Opinion

TUESDAY, MARCH 5, 2019

STRIKING FOR PEACE

President Ram Nath Kovind

India remains firmly committed to peace, but in case the need arises, we will use all our might to protect the nation

RBI must challenge NCLAT attempt to cut its powers

If NCLAT rules that classifying IL&FS loans as NPAs needs its explicit approval, this can be extended to other loans as well

IF IT WASN'T bad enough that the Essar Steel resolution continues to drag in the country's courts—for close to 550 days now—thanks to the Ruias making a last-ditch effort to retain control of the company, the National Company Law Appellate Tribunal (NCLAT) has added another twist to the NPA saga by saying IL&FS's loans can't be declared as NPAs without its explicit approval. If it wasn't bad enough that NCLAT is trying to muscle in on the central bank's territory—it is RBI that lays down guidelines on how NPAs are to be classified—the country's Supreme Court (SC) is also examining the legal validity of RBI's February 12 circular that makes reporting on NPAs more stringent as well as automatic; under the circular, banks have to classify all loans as stressed if there is even one day of delay in repayment and any defaulting loan where a settlement has not been reached for 180 days has to automatically be referred to the NCLT for resolution. If the country's courts, from the NCLAT to SC, are going to overrule RBI, and in effect prevent genuine recognition of dodgy loans, it will never be possible to know if the country's banking system is safe or not.

Ironically, till a few years ago, RBI itself was way behind the curve in identifying NPAs. In even its December 2015 Financial Stability Report (FSR), RBI was projecting a 4.9% NPA level for March 2016 and a 5.2% level for September 2017 in the baseline scenario; the actual NPA levels, it turns out, was 7.6% in March 2016 and 10.2% in September 2017. It was only in June 2016 that the FSR started projecting somewhat more realistic numbers after the Asset Quality Review (AQR); as a result of the AQR, gross NPAs rose sharply to 7.6% of gross advances in March 2016, from 5.1% in September 2015. While RBI believes the worst of the NPA crisis is behind us—the latest FSR projects NPAs falling from 10.8% in September 2018 to 10.2% in September 2019—this assumes that several deeply indebted sectors today like telecom, steel, real estate or electricity won't have a problem with debt repayments.

This may be quite optimistic. Even now, Credit Suisse data shows that the share of total debt that is held by companies that have an interest cover of less than one is still a high 42%, though this is lower than 43% in the previous quarter. Within this, while real estate debt is as high as ₹5 lakh crore, this has been growing at over 20% per year over the last five years. In the case of telecom, where debt levels are around ₹3.25 lakh crore, Credit Suisse points out that all this debt is owed by companies with an interest cover of less than one. And, in the case of steel, 35% of all debt is owed by firms that have an interest cover of less than one despite all the government protection. Around 45% of power sector debt—of over ₹2 lakh crore—has an interest cover of less than one; these are assets that don't have gas supplies (10,600MW), or PPAs (20,000MW) due to SEBs being cash-strapped, or huge overdues (12,000MW) for the same reason.

In other words, the banking sector continues to be one where, despite recent successes in lowering NPA levels, including solutions emanating from the recently-introduced Insolvency and Bankruptcy Code (IBC)—the government estimates recoveries of around ₹2.5-3 lakh crore have been made so far due to IBC—the levels of stress can once again rise quite quickly. In such a situation, it is vital RBI is able to ensure banks classify their dodgy loans correctly; in any case, any loan that is classified as an NPA and for which provisioning needs to be done can be written back as a profit when the loan is no longer dodgy. If the NCLAT and other courts interfere, however, RBI will no longer be able to ensure the banking system is truly safe.

Consumption is the key

Won't be easy to stimulate either govt or private spending

AS ANTICIPATED, MUCH of the slowdown in the economy during Q3FY19—growth came in at just 6.6% year-on-year (y-o-y)—was due to slower government consumption and, to a lesser extent, moderating private consumption. Government consumption moderated to 6.5% y-o-y from 11.1% y-o-y in Q2FY19. Private final consumption expenditure increased at a lower 8.4% y-o-y, from a revised 9.8% y-o-y in Q2FY19. Even this is hard to comprehend given the festive season was one of the dullest ever, resulting in weak sales of durables such as cars.

