"You (Shah) said none will lose citizenship. But now you are (also) saying neither PAN, nor Aadhaar will prove citizenship. Then what will work? An amulet from the BJP?"

MAMATA BANERJEE, West Bengal chief minister

"India is home for people of the 6 non-Muslim communities facing religious persecution. Should not they be given Indian citizenship? Where will they go?"

J P NADDA, BJP working president

"We have to ensure environment protection and growth together. In the last few years, it was portrayed that environment and development are enemies. Not true"

PRAKASH JAVADEKAR, Union environment minister

Promised GST growth to states may get trimmed

Law mandates protection of 14% growth in state revenues from Centre's books

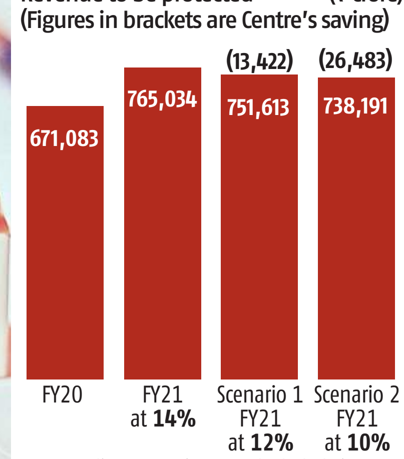
ABHISHEK WAGHMARE

New Delhi, 18 December

CHANGING MODEL

Centre might save ₹25,000 cr by trimming revenue guarantee to states

Revenue to be protected (₹ crore)
(Figures in brackets are Centre's saving)



Source: Parliament, *Business Standard* calculations

The annual growth in goods and services tax (GST) revenue promised to states under the GST law could be slashed to either 12 per cent or 10 per cent from the current promise of 14 per cent from next year, *Business Standard* has learnt.

However, this change is only under consideration, and if states agree to come on board, it could take place only in the next financial year, officials told on the condition of anonymity. States would vehemently oppose such a proposal, it is being said.

In fact, sources said that this idea was discussed during the presentation given by chairman of the 15th Finance Commission (15th FC) N K Singh, in the previous GST Council meeting.

"Doing such a change immediately is off the table, but in the long term, it would be considered," said a senior government official.

The GST council on Wednesday may not have discussed this issue in detail. Finance minister Nirmala Sitharaman told reporters that further analysis is required on revenue augmentation and compensation cess matters.

Under the law, the Centre is bound to "protect" a 14 per cent growth in states' GST revenues, and if shortfall arises, compensate it to the tune of the amount of shortfall, till June 2022. The GST Council has introduced, and levies, compensation cess on certain items over and above the GST rate to compensate states.

Pratik Jain, partner and leader at PwC India, said the issue of compensation to states is becoming more complex and all the stakeholders will have to try to make it a self sustainable model so that this compensation is not needed after five years. "One option for the Centre is to engage with states to see if the percentage of 14 per cent annual growth can be renegotiated to a lower rate with increase in period of compensation beyond five years," he said.

If the protected growth in GST revenue is reduced to 10 per cent, the Centre would save more than ₹25,000 crore in 2020-21 if none of the states show any revenue growth.

This would nearly amount to 0.1 per cent of the gross fiscal deficit of union government. This would aid in avoiding fiscal slippage to some extent in subsequent years.

This number has been derived from the data presented by the finance ministry to the Parliament.

In a way, while states would potentially lose slices of revenue "to be protected" if they fail to achieve 14 per cent growth in GST revenues themselves, but the Centre would gain an amount equal to summation of slices for all states. In the hypothetical case mentioned above, Maharashtra's revenue to be protected will reduce the most (as it is the topper in revenue collection) by ₹4,000 crore, and that of Karnataka and Tamil Nadu, by ₹2,500 crore and ₹2,000 crore, respectively.

If the guaranteed growth in revenue-to-be-protected is slashed to 12 per cent, Centre would gain somewhat less than ₹15,000 crore in the deal.

