating climate change now requires actions from all levels of government, private sector and civil society

Despite agreeing on a protocol (Kyoto Protocol), two agreements (the Cancun Agreement and the Paris Agreement) and hundreds of decisions on a myriad of climate change issues, UNFCCC has little to show as results. Instead of reducing, annual emissions of GHG continue to increase and are, today, 60% over 1994 levels. In fact, in 2018, global CO_2 emissions increased by 2.7%, one of the highest annual increases in the decade. Emissions are increasing in almost all countries, including developed countries that had pledged to reduce emissions.

The fact is that the global energy system has changed little over the last 25 years. In 1994, about 80% of the global primary energy supply came from fossil fuels. This figure has remained unchanged in 2018. The number of energy-poor has also remained the same. In 1994, about 2.8 billion people used polluting solid fuels to cook food—this number, too, remains the same in 2018. So, we have neither been able to shift the global energy system away from fossil fuels nor have we been able to provide adequate amounts of clean energy to all. And, this has happened because global cooperation on energy and climate change has weakened, rather than strengthened, over the years.

Future of UNFCCC

IPCC's special report makes it clear that the Paris Agreement cannot limit warming to even 2ºC. In fact, global warming is likely to reach 1.5ºC between 2030 and 2052. To limit warming at 1.5ºC, CO2 emissions will have to be reduced by 45% by 2030 from 2010 levels and reach net-zero by 2050. This means that we have 12 years to turnaround the energy system of the world and cut emissions drastically. Can the UNFCCC deliver on this?

The UNFCCC has moved from a top-down legally binding Kyoto Protocol to a bottom-up 'self-determined' voluntary Paris Agreement. Today, there is a question mark over the survival of the weak Paris Agreement itself. The United States has left the Agreement and, on its way out, it, along with other big polluters, fatally weakened the Paris Rulebook.

Under the Paris Agreement and its Rulebook, all countries are now on their own to mitigate, adapt and pay for the costs of climate impacts. The UNFCCC is now simply a platform to collect, synthesise and disseminate information. It doesn't have the tools to drive global collective action to combat climate change. In such a situation, one needs to seriously question the continuation of the international effort at the UNFCCC.

The fact is that combating climate change now requires actions from all levels of government (national, subnational and local), private sector and civil society. It requires hard targets and a roadmap for rapid transition in all sectors of the economy. This can only happen if we adopt some radically different strategies. Let me propose two strategies:

First, let's create multiple sectoral and regional platforms to drive transformation. We could push for international 'sectoral' treaties to achieve real transitions in energy, transport, agriculture and industrial sectors like steel and cement. To support countries to implement these treaties, regional platforms could be set-up to build capacity and facilitate technology transfer.

Second, climate change is too important an issue to be left to governments alone. We need government-plus strategy, especially concrete actions from the private sector. Many would argue that the Paris Agreement engages the private sector. But private-sector engagement in the Paris Agreement is voluntary and has not added up to much. To push the private sector, we will have to make climate change a fiduciary duty of corporations and hold them accountable for polluting the climate. I know that all these ideas would be considered a non-starter. But it is better we try something different now than regret later.

Even Oprah can't paper over Apple's flaws

The idea of Apple becoming more than just a device company breaks down when the company introduces digital services that are available only to the minority of the world that owns Apple devices

SHIRA OVIDE

Bloomberg

APPLE INC. PRIDES itself on craftsmanship and perfection. Even the desk chairs in Apple's headquarters are worthy of their own article. That is why it was so surprising that Apple's new products for news, television and more feel so half-baked.

Over nearly two hours on Monday, Apple trotted out Oprah Winfrey, Steven Spielberg and Big Bird but left a lot of blanks. The company effectively introduced five products: a subscription to a collection of magazines and other information; an Apple-branded credit card; a subscription service for a bundle of video games; a Netflix-like subscription for Apple entertainment programmes; and a revamped digital hub that pulls in Apple's video service plus those from partners such as HBO.

Only one of those five, the magazine and news subscription, is available now, and it already existed under a different name and guise. It is not unusual for Apple to get people excited about products before it is ready to sell them. For example, Apple announces each year's new iPhone models weeks before they officially go on sale.

Monday's announcements felt different, however. Apple's collection of digital products felt at times like drawings on napkins—sketches that were incomplete, not ready or not thought through to their eventual conclusion. If the bullish investment thesis about Apple rests on its competence to transition to a digital services company, Monday's event put a dent in that notion.

Apple showed only a scant few frames of its coming Netflix-like service, called Apple TV+, even though the company started developing its own entertainment programmes two years ago. The company didn't announce a price for Apple TV+, which maybe doesn't matter because the subscription service isn't coming until the fall anyway.