Tighter financial conditions since September 2018, after the crisis in the Non-Banking Financial Companies (NBFC) space, have choked off the flow of credit to consumers. Liquidity will remain tight given the relatively slow growth of deposits, making loans costlier for consumers. Again, much of the consumer credit has been in the form of unsecured loans, and banks will be forced to cut back on these. The big drag on consumption from the subdued agriculture growth—just 2.7% y-o-y in Q3FY19, and the slowest in 12 quarters—will remain, given the rabi crop is expected to be only a modest one. At least 30% of the sales of consumer durables and staples now emanates from rural India, so these will be impacted by the relatively weak purchasing power in the hinterland. Also, slowing global growth will exacerbate the cyclical slowdown, not just hitting exports but also singeing both manufacturing and investments. That, then, will keep consumption subdued because very few new job opportunities will be created.

To be sure, the large amounts of FDI flowing into the e-commerce sector are resulting in jobs—both for the skilled and unskilled. But that is not enough to keep consumption growth at the current pace. Given much of the local investments are being channeled into buying stressed assets—either via the IBC route or otherwise—no new jobs are being created. Thus, even the limited investments won't sustain since promoters don't have unlimited resources, are fairly leveraged and are unlikely to take big bets until the elections are over. Indeed, even if RBI trims the repo rate by 50 basis points, it won't have much of an effect since the liquidity in the banking system will probably stay in a deficit with the currency in circulation remaining elevated. To be sure, there will some election-related spending on automobiles and other items, but that will taper off in a few months. Unfortunately, government spending which has been holding up consumption in the last couple of years will remain muted since tax revenues have fallen way short of targets. The relatively poor GST collections threaten to crimp government expenditure in 2019-20, too. Also, off-budgetary spends have been uncomfortably high and could be curtailed further, and that will lower spends.

NoBullPRIZE

A peace Nobel for Imran Khan can wait, the Pakistani leadership must first stop lying on support to terror

ASKING FOR A Nobel Peace prize for Pakistani prime minister Imran Khan would have required a rather rare form of lack of shame on the part of the Pakistani information minister Fawad Chaudhry. You could be kind and think, perhaps, the minister bought the Pakistani propaganda about peace overtures in the latest conflict with India hook, line and sinker. But it is more likely that, given the stakes involved, he had to go the whole hog in trying to project Imran Khan's stance—and indeed, Pakistan's—as one of peace-preserving, and thus, there was no room for even a soupcon of shame. Even if that meant being revoltingly blasé and outlandish and beg for a Nobel for Khan, so be it. Khan, thankfully, showed trace amounts of grace, saying that he is not worthy of the prize, but the prize should go to someone who works for a peaceful solution to the Kashmir problem, keeping in mind the wishes of the Kashmiri people.

If that be the bar, the Pakistani side might as well give up any Nobel dreams. Whether or not you believe it was the Indian government's aggressive military and diplomatic tactics that forced Pakistan to plead for peace, it is impossible to deny that Pakistan's military and civilian leadership has, for decades, undermined any scope of a peaceful solution to the Kashmir question. Its support to terrorist groups—the Pulwama attack has exposed its forked tongue on terrorism to the world—its role in fomenting trouble in the Valley through hawkish and 'moderate' separatists, etc, suggest no individual or regime from Pakistan has ever been interested in a peaceful solution. On the other hand, AB Vajpayee, Manmohan Singh and Narendra Modi, all extended the hand of friendship, only to be spat at. Pakistan's lies have caught up with it time and again—from the Mumbai terror attack investigation to the US military raid that killed Osama binLaden, there are enough instances of Pakistan's duplicity getting exposed. Peace Nobel is a rich demand, Pakistan must first assure the world that it no longer dishes out sheer bull on supporting terror.