Experts said that such measures seem in line with the current subdued revenue trend for both Centre as well as states.

"With slowing revenues, the Centre might not be able to guarantee 14 per cent growth every year from now on," said Sacchidananda Mukherjee of National Institute of Public Finance and Policy (NIPFP).

Further, such a change would require an approval of the GST Council and subsequent changes in the GST law, which would need parliamentary approval too.

Apart from states in the north east, which have a low share in overall national GST revenue, no other state has been able to clock a 14 per cent growth in GST revenue on its own. There is a possibility that states would demand an extension in the compensation period beyond June 2022, and they would have to accept a slower growth in protected revenue in the bargain.

"The Compensation cess and the revenue protection guarantee is the centripetal force that binds the states to the Centre in the GST Council. If the compensation and cess go away, what incentive would states have," Mukherjee added.

Fiscal deficit likely at 107% of FY20 target

ARUP ROYCHOUDHURY

New Delhi, 18 December

The Centre will have to start a heavy compression of expenditure to meet the fiscal deficit target

The Centre's fiscal deficit for April-November likely stood at 107 per cent of the fiscal year 2019-20 (FY20) target of ₹7.04 trillion, said senior government sources. This compares to 114.8 per cent for the same period in FY19, and 102.4 per cent till the end of October this year.

The April-November fiscal deficit data will be officially released on 31 December.

"At end-November, fiscal deficit is at 107 per cent of the full-year target," said an official. In absolute terms, that comes to around ₹7.53 trillion.

This means that for the remaining four months of the fiscal year, the Centre has to heavily compress its expenditure in order to meet the fiscal deficit target, which has been pegged at 3.3 per cent of gross domestic product (GDP). For the first half of the fiscal year (April-September), fiscal deficit was at 6.6 per cent of GDP.

However, as reported earlier, the Narendra Modi government is highly likely to miss its fiscal deficit target. It could be between 3.5 per cent and 3.8 per cent of GDP. A final call on what it will be, within the 3.5-3.8 per cent range, will be taken by Finance Minister Nirmala Sitharaman and her Budget team after the advance tax numbers are available in mid-December.

With the deficit at 3.3 per cent of GDP, the government assumes a nominal GDP growth of 12 per cent in FY20. Officials now concede that nominal GDP growth for the year will nowhere be close to 12 per cent. The nominal GDP growth for April-June was 8 per cent and that for July-September was 6 per cent.

With the Reserve Bank of India's latest forecast of 5 per cent real GDP growth for 2019-20, even a 3 per cent deflator would take nominal GDP growth to around 8 per cent.

This means that theoretically, even if the fiscal deficit for the year is ₹7.04 trillion, as a percentage of GDP, it will shoot up to around 3.5 per cent. Given the revenue scenario, that seems difficult.

While the divestment target is expected to be met and non-tax revenues could even be exceeded, tax revenues remain a major cause of concern and a shortfall of at least ₹2 trillion is expected in gross tax revenue.

The central GST collection fell short of the Budget estimate by nearly 40 per cent during the April-November period of FY20, according to the data presented in Parliament on Monday. The actual CGST collection during April-November stood at ₹3.3 trillion while the budgeted estimate was ₹5.26 trillion for these months, Minister of State for Finance Anurag Singh Thakur said in a written reply in the Lok Sabha.

IN BRIEF

Nirbhaya case: SC confirms death sentence, but no warrant for now

A death warrant for hanging the four convicts in the Nirbhaya case will not be issued by a city court for now as it gave a week's time on Wednesday to know whether they are filing mercy petitions, hours after the Supreme Court dismissed the last review plea against the capital punishment.

As Additional Sessions judge Satish Kumar Arora adjourned till January 7 the hearing on applications by Nirbhaya's parents and the Delhi government for issuing the death warrant, the girl's mother broke down in the court and asked where are the rights of the victim. "The court can issue death warrant. Nothing prevents the court from issuing death warrants," the lawyers for the parents and the Delhi government told the court, maintaining that the convicts were resorting to delaying tactics.