Apple's digital entertainment hub, called "TV," already exists as a single spot to see movies and TV series from companies such as HBO and the Spectrum cable television service—although many iPhone owners are not aware of this app.

Apple is reworking it with the promise that it will be a truly single spot for everyone's entertainment needs. It won't be. It doesn't include Netflix or Comcast's pay-TV service, for example. The new TV app appears to be a better interface on an existing app that many Apple device owners have ignored. It is not clear why those people will start to use the TV app now—particularly before this fall when Apple says it will begin to release its original entertainment programmes.

To Apple's credit, it realises it needs this digital entertainment hub for non-Apple devices, too, and said people who use popular internet-connected TV sets and Amazon.com Inc.'s Fire TV and Roku streaming-video hardware will be able to use the TV app, too. The problem is the TV app is coming for those devices "in the future". Whether that is six months or six years from now, I don't know. Apple may not know, either.

Apple's $10-a-month subscription to magazines and a selection of newspapers and other information does exist now. And it should. Apple News+ is a revamped version of Texture, a $10-a-month magazine and information subscription company that Apple acquired last year. There was confusion on Monday about the availability of the full spectrum of articles published by the *Wall Street Journal*, perhaps the highest-profile addition to the subscription service. That is just one sign of how unpolished or unprepared Apple's products felt.

Apple's Texture 2.0 is also available only in the US and Canada for now and only for iPhone, iPad and Mac computers. Apple's trumpeted subscription service for video games and its new credit card also appear available only for Apple devices. Yes, that is still a lot of people. To quote Winfrey on Monday: "They're in a billion pockets, y'all". (Slight correction: Apple has said about 900 million iPhones are in active use worldwide).

But the idea of Apple becoming more than just a device company breaks down when the company introduces digital services that are available only to the minority of the world that owns Apple devices. This is not the services-first company that Apple investors expect.

Apple could do very well with its new subscriptions, if and when they launch. A subscription for immersive video games seems like the most promising of the bunch. Video games are the most prevalent use of smartphone apps by far, and Apple's heritage and relationships with popular game makers and game players give it a unique advantage in creating a video game subscription service. Google, Amazon and Microsoft are also working on or have announced video game subscriptions. Apple's video game service is coming—you guessed it—this fall. No price was announced.

The company's typical high-wattage event papered over obvious shortcomings and unanswered questions about its new services. Maybe Apple is trying to do too many things at once and the multitasking left it unable to meet self-imposed deadlines. Maybe the company wanted to announce its products first and then refine the details with partners later on.

Most likely, though, the half-baked nature of Apple's event shows that the company's perfection in its traditional hardware stronghold doesn't mean it is prepared to be more than the iPhone company.

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LETTERS TO THE EDITOR

Encouraging e-vehicles

While larger allocation of funds to expedite the launch of e-vehicles remains a priority, it is the lacking infrastructure, low number of charging points and a high purchase price that has hitherto impeded the implementation of the concept. Authorities are continually improving the policy framework to attain standardisation and uniformly promote e-mobility. It is important to incentivise the manufacturers as well as buyers of electric vehicles. A lower customs duty/GST rate on components can encourage the large-scale production of e-vehicles. Further, differential registration rates and exemption from road tax/parking charges can motivate the consumers. Initiatives to offer charging stations in residential/commercial spaces, improved facilities, on-spot metering and payment services ought to be accomplished at the earliest. A relatively weaker currency valuation, fluctuating oil prices and turbulent global cues demand that alternative fuels be explored to attain operational viability in the longer-run. However, challenges in integration of advanced equipment/accessories, limited seating capacity, questionable safety at high-speed and a high battery replacement cost call for continued efforts towards R&D and innovation

— Girish Lalwani, Delhi

Curtains for Goyal

The curtains have finally come down on Naresh Goyal with the Jet Airways founder and chairman yielding to pressure and stepping down from the airline's board. Goyal's wife Anita and Etihad Airways' nominee director Kevin Knight also put in their papers. The banks, led by SBI, have taken control of the airline and will pump in ₹1,500 crore in an effort to bail it out. One hopes that the rescue plan pays off and Jet Airways flies high once again

— Ravi Chander, Bengaluru

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Understanding the real story on jobs

We are in an era of stagnant productivity and wage growth, not jobs. It is imperative that we estimate labour productivity to understand the real story on jobs. In the absence of commensurate productivity and wage gains, we must strive to improve the quality of the jobs offered

THE DISCOURSE OVER a jobs debate has never been so shrill. The economy is currently expanding at 6.6% (with a downside bias), but still more than other competing economies, and it is only a matter of sheer conjecture whether it is translating into enough jobs or not? The latest leak of the NSSO data has only added to the confusion as it estimates a 10% drop in employment. With the economy growing at 7.5% for the last five years, such a sharp envisaged drop in employment implies close to 20% rise in labour productivity. Thus, it is imperative that we estimate labour productivity to understand the real story on jobs.