GST

THE GST COUNCIL SHOULD HAVE A SECRETARIAT, WITH MEMBERS HAVING STRONG DOMAIN EXPERTISE TO UNDERTAKE RESEARCH TO IMPROVE THE TAX SYSTEM

Need to avoid distortions

M GOVINDA RAO

The author was Member, Fourteenth Finance Commission. Currently, he is a Counsellor, Takshashila Institute

Views are personal

EVER SINCE GST was implemented on July 1, 2017, a number of changes have been made in a series of meetings by the GST Council to make the system more rational and operational. Of course, in most countries where GST is introduced, it takes time to settle down, and changes are mostly to do with operational details. The changes that have been made in India have been far more frequent and basic, dealing with both the structure and operational details. Changes have also been made on the threshold, limit for composition, periodicity and simplification of returns, particularly for small tax-payers. The two important reasons for this have been our inability to move away from the past and inadequate time for the preparation of the technology platform.

The latest announcement of reduction in the rates of GST for under-construction houses to 5% and affordable houses to 1% has received mixed reactions. While some have hailed it as 'boost to real estate', others have stated that it is 'a patchwork approach' and does not qualify to be called a GST without input tax credit. Having experienced the functioning of GST in the country for the last 20 months and seen the frequent changes that have been made, it is important to learn lessons from the past and make changes in a calibrated manner to settle down to a stable GST regime without violating its fundamentals. The most important advantage of GST is its transparency and self-enforcing nature. It is also important to see that the reform helps in the formalisation of the economy. The critical element that helps formalisation is its input tax credit mechanism.

There is nothing wrong in making calibrated rationalisation of the tax as we gain experience. However, as mentioned earlier, the number of changes and their frequency depends on how well we have structured the tax in the first place. In the case of India, the basic flaw was the number of rates and the way in which various commodities and services were 'fitted' into different rates. The committee under the chairmanship of the then Chief Economic Adviser for determining the rate structure recommended a "high rate" of 40 per cent on demerit goods in addition to a low rate and a standard rate. The Committee was perhaps not sure that the two rates will be revenue neutral and therefore, introduced the third rate. Eventually, the GST Council decided to have five different rates of 0%, 5%, 12%, 18% and 28%. It later introduced two more rates—0.25% on rough diamonds and 3% for gold. In addition, for compensating the states for any loss of revenue, it introduced cesses at three different rates. The "fitment committee" of the GST Council seems to have added the earlier sales tax rates with the Union excise duty rates and fitted the commodities to the rate that is the closest. In the process, it lost the opportunity to rationalise the rates by by avoiding the defects of the previous tax regime.

Writing on GST in 2001, I had stated that there is no unique GST—it is neither a "Gorilla, nor a Chimpanzee but a Genus like Primate" (EPW. February 12, 2011). Each country should adopt the structure it considers appropriate, but the fundamental character of the tax must not be compromised. In choosing so many rates, the tax got complex, created classification ambiguities and, often, input tax credit exceeded the output tax payment giving rise to an inverted duty structure. In fact, the defects of the earlier sales tax system where inputs were taxed at lower rates than the outputs giving rise high incentive to evade the tax by suppressing the output value. In GST, since input tax credit is given when the output is taxed, it is inappropriate to tax inputs and outputs at different rates. The ideal structure that IMF recommends is one rate, but many countries levy the tax at two rates—a lower merit rate and the general rate. If articles of sumptuary nature need to be taxed at high rates, a separate excise tax is levied. However, India is unique in having so many rates and this is bound to create complexities as mentioned above. As the rate fixation has been done in a mechanical manner, there will be many more changes. Of course, the past legacy may not permit us to have one rate of GST, but a structure with too many rates merely on the grounds that it existed before and our common 'belief' about necessities and luxuries without knowing their employment intensity cannot be considered rational.

> **The decision to reduce the rate for under-construction houses to 5% and affordable houses to 1% is retrograde. Without input credits, the costs could rise, giving real estate an incentive to become even more informal**

The GST Council has shown a remarkable flexibility in making some important changes. In particular, reclassification of a number of items taxed at 28% under 18%-category is truly welcome and, hopefully, the 28% category will be done away with altogether in not too distant a future. Over time, it would be useful to converge the 5% and 12% rates into one rate of 10% to substantially simplify the system. Much remains to be done to make the rate structure rational and perhaps, the GST Council should have a secretariat, with members having strong domain expertise to undertake research to improve the tax system. The patchwork changes will only complicate the tax system further.