Nirbhaya's mother again fought back tears during a brief media interaction outside the Patiala House court complex and demanded a speedy hanging.

"The convicts have been given one more chance. Why are their rights being considered? What about our rights?" she asked, adding, "There is no guarantee that a final judgement will be delivered on the next hearing as well." Nirbhaya's parents watched the proceedings in the 2012 gang-rape and murder case both at the Supreme Court and the Patiala House complex. PTI

Govt approves ₹436 cr for digital skilling platform

The Ministry of Electronics and Information Technology has approved ₹436 crore over a period of three years for Future Skills PRIME, a joint venture between the government and the National Association of Software and Services Companies. The programme, the next level of the Future Skills platform, seeks to skill 412,000 professionals in new technology such as artificial intelligence, virtual reality, Internet of Things, Big Data, cybersecurity, social and mobile etc. Last year, Nasscom and the government, in a joint initiative, announced the Future Skills portal for member companies in the IT-ITeS industry. BS REPORTER

SAIL inks pact with national health body for Modicare

State-owned steel maker SAIL has signed a pact with the National Health Authority for empanelment of 14 of its hospitals under Ayushman Bharat Pradhan Mantri Jan Aarogya Yojana (PM-JAY, popularly known as Modicare). PM-JAY is the government's flagship scheme which provides health cover of ₹5 lakh per family per year to around 50 crore poor and vulnerable individuals. PTI

PNB loses UK High Court appeal in $45-mn deceit claim

The British subsidiary of Punjab National Bank (PNB) has lost its UK High Court appeal in a $45-million deceit claim against seven individuals and two companies, based in India and the US. The issue was whether the High Court of England and Wales should accept jurisdiction to try the claim by London-based PNB International's, involving eight loans it made between March 2011 and December 2014 for oil re-refining and wind energy generating projects in the US. PTI

Irdai to seek councils' view on indemnity plans

Insurance regulator Irdai will seek views of the life and general insurance councils before deciding on the appeal of life insurers to offer indemnity-based health plans, an official said on Wednesday. The life insurers have sought permission from the regulator to launch indemnity or reimbursement-based health cover products and the IRDAI will take a call soon on the matter, the official said. PTI

Modi to review progress in govt's work on Saturday

Prime Minister Narendra Modi (*pictured*) will review on Saturday the progress made by various ministries in the past six months after the BJP returned to power for the second consecutive term, government sources have said. While brief presentations would be made by various ministries on various decisions taken by them, the focus would be on agri, rural development and the social sector. PTI

India Ratings downgrades Can Fin Housing to "AA"

Rating agency India Ratings has downgraded Can Fin Homes's (CFHL) long-term rating from "AAA" to "AA" and changed outlook to "negative" from "stable". The rating is driven by the standalone credit profile of CFHL as Canara Bank is selling its stake in company for mobilising capital. PTI

GST COMPENSATION

States fear sovereign default

DILASHA SETH & INDIVJAL DHASMANA

New Delhi, 18 December

In what could widen the differences between the Centre and some states over the structure of the goods and services tax (GST), finance ministers of non-Bharatiya Janata Party (non-BJP) states on Wednesday feared that the Union government may be headed for a sovereign default on compensation to them.

States are given compensation by the Centre if they don't clock 14 per cent growth in GST revenues in a year on the base of 2015-16.

Finance Minister (FM) Nirmala Sitharaman, on the other hand, reiterated the Centre's commitment to paying the compensation to states.

However, finance ministers of non-BJP states such as Punjab, Kerala and West Bengal said the FM refused to give a categorical assurance that states will be paid compensation on time.

Punjab Finance Minister Manpreet Singh Badal said, "We were aware that revenue position was grim but we were not aware that it was grim to an extent where the Union FM could not give assurance in the Council whether states would be paid on time or not."