Using the KLEMS data, we estimated productivity of various sectors during FY17-19. Our results show the overall productivity growth remains relatively stagnant (9.4% to 9.9%) in the last five years, barring FY15. Let us take up each of the sectors one by one.

Growth in agriculture productivity has been following a downward trend, which is a cause for concern. It thus appears that the agricultural sector has been witnessing growth in output while at the same time people are leaving agriculture as a source of profession, thereby leading to rise in productivity, but only at the margin. The limited rise in agricultural productivity has also an interesting connotation. Contrary to popular perception, the decline in across-the-board food prices thus cannot be solely attributed to the rise in agricultural productivity. Vegetables, fruits, pulses, eggs and sugar are, in fact, witnessing deflation in the recent months, and it seems that the decline in food prices reflects structural break in food prices over a longer term. This could be the result of prudent supply management or even a change in the behavioural habit of people.

What is more intriguing is that the growth in manufacturing productivity has slowed down in the recent past. However, what is more interesting is that the productivity gains in India were more significant prior to 2008, reflecting in part the exponential growth in global trade. In effect, trade redistributes the allocation of resources and thereby affects the distributive share of labour, specifically when the markets are imperfect. Using the disaggregated data of Indian industries from 1998 to 2008, an ADB study has found that labour bargaining power drops with the interaction of trade. Labour share, measured as a percentage of gross value addition (GVA), drastically dropped from 28% in 1980 to 10% in 2007-08 in the industrial sector. The drop itself seems to represent the weakening bargaining position of workers and thus productivity gains were significant. Therefore, a drop in bargaining power along with a rise in mark-up of industries explains the gradual decline in labour share, which, in turn, explains a rise in productivity, prior to 2008. Interestingly, post-2008, with slowdown in global trade, labour productivity growth has declined as per our estimation.

We believe that the recent slowdown in manufacturing productivity growth finds ramification in the series of aggressive stock buybacks by Indian corporates, which allows them to boost their earnings without having to invest in productivity gains. This is more possible as corporates have been undergoing deleveraging in the last couple of years, and therefore finding innovative ways to boost earnings. During 2018 and 2019 (till now), Indian companies have bought back 1,952 lakh shares.

The services sector has registered good productivity gains, reflected by its over-7% growth registered in all three quarters of FY19. The services sector has registered a productivity growth of 10.5% in FY18 and is expected to log in a growth of 10.4% in FY19. However, there are worrying signs, too. Within the services sector, real estate, dwelling and professional services—which form the bulk of services—have shown a declining trend in GVA. This is disturbing as the IT services, which are our primary exports, are included in this.

The slow growth in productivity clearly manifests in low wage growth. Our estimates show that wage growth has also been witnessing signs of moderation, on yearly as well as sequential basis. This moderation in wages also implies important lessons that can be deciphered from policy setting. For example, if wage growth is slow, it implies that familiar wage-price nexus is not working and this could result in moderation of inflation expectations. Thus, it is a futile debate to argue regarding jobless growth. We would rather say that in the absence of commensurate productivity and wage gains, we must strive to improve the quality of jobs offered. The current debate should clearly focus on wage growth as a binding constraint.

EPFO can start releasing non-farm productivity (as in the US) at least for those sectors for which we have output data from CSO's GVA database. This will fill a huge lacuna in productivity estimates

We would also, however, caution the policymakers of a slower productivity growth. For example, persistent low productivity encourages over-borrowing by corporations and households; in turn, it represents a big risk to economies and fiscal systems. A similar logic applies to the social and political impact of low productivity growth.

Before we end, a word about payroll data. Beginning September 2017, India has been publishing non-farm payroll data every month from EPFO, ESIC and NPS establishments. This is a remarkable upgrade over survey-based quarterly results in terms of data quality and frequency. Although the data from these establishments is still evolving (frequent data revisions), but a similar exercise for other countries shows that it will take time to stabilise. The good thing is that EPFO seems to have now realised that such data revisions could be the result of non-uniform treatment of persons joining and exiting EPFO. Thus, as per EPFO, persons leaving the age band till date included the members who also joined prior to September 2017, but exited only during the period after September 2017. This was strange, as we were using flow data for joining, but stock data for leaving, and hence such drastic revisions. But January figures now look stable after incorporating such changes.