In this context, the decision to reduce the tax rate for under-construction houses to 5% and affordable houses to 1% is retrograde. In the earlier system, GST for under construction houses was levied at 18% and with one-third value for land assigned, the effective rate was 12% and the tax on affordable housing was 8%. This has been brought down to 5% and 1%, respectively. Clearly, housing is a heavily taxed sector. Besides varying rates of stamp duty across states, we also have a capital gains tax. Given the high cumulative incidence of taxes on housing, the rate of return for remaining informal and undervalue the property transactions to evade the taxes is high. More importantly, the Council should have seen that many inputs such as cement, marble, granite and paint are all taxed at 28% which add to the input cost enormously and not giving input tax credit will not only result in high costs but also low compliance. The suppliers of these inputs may collude with the builders to suppress their sales and discontinuing the input tax credit will not leave any paper trail. In other words, rather than making the system formal, the recent changes will simply help in making the housing market even more informal. Perhaps, the Council should have brought down the tax rate on inputs mentioned above from 28% to 18% or even 12% to avoid the high burden on the construction industry. This would have simplified the tax, retained the paper trail and avoided the inverted duty structure. To avoid such patchwork approach, the council needs a strong secretariat with domain expertise.

For EU, hell is two more years of Brexit

long delay to the Brexit process is bad for everyone, both in the UK and Europe. The European Union should quit while it is still ahead

LIONEL LAURENT

Bloomberg

For some British politicians, the idea of delaying Brexit—even if it means averting the economic self-harm of crashing out of the EU without a deal—is an outrage.

One of prime minister Theresa May's ministers has quit over the prospect of a parliamentary vote on extending the Brexit process if a deal can't be approved in time, calling it a "humiliation." Arch-Brexiter Jacob Rees-Mogg says it smacks of a "plot to stop Brexit" and would undermine democracy. Bluster aside, they may have a point. If there is one thing both the UK and Europe should agree on, it is the danger of a long Brexit delay.

Extending the two-year process for negotiating the terms of Brexit beyond the current March 29 deadline would make sense if it meant avoiding an outcome that neither side wants, or intends, to happen. If May's withdrawal deal were to win parliamentary approval later this month, there would obviously be no objection to a short technical extension to avoid unforeseen hiccups. Likewise, if parliament voted down her deal but requested a one-off delay of a few months, it would be hard for the EU to refuse. No European leader wants the blame for rushing into the abyss of a no-deal Brexit, which would damage the continent too.

The problems start when toying with the idea of a much longer extension. *Bloomberg News's* Ian Wishart reported last month that one option mulled by the EU was delaying the departure date until 2021. While dismissed by some as a scare tactic, some member states are clearly open to kicking the can down the road for a year or two. The benefits would be twofold: The EU's members would dodge a no-deal scenario and the UK parliament would have time to go back to the drawing board. If May's vision of Brexit isn't working, perhaps other ideas—a customs union? copying Norway? not leaving at all?—might gain traction.

But this faith in time being a healer hasn't been supported by recent events in Britain. Votes in the House of Commons last week showed there was no majority for the Labour Party leader Jeremy Corbyn's alternative Brexit plan, including a permanent customs union with the EU. Norway-style access to Europe's single market is also opposed by both the Conservative and Labour parties. We are two years on from triggering Article 50, the countdown to March 29th. If there's no parliamentary majority now for May's deal, the idea that more time can create a new consensus in a divided UK looks like a fantasy worthy of JK Rowling.

The Harry Potter author is herself a supporter of a second referendum—or People's Vote, as some remainers call it—and the europhobic Corbyn has reluctantly thrown his weight behind that option after failing to win parliament's backing for his customs union approach. But there's no majority among lawmakers for this choice either, let alone any certainty that the result would be any different.

A long delay to Brexit might also lead to fresh elections in the UK, but again there's no guarantee that this would break the gridlock. The last national vote in 2017 merely made it harder for any particular Brexit option to succeed. It would be highly risky for Brussels to bet on a post-May era for British politics before Westminster does.

