

# Budget Musings

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**B**udget Day is less than three weeks away, but there is little excitement in the media or even in business circles. Probably, everyone is aware that the Government's capacity to dole out freebies is severely limited, since the revenues forecast in the last Budget are nowhere close to materialisation. The Reserve Bank of India has run out of workable alternatives to curb rising inflation because raising the Repo Rate would dent the nascent economic revival. The challenge of universal immunisation against Covid-19 and the Chinese threat on our borders is consuming a great deal of the nation's resources. The farmers' agitation is another of the Government's major worries - the confrontation between the farmers and the Government is guaranteed to have long term ill effects on the economy and society, regardless of the way the agitation ends.

However, budget-making in a year of constrained resources provides an opportunity to plug leakages and realign the priorities of the Government. Reducing the bloated expenditure of the Government should be the FM's top priority; Zero Base Budgeting (ZBB) could be used as an instrument to identify wasteful expenditure. Under ZBB all departments of the Government would be required to justify their expenses afresh, no matter what they spent the year before. This form of budgeting would put pressure on spenders to justify expenses and reduce costs, which is not required in traditional budgeting where only the increase in expenditure, over the previous year, is required to be justified.

A small example would suffice. The Government had provided for an expenditure of Rs12.28 lakh crores in Budget 2020, around 40 per cent of the total Budget spending, for the more than 160 Schemes (Major Central Sector and Centrally Sponsored Schemes) of the Government. The outcome of these Schemes was evaluated by their implementers, but even this limited assessment showed that many Schemes are not doing satisfactorily. An obvious starting point to reduce wasteful expenditure would be a deep audit of all such Schemes by an external agency.

Then, the governance cost has increased by leaps and bounds. Budget 2020 provides for Es-

tablishment Expenditure of Rs 6.10 lakh crore, most of which is towards wages and entitlements of Government employees. Still, most Central Government departments spend a lot of money for outsourcing ministerial, maintenance and other services. In fact, at the lower level, most of the work is done by outsourced personnel while permanent employees engage themselves in other pursuits.

No responsibility attaches for the work done by the outsourced employees, as the providing agency rotates them frequently. Moreover, regular Government employees are well-qualified and join after clearing a difficult examination, but the same cannot be said about the outsourced personnel. Given the limited abilities of outsourced personnel and the circumstances under which they operate, the quality of service to the public also suffers. A pretty sum can be saved and better services provided to the public if regular employees are made to discharge their prescribed duties and the services of outsourced staff are taken only wherever necessary.

After introduction of GST, with a peak rate of 28 per cent (plus a 22 per cent surcharge for some commodities), ours has become an ultra-high-cost economy. Prices have gone up for consumers and inputs for all manufacturing products have become costlier. Significantly, the World Bank found that the maximum GST rate of 28 per cent was the second highest in the world (India Development Update, March 2018).

Smaller traders and manufacturers suffer a loss of business under the GST regime, because downstream manufacturers have to pay GST on behalf of unregistered, smaller material and service suppliers. Lowering GST rates could have a beneficial downward effect on prices, that would increase the purchasing power of consumers across the board which would ramp up demand and could be an easy way to re-energise the economy.

At present, we have five different rates for GST, 0, 5, 12, 18 and 28 per cent. Additionally,

there is a special GST rate of 0.25 per cent on rough precious and semi-precious stones and 3 per cent on gold. A multiplicity of GST rates makes the GST regime unnecessarily complex. The previously cited World Bank study found that most countries (49) had a single-rate GST, 28 countries used two rates, and only five countries viz. India, Italy, Luxembourg, Pakistan and Ghana had four rates, showing that we are in august company, as regards multiplicity of GST rates.

A single low rate of GST, say 12 per cent, would rejuvenate our economy, reduce tax evasion and tax disputes, and increase GST collection in the long run. Also, petroleum products should be brought under GST, because currently both the Central and State Governments are imposing extortionate VAT on petrol and diesel, increasing the living cost for ordinary citizens and the operational costs of many industries, particularly the airlines and transport industries.

Another problem is that the credit mechanism for GST is excessively restrictive with denials and delays in providing proper credits for GST on inputs, especially for capital goods. As these features allow a substantial degree of cascading (increasing the tax burden for the final user), they reduce the benefits of introducing GST in the first place. A number of input credit frauds have also been noticed. Steps should be taken to rectify these limitations in the GST design and administration.

As regards, Direct Taxes (Income-tax), small businesses would receive a fillip if the Government brings down the rate of taxation on individuals and firms to the level of the tax levied on companies. To clarify, firms have to pay income-tax at the rate of 30 per cent on all income, and individuals are subject to tax at the rate of 30 per cent on income exceeding Rs.10 lakhs while companies have to pay tax at 22 per cent (15 per cent in the case of manufacturing companies). Then, Direct Tax revenue can be effortlessly increased if Wealth Tax and Estate Duty are restored.

Another point of concern is the unprecedented upsurge in

the share market. Since the Indian economy has performed poorly in the current year, logically share prices should have declined.

It is easy to see that the record height of 50,000 that the Sensex is about to scale is due to the Rs 2.30 lakh crore investment by Foreign Portfolio Investors in the Indian share market in the current Financial Year. To put these statistics in proper perspective, the amount invested by FPIs in the first nine months of the current year is 37 times the investment of Rs 6,153 crore in the previous Financial Year. The continuous rise in share prices is mostly due to the investment of stimulus money of various Governments in the Indian share market.

In his foreword to the RBI's Financial Stability Report, the RBI Governor has noted with concern the disconnect between the real and financial markets, which could threaten the financial stability of the economy. The Finance Minister would be well advised to take steps to cool the overheated stock market to address the concerns of the RBI Governor, as also to prevent genuine investors from getting hurt when the share bubble bursts.

The Wistron incident, where a factory, manufacturing Apple products, was vandalized by workers, is sure to discourage potential investors. Reports reveal that Wistron workers had been forced to work for long hours without payment, which would indicate that the new labour laws do not deter company managements from playing fast and loose with workers. Obviously, the new Labour Codes have to be more equitable, so that there is a proper outlet for workers' grievances. A relook is also needed at the contentious Farmers' Acts that have sparked widespread protests in Punjab, Haryana and UP. Hopefully, Parliament would discuss these issues in the Winter cum Budget Session with a view to reduce the acrimony between the farmers and corporates and industrial workers and managements, which alone would provide a conducive environment for trade, business and agriculture.

Finally, it would be good if the FM remembers what US President Herbert Hoover had said about balancing the budget: "The budget should be balanced not by more taxes, but by reduction of follies."