We recommend that EPFO now starts releasing the non-farm productivity (as in the US) at least for those sectors for which we have output data from CSO's GVA database. This will fill a huge lacuna in productivity estimates in India.

Trends in labour productivity growth (in %)

Sector	FY15	FY16	FY17	FY18	FY19
Agriculture & allied	12.5	10.3	15.1	9.9	6.0
Industry	3.7	4.6	3.1	4.7	7.3
Mining & quarrying	6.1	-3.0	10.5	10.1	20.3
Manufacturing	9.5	14.1	7.6	7.6	10.9
Electricity, gas & water supply	6.7	16.8	2.9	16.7	12.6
Construction	-2.1	-6.7	-0.1	2.6	4.2
Services	12.4	9.2	9.4	10.5	10.4
Trade, hotels, transport & communication	12.2	8.8	9.5	10.0	10.6
Financing, insurance, real estate & bus services	7.6	4.8	3.6	4.3	5.3
Public administration, defence and other services	13.3	10.1	12.0	14.1	11.8
Overall	11.2	9.4	9.8	9.8	9.9

Source: SBI Research. FY17-FY19 are projections based on KLEMS data

GST COLLECTIONS

How to ensure a larger haul

NIRAJ BAGRI

The author is partner, Dhruva Advisors LLP. Views are personal

Direct correlation between non-filing of returns and non-payment of taxes

THE BUDGETED GST collections by the central government for the financial year 2018-19 stand at ₹7.43 lakh crore. But so far, the collections have been far from what had been budgeted. Hence, the collections have recently been revised to ₹6.43 lakh crore.

The budgeted GST collections envisaged an increase on the back of economic growth and plugging leakages of revenue. In the last year, several cases of GST tax evasions have been unearthed. According to recent media reports, tax evasion amounting to ₹20,000 crore has been detected between April 2018 and February 2019. Therefore, tax evasion is certainly a big possibility for lower tax collections.

Another area of concern is the increasing number of taxpayers who are not regularly filing GST returns. Although there is a high probability that many of these taxpayers are not in the high-taxpaying bracket, or may be in the nil-tax category, the non-filing of returns and, consequently, non-payment of taxes contributes to lesser collections. Many of these small taxpayers do not have the wherewithal in terms of IT infrastructure, IT awareness, etc, which may lead to avoiding filing of returns. In the absence of in-house capability, the reliance on outsourced service providers is a costly affair for many. Also, many have been facing issues of transition credit not appearing in their electronic records. In the absence of transition credit, paying taxes would mean cash outflow, which is a discouraging factor. It may be noted that under the GST laws, returns cannot be filed without payment of taxes. Therefore, there is a direct correlation between the non-filing of returns and non-payment of taxes.

Almost a year ago, e-Waybill was introduced with a view to create a digital trail and curb tax evasion. It has played a role in the detection of several cases of tax evasion.

Now, e-Waybill is familiar to the trade and it may be time to take it a step further. This could be the linking of the e-Waybill with the sales invoices/delivery *challans* in the GST returns. This would help identify and eliminate the possibility of using the same e-Waybill for multiple sales invoices, which leads to tax evasion.

Apart from the measures taken on the e-Waybill front, it may be time to look at introducing a reverse charge mechanism to a selected class of goods and services that are prone to tax evasion

Another measure that is already in the works is enabling the input tax credit only after the supplier has uploaded the sales invoice that has been accepted/confirmed by the recipient. Linking every sales invoice with a corresponding input tax credit was part of the founding framework of GST. It was discontinued due to complexities arising at the time of introduction of GST. It has now been proposed to launch this framework optionally from April 1 onwards and make it mandatory from July 1.

Apart from the above reasons, progressive reduction in tax rates, especially bringing goods in the highest tax bracket of 28% to 18% or lower, would certainly contribute to the reduction in GST collections. These reductions may not have been factored in when the budget was drawn.

The way forward

Apart from the measures on the e-Waybill front, it may be time to look at introducing a reverse charge mechanism, albeit very selectively, to a selected class of goods and services that are prone to tax evasion.

The GST Council has previously discussed incentivising digital payments by providing a discount to the GST rate. This needs to be reconsidered.

As a parting thought, one radical idea could be to provide set-off of central GST against income tax with appropriate thresholds for transactions that are designated as business to consumer. With the use of IT platforms, integration of reporting details akin to Form 26AS should not be a challenge. The ability to set-off GST against income tax liability could give leverage to the idea of capturing transactions that are susceptible to tax leakages.

OFFSETTING GST CREDITS

A tremor for the industry?