The EU needs to accept the fact that any significant delay would be an own goal for the bloc. Over the next six to eight months, a new European Parliament will be elected and a new European Commission appointed. For Britain still to be involved in these decisions, even on a purely symbolic basis, is hugely distracting. At best, it would confuse citizens—one survey by Euronews found 28% of French and Italian people thought the UK had already left the EU—and clog up the gears of EU institutions that have plenty of other fires to fight. At worst, it will encourage the UK to keep trying to divide Europe and unpick the threads of the agreed deal. Georgina Wright, of the Institute for Government, warns that France and Spain might be tempted to reopen the agreement to extract more national advantages.

With luck, talk of a delay will encourage the hardline Brexiters among May's lawmakers to grab herdeal "with both hands," as Kenneth Armstrong, Professor of European Law at Cambridge University, puts it. But even if the fear of "Brexiternity" doesn't sway Rees-Mogg and his chums, the EU should quit while it is ahead.

This column does not necessarily reflect the opinion of the editorial board or Bloomberg LP and its owners

LETTERS TO THE EDITOR

The charm of foldable phones

Apropos of the news story "Trending now: Foldable phones" (FE, March 3), global giants such as Samsung, Huawei and TCL are leading the race to market smartphones that can also work as tablets. There is nothing really new in this phenomenon. If you go back 15 years, there used to be a device called the Communicator from Nokia. It was a business-optimised smartphone that used to appear as a normal phone on the outside, but you could open it in a clamshell format to access a Qwerty keyboard and an LCD screen nearly double the size of the device. These devices, unfortunately, bombed. The reasons were a high price, and also that these devices were difficult to use compared to a phone, and bulkier to carry, say, in your jacket pocket. That age of experimenting with newer shapes and sizes never really ended, with companies successfully making and marketing phablets (smartphones that give you the practicality of a tablet and the handling of a phone), so much so that, today, most phones are actually phablets. For these new foldable phones to succeed, companies have to get three things right: price, ease-of-use and practicality. Remember, a phone is all about convenience (including using it on-the-go), and if customers find these foldable phones even a little bit inconvenient, companies are in trouble.

— Praveen Kumar, Delhi

Post Pulwama

The government needs to ensure that the credit for teaching Pakistan a lesson is given to whom it is due—our armed forces.

— Sumona Pal

●Write to us at feletters@expressindia.com

Regd. No: DL -21048/03-05. R.N.I. No.26750/74. Printed and Published by R.C. Malhotra on behalf of The Indian Express (P) Limited and printed at The Indian Express (P) Limited Press, A-8, Sector-7, Noida - 201301 and published at The Indian Express (P) Limited, Mezzanine Floor, Express Building, 9 & 10, Bahadur Shah Zafar Marg, New Delhi-110002. Phone: 0120-6651500, Fax: 0120-4367933. (Cover price: Patna: Mon-Fri ₹6, Sat ₹9, Sun ₹11; Raipur: Mon-Fri ₹7, Sat ₹10, Sun ₹10)

Chairman of the Board: Viveck Goenka, Managing Editor: Sunil Jain, Deputy Managing Editor : Shobhana Subramanian* (*Responsible for selection of News under the PRB Act)

ILLUSTRATION: ROHIT PHORE

SEEMA BATHLA & ABHISHEK JHA

Bathla is professor and Jha is a research scholar, Centre for the Study of Regional Development, Jawaharlal Nehru University (JNU), Delhi

Accelerating primary and value-added agricultural exports

Among the various non-tariff measures that India faces on both primary and processed exports, the topmost are food quality, sanitary and phytosanitary and health-related issues, and those too in the key markets of the US, the EU and the ASEAN. The incidence of non-tariff measures has been increasing, and also there is little understanding and transparency of the existing restrictions

THE CABINET APPROVED the first Agriculture Export Policy in December 2018, with the aim to double farmers' incomes and increase agricultural exports to $60 billion by 2022. The policy also focuses on a stable trade regime, diversify exports by products and destinations, and promote perishables and high value-added products. In fact, a sum of ₹1,400 crore has been assigned to set up specialised clusters in different states for different produce.