He said the situation is close to a sovereign default where the Union government is unable to pay its constitutional obligation. The state would decide by March whether to go to court or not on this issue, he said.

Abhishek Rastogi, partner at Khaitan & Co, said, "Polarisation of states and the Centre on compensation is a cause of concern which if aggravates may result in constitutional challenges before the Supreme Court." Kerala Finance Minister Thomas Isaac said the Centre had sufficient money in the GST Compensation Fund but delayed payments since August.

He said the Council had in its minutes recorded assurance of the former Union FM Arun Jaitley, under whom the GST was rolled out, that in the case of a shortfall in the compensation fund, the Council can borrow and pay the states. The period for levy of compensation cess may then be extended from five to six years to pay for the debt. Bengal Finance Minister Amit Mitra said the country was staring at stagflation — high inflation with stagnant growth — and there will be no compensation money after February to pay the states.

"I DO NOT SEE THIS ASSURED COMPENSATION FORTHCOMING. THE CENTRE IS IN DEFAULT. IT IS A SOVEREIGN DEFAULT...IF THE GOVERNMENT CANNOT MEET ITS CONSTITUTIONAL OBLIGATION, WHAT HAPPENS TO THE DEBT?"

MANPREET BADAL, PUNJAB FINANCE MINISTER

"IT IS GREAT DISAPPOINTMENT THAT THEY (THE CENTRE) ARE NOT EVEN ABLE TO ASSURE THAT THEY WILL GIVE US OUR DUE."

THOMAS ISAAC, KERALA FINANCE MINISTER

BofA: Govt should push for fiscal expansion, growth bottoming up

ANUP ROY

Mumbai, 18 December

The ailing economy needs a joint effort by the government and the Reserve Bank of India (RBI) to engage in counter-cyclical fiscal and monetary measures, even at the risk of pushing fiscal deficit to 3.8 per cent of gross domestic product (GDP), according to Indranil Sengupta, chief economist, BofA Securities. The government has set a fiscal deficit target of 3.3 per cent for FY20.

The deficit can come down to 3.5 per cent of GDP in 2020-21, but the growth slowdown, which seemed to have bottomed out in November and December, needs some strong measures. Such countercyclical measures would hardly be inflationary in the absence of a robust private sector investment drive. "When there is no private sector, why would higher expenditure by the government lead to inflation?" said Sengupta in a media interaction while discussing outlook for 2020.

Even if there is some inflation, it is imperative that the government addresses the growth question first rather than thinking about future inflation, he said.

The reason for the current slowdown is high real rates in the past, and delay in recapitalisation of banks, among others. Relative to the core wholesale price index (WPI) based inflation, which measures the pricing power of companies, interest rates in the economy have remained too high, Sengupta said. The concept of consumer price index (CPI) based inflation doesn't capture this trend as much as WPI, as the CPI is used for cost of living, whereas WPI reflects the fall in commodity prices and ultimately the pricing power of the companies. And so, even as the real interest rate seems negative in CPI terms, in WPI terms, it continues to remain high.

Kashmir shutdown cost over $2.4 bn: Trade body

A lockdown in Kashmir has cost its economy more than $2.4 billion since the government stripped it of its special status, officials of the region's main trade organisation said on Wednesday.

"In the past 120 days we have witnessed how each and every sector has bled... we fear this crisis will further intensify in 2020," Sheikh Ashiq Ahmed, president of the Kashmir Chamber of Commerce and Industry (KCCI), told *Reuters*.

The government in August revoked the constitutional autonomy of Jammu and Kashmir, splitting it into two federal territories in a bid to integrate it fully with India and to rein in militancy. This was accompanied by a security crackdown that included the severing of telecommunications links and curbs on travel. Most of the curbs have since been eased but access to the internet is still partly blocked.