New mechanism can lead to accumulation of CGST credits and, in some cases, cash payment towards output SGST liability

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GST IS ALL SET TO mark 2nd anniversary in four months from now. Described as a 'good and simple tax', GST marks a fundamental shift from the way businesses were being done earlier. As the GST journey progressed, there was a growing realisation of its far-reaching impact. Industry faced various challenges, ranging from new and unique concepts, complex documentation, the high tax rates of certain goods and services to complex or unclear treatment of several common transactions. An important area under this new tax regime that benefited the industry the most in almost every segment is free flow of credits.

Unlike erstwhile indirect tax regime, where restricted credits were available to trading and services industry, GST brought a level-playing field for the entire community irrespective of the category of the industry, be it manufacturing, services or trading. Apart from extended credit base (barring few restrictions), the unique offset methodology as covered under section 49(5) of the Central GST Act made the credits fully fungible irrespective of the nature of the credit.

As per section 49(5) of the CGST Act, the IGST credit, which arises on account of interstate procurements or imports from outside India or procurements from SEZs, was allowed to be used for payment of CGST and SGST output liability once the input credit on account of input CGST and SGST credit was fully utilised. This method allowed companies to utilise the credits to its fullest and cash payouts were required only when the credits are fully exhausted.

The tax payment utility available on the government portal was customised to offset the SGST credit first with the SGST output liability and likewise the CGST credit was first allowed to set off against the CGST output liability. Once the SGST and CGST input balances are fully utilised for payment of respective output taxes, the IGST credit balance was allowed to be used towards the payment of CGST and SGST output liability in chronological order.

Recently, the government amendment the set-off mechanism of input tax credit to be effective from February 1, 2019. As per the amended set-off mechanism, which is covered under section 49A of the CGST Amendment Act 2018, a GST registered person is required to first utilise its entire IGST credit towards the payment of output IGST liability. The balance of IGST credit will then be used for payment of CGST and SGST liability, respectively. The credit balance available in the SGST and CGST credit pool can be used only when the IGST credit pool is fully utilised. The accompanying table shows the erstwhile set-off mechanism which was operational till January 31, 2019, and the revised set-off mechanism effective February 1, 2019.

Nature of input credit	Order of utilisation credit for payment of output liability		
	First	Second	Third
Erstwhile set-off mechanism applicable till January 31, 2019			
IGST	IGST	CGST	SGST
CGST	CGST	IGST	-
SGST	SGST	IGST	-
Revised set-off mechanism effective from February 01, 2019			
IGST	IGST	CGST	SGST
CGST	IGST	CGST	-
SGST	IGST	SGST	-

The revised set-off mechanism is applicable for utilisation of credit available on/after February 1, 2019. This means that taxpayers were required to follow the new mechanism while filing their GST 3B for the month of February, which was due on March 20, 2019.

While it seems the new set-off mechanism has been prescribed to minimise the fund settlement amongst central and state governments on account of IGST, the amendment has created an anomaly wherein credit of CGST will get accumulated and SGST output liability will have to be discharged in cash in certain cases.

The importers and companies having interstate procurement model have CGST credit balances lying in their credit pool as on date. A large chunk of credit was transitioned from the erstwhile tax regime through Tran-1. This segment of companies that are heavily reliant on imports or interstate procurements, such as retail stores, may be hit with this new offset mechanism. This will have significant working capital impact to such taxpayers.

The new set-off mechanism is going to result in accumulation of CGST credits and in some cases cash payment towards output SGST liability. Taxpayers whose local procurements are more than interstate procurements will remain unaffected with the new mechanism.

Also, taxpayers enjoying state incentives where the benefits are linked to payment of SGST (either in cash or through SGST credit) will suffer with this new set-off procedure. For companies with high interstate procurements, with combined credit of IGST and CGST exceeding total liability of IGST and CGST, the new set-off mechanism is going to create challenge in terms of accumulation of CGST credit balance and at the same time cash payout towards SGST liability.

The new set-off mechanism which is already effective will disrupt the fundamental advantage of fungibility of credits. No ability of set-off the available credits can in one way be viewed as tax on tax or cascading of taxes which was the challenge under the erstwhile tax regime.

India Inc expects the government to reconsider these aspects and take course correction or as an alternate companies may need to consider to alter their supply-chain models (move from centralised distribution model to decentralised distribution model) to achieve efficiencies. However, any alternate arrangement at the end of India Inc could lead to various other nuisances such as supply-chain realignment, redefining IT systems to cater to new features, contract disruptions and much more.

(*Kishore Kumar, director, and Anubha Aggarwal, associate, contributed to the article.*)