The target, although ambitious, seems achievable in view of India's rapidly growing food processing industry. From 1981-82 to 2014-15, fixed investment in the organised food and beverage industry across 20 major states increased from ₹6,21,875 lakh in 1980-81 to ₹1,06,44,385 lakh, with an annual rate of growth at 9.54% (at 2004-05 prices). The real gross value-added has increased manifold to reach ₹32,94,243 lakh at an annual growth rate of 5.4% during this period. It appears that the concerted efforts of the ministry of food processing industries to increase private investment through fiscal incentives and other measures have reaped the benefits. Some other initiatives such as investments in mega food parks with state-of-the-art infrastructure and processing facilities, allowing 100% greenfield investments, and incentivising capital subsidy are also gaining ground.

However, the question must be asked: Whether such policies and incentives can help India to be a vivid exporter of processed/value-added agricultural products? A close inspection of the value and share of India's agricultural exports makes it look equivocal. Agricultural exports stood at $5 billion at the dawn of the opening up of the domestic markets to the world in 1995, and impressively reached $36.8 billion in 2017. In terms of share in total exports, agricultural exports have truncated from 18.2% to 11.68% during the same period. This clarifies that the value of agricultural exports has burgeoned, but their representation in the export basket has plummeted, implying a relatively higher value of non-agricultural products. The lower value of exports can be explained by the fact that India's export basket consists mainly of low-value and semi-processed commodities such as rice, wheat and marine products.

Further, as much as 76% exports are primary—those that undergo minimal processing such as cleaning, sorting, refrigerating and converting paddy into rice. A 4% increase in their share has been reported in recent years on account of exports of live animals, bovine meat, frozen fish, crustaceans, cereals, flour, groundnut seed, soybean seed and meal, onion, tea, and spices. The remaining 20% share is of processed and value-added products, which entail extensive processing of both raw and semi-processed commodities, such as processing of barley to produce beer or making cheese from milk, or seed to edible oil. There is little increase in their share, even though the export basket has, of late, slightly diversified towards chocolates, wafers, sweet biscuits, preserved edible fruits and nuts, mixed seasoning and sauces, ice-cream, and meals and pellets for fish. In a way, it reflects a growing competitiveness of Indian agriculture, but largely in low-value primary produce.

The estimated revealed comparative advantage (RCA) index also shows much higher values for primary products compared to the processed and value-added ones. The main value-added products that are competitive in the world markets are sugar in solid form, extracts and essence of tea and coffee, oilcakes, manufactured tobacco, and preserved fruits and vegetables. This cogently indicates that the food and beverage industries lack cost-competitiveness and, hence, India may find it difficult in meeting the stated export targets.

The Indian industry has to compete with the major global players, including China, the European Union, Australia, the United States and Canada. Presuming that it is able to bring in better technology and resource-use efficiency to compete in the export markets, non-tariff measures imposed by other countries would act as deterrent. It is also mentioned that the Agriculture Export Policy will provide an institutional mechanism to pursue market access, tackle barriers, and deal with sanitary and phytosanitary issues. However, it does not clearly specify the modus operandi for the same.

Among the various non-tariff measures that India faces on both primary and processed exports, the topmost are food quality, sanitary and phytosanitary and health-related issues, and those too in the key markets of the US, the EU and the ASEAN. The incidence of non-tariff measures has been increasing, and also there is little understanding and transparency of the existing restrictions. Many regulations are poorly designed, failing to protect the public while unnecessarily complicating the business. For instance, many countries have complicated rules for imports of pharmaceuticals, which nevertheless fail to prevent the widespread traffic of counterfeits. This may be explained by the fact that regulations are often enforced in punitive ways, reflecting an anti-business culture of many administrations.

India must initiate a dialogue regarding the standardisation of non-tariff measures at the WTO, and also take steps to improve the quality of its fresh and processed products, and upgrade standards

Going forward, it is imperative for India to initiate a dialogue regarding the standardisation of non-tariff measures at the WTO platform. In addition, non-tariff measures typically span the competencies of several ministries, with hardly any coordination mechanisms to make the necessary trade-offs. The way forward would also require India to undertake several domestic measures to improve the quality of its fresh and processed products, and upgrade standards. Yet, in case of any discrepancy and unreasonably high standards set by the importing countries, the exporters and export promotion agencies can raise concerns at both bilateral and multilateral forums. For this, there is a need to have scientific research and adequate data to establish a case.