Sectors directly dependent on the internet such as information technology and e-commerce had been "ruined" since the lockdown began in early August, the group said in a report. "The government justified its decision on the pretext of developing Kashmir. The loss borne by locals are a direct result of government's decision ... the federal government must compensate us," Ahmed said. REUTERS

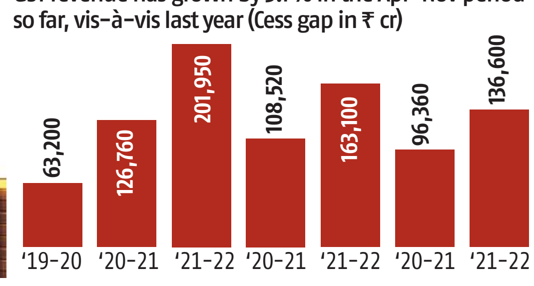
Panel flags ₹63,000-crore compensation cess shortfall

DILASHA SETH

New Delhi, 18 December

CESS SHORTFALL UNDER DIFFERENT REVENUE SCENARIOS

GST revenue has grown by 3.7% in the Apr-Nov period so far, vis-à-vis last year (Cess gap in ₹ cr)



Source: Officers' presentation

The Goods and Services Tax (GST) Council was told on Wednesday that the central government might have a compensation cess shortage of ₹63,200 crore in the current financial year.

The calculation is from the Council's revenue augmentation panel, which also says this shortage could balloon to ₹2 trillion by 2021-22. It has assumed revenue growth of five per cent this year; actual growth in April-November, the first eight months of the financial year, was 3.7 per cent.

In the best-case scenario presented by the panel, with a growth rate of 10 per cent, there will be a cess gap of ₹96,360 crore in the coming financial year, 2020-21 and of ₹1.36 trillion in 2021-22. And, it has ruled out the possibility of 10 per cent, or even eight per cent, revenue growth for the current year.

Nor, however, does the panel see any scope for raising the compensation cess rates. It says this will not yield 'any significant revenue' to meet that gap.

Instead, it has recommended that the present inverted duty structure be corrected, besides restructuring of GST rate slabs.

Punjab finance minister Manpreet Badal said the revenue picture so presented was a setback, being much worse than anticipated. State finance ministers will now have to comment on the presentation.

The panel has listed 24 items -- including mobile phones, footwear, fabrics, LED lights, medical equipment, utensils, agricultural machinery, pharmaceuticals and renewable components — that have an inverted duty structure. Resulting in refunds of close to ₹20,000 crore annually.

For instance, the GST rate on mobile phones is 12 per cent; that on phone parts and batteries is 18 per cent. Resulting in an inverted structure which creates cases of unutilised input tax credit (ITC). A registered taxpayer can claim refunds on the ITC on account of a higher tax on inputs and lower tax on outputs. The cumulative effect of such a structure is resulting in huge input tax credit outgo. Apart from causing distortion and litigation.

Other recommendations from the panel for augmenting of revenue include a two-slab GST structure, of 10 and 20 per cent, as against the current four-slab one, though it also suggests a special higher rate for 'sin' and luxury goods. Also, rationalisation of the exempted items list and raising the composition rate for manufacturers from the current one per cent.

On plugging of leakages, it suggests an MRP (Maximum Retail Price)-based levy on items such as pharmaceuticals or goods sold to final consumers. It has listed suggestions on revenue augmentation from states and recommended moving items from the 5 per cent and 12 per cent lists to higher slabs, mobile phones being one example.

Some of the exempted items under GST currently are education, health, public transport, house rent, cereals, fruit, jaggery, honey, bread, salt, milk, printed books and kajal.

On broadening and rationalisation of GST rates, some of the suggestions it has compiled include raising the rate on precious metals from three per cent now to five per cent, taxing the higher segments of education and health, and revisiting the rates on some items that have been reduced from the earlier 28 per cent to 18 per cent.

M S Mani, partner at consultancy entity Deloitte India, observed that GST collections are also dependent on factors such as economic growth. Compensation cess, he adds, appear to be lower than the requirements of states.