New era of tax transparency

RAHUL GARG & ANURAG DUA

Garg is partner & leader, Tax Technology, and Dua is partner, Government & Public Sector, PwC India. Views are personal

How the Budget boosted technology-driven initiatives in income tax

TECHNOLOGY HAS TRANSFORMED the face of tax administration in India, benefiting taxpayers and authorities alike. Electronic interface replacing manual transactions over the years has not only enhanced the taxpayer experience and the efficiency of tax authorities tremendously, but has also heralded a new era of tax transparency. Even adoption of technology by corporates in their tax functions has been catalysed by the use of technology by the tax department. The finance minister's announcement in the Budget speech is a clear indication of the recognition of the importance of technology in tax functions and the confidence of the department in its ability to achieve its goals by using technology.

That the Income Tax Department has been at the forefront in adopting technology is not an overstatement. The department is the torchbearer in digital adoption (even ahead of the private sector at times). Initiatives taken in the last decade to leverage technology are testimony to this—be it the Centralised Processing Centre (CPC) in Bangalore for processing I-T returns in an automated, rule-based manner, or the TDS CPC, a transformational initiative undertaken by the department for TDS administration. Initiatives for e-filing of income tax round the clock and providing single-window access to income tax-related services for citizens and other stakeholders have revolutionised the landscape.

Adoption of technology has been backed by process re-engineering, and has helped the department create a foundation for administering a fast-growing tax base, with an ever-increasing focus on taxpayers' experience and voluntary compliance. Numbers back the success story. As pointed out in the Budget, tax collections have increased significantly from ₹6.38 lakh crore in 2013-14 to almost ₹12 lakh crore this year. The number of returns filed has also risen from 3.79 crore to 6.85 crore, showing 80% growth. The Budget has laid a roadmap for taking technology-related initiatives forward. The finance minister spoke about two major initiatives. These encompass processing of returns within 24 hours, with refunds issued simultaneously, and the department's shift towards a regime where all verification and assessment of returns will be done electronically, in an anonymous manner, without there being any physical interface between taxpayers and tax officers.

The first project announced is the ₹4,241.97 crore Integrated E-filing and Centralised Processing Centre 2.0 Project, which was approved by the Cabinet on January 17, 2019. This next-generation income-tax e-filing system will cut down the processing time for returns to less than 24 hours and credit refunds to taxpayers' bank accounts expeditiously. This means the turnaround time for processing of returns will be reduced to hours. The system will also help enhance taxpayers' awareness and knowledge through continuous engagement, and help improve tax compliance while ensuring transparency and accountability. In line with digital transformation under Digital India, the new solution aims to revamp taxpayers' experience, and at the same time promote voluntary tax compliance and reduce tax arrears.

The other initiative is the Income Tax E-Assessment Scheme, which is a part of the government's ambitious plan to establish a countrywide paperless system of interface between the taxman and the assessee. This initiative seeks to ensure that "no person will be required to appear personally or through an authorised representative before a designated authority (of the I-T Department) in connection with any proceedings," which implies jurisdiction-less and faceless service delivery. Minimising physical touchpoints will certainly be a transformational change aimed at bringing in transparency in the system. E-assessment will be further strengthened by the intelligence generated through the Project Insight of the I-T Department.

Apart from these, there are several other initiatives being taken by the direct and indirect tax departments. The implementation of a state-of-the-art technology backbone for rolling out GST is a great example of adoption of digital technology by the government and businesses alike.

Technology-driven innovation is key to achieve the tax policy's objective of a wider tax base, resulting in moderate rates. Newer technology propositions are being adopted by the tax department and businesses, and it seems that in the not-too-distant future all tax-worthy people would hold their heads high by paying desired taxes and no one would face challenge of unreasonable tax assertion.

Emerging technology-driven initiatives will bring in new synergies between the tax department and taxpayers, and transform the way income tax is administered in India.

INF TREATY

Bringing back the Cold War rivalry

Is the world, especially the US and Russia, moving from 'passive aggression' to 'active aggression'?

MARTAND JHA

Senior research fellow, School of International Studies, JNU, Delhi

THE FIRST DAY OF last month started with an explosive news in the arena of global security, when the US Secretary of State Mike Pompeo announced that the US is pulling out of the Intermediate-Range Nuclear Forces (INF) Treaty. Four days later, on February 5, Russia followed suit, bringing the INF Treaty to a collapse. This treaty was signed in 1987 between the then US President Ronald Reagan and Mikhail Gorbachev, the head of the USSR. It required the US and the Soviet Union to eliminate and permanently forswear all of their nuclear and conventional ground-launched ballistic and cruise missiles with ranges of 500-5,500km.

As per the Arms Control Association, "This was the first time in the Cold War history that the two superpowers, i.e. US and USSR, had agreed to reduce their nuclear arsenals, eliminate an entire category of nuclear weapons, and utilise extensive on-site inspections for verification. As a result of the INF Treaty, the US and the Soviet Union destroyed a total of 2,692 short-, medium-, and intermediate-range missiles by the treaty's implementation deadline of June 1, 1991."

The action and reaction of the US and Russia, respectively, with respect to pulling out of the INF Treaty reeks of a hawkish move by both the parties. This may led to a significant increase in the global nuclear arms race and an increase in frictions between the already strained relations of the US and Russia in the recent past. However, the decision by the US to pull out of the treaty is not a surprise to many experts who have been observing the US stance on the Russians violating the conditions of the treaty for a long time now. For the US, it was only a matter of time when they finally decided to call the shot on this.

This treaty was originally put in place to make the Euro-Atlantic region stable and secure. For a brief period in 1990s and early 2000s, the treaty did serve its purpose well, but a resurgent Russia under Vladimir Putin was making great strides to enhance its nuclear capabilities in the name of national interest. The US and its NATO partners have been accusing Russia of violating the terms of the INF Treaty for more than a decade now. Also, statements by Sergei Ivanov (ex-Russian defence minister) in the past added fuel to the fire when he termed the INF Treaty as the "relic of the Cold War" that "will not last forever."

The question is, why did the US took so long to pull out of the treaty and why not do it earlier? Pompeo did answer it while announcing the US withdrawal from the treaty when he said, "We provided Russia an ample window of time to mend its ways and for Russia to honour its commitment, tomorrow the time runs out."

But the more nuanced reason behind the US decision seems to be in the changing global nuclear politics of today. A powerhouse like China who has never been a party to INF has been increasing its nuclear stockpiles and enhancing its military capabilities, thereby alarming the security experts sitting in Washington. Secondly, Russia, despite being part of the treaty, has been found violating it time and again. Combining these two, the US found it to be in a losing position and a superpower like the US never wants to be in a situation where it has to play second fiddle.

A superpower is the one that maintains an absolute supremacy over every part of the planet. With a rising China and a resurgent Russia, the power of the US, especially in Asia, has been weakening, especially after China started behaving like a regional hegemon. By pulling out of the treaty, the Donald Trump administration wants to convey a strong message to Russia as well as China. Now when they are not a part of this treaty any more, the US can develop ground-launched missiles in order to keep Moscow's aggression in check.

What this would lead to is a fundamental change from 'passive aggression' to 'active aggression' between global powers, especially between the US and Russia, both of whom seem to be itching to bring back the Cold War rivalry onto the table. This is precisely what the advocates of nuclear disarmament fear the most.

The proponents of nuclear disarmament have always argued that a *treaty* is always better than *no treaty*. When a treaty is in place, and one side violates it, the moral power always rests with the other side. In this case, the US could have easily taken a high position with its allies and the larger international community backing it to pressurise Moscow to respect the terms of the treaty.

Of course, this would have demanded a big diplomatic effort on the part of the US to achieve this uphill task, but that would have allowed the US to have leverage on Russia, which, many argue, has been thrown away after the February 1 decision. The Russian response to the US was even less surprising as they wanted to respond quid pro quo. Now, Russia fully intends to build new missiles, including the hypersonic ones, which would mean bringing any possibility of disarmament talks with the US extremely less likely.

To conclude, with the INF Treaty becoming a part of history, all eyes are set on the fate of other global nuclear arms reduction treaties such as the New START (Strategic Arms Reduction Treaty), which, many fear, could reach the same end, thereby increasing the global arms race.