

The bank account is the most important criterion for the cash transfers to work. But only 40% of India's population has bank accounts. The other pillar that the cash transfer scheme leans heavily on is the UID. The implementation of UID has been cumbersome - getting banks to rural areas and sensitizing administrators working at the grassroots level have been some of the challenges. So far, about 21 crore Aadhaar numbers have been created. This is less than a third of the number of people targeted under the cash transfer scheme. Thus, financial inclusion and availability of information technology infrastructure are preconditions to cash transfer and there are substantial problems in the state on both accounts.

To sum up, we see that in-kind transfers do not raise prices like cash transfers, and are also expected to be compatible with the social security expectations of tax-payers, as illustrated by the heart operation and Mercedes example cited above. Cash transfers cannot and should not replace the public provision of essential goods and services, but rather only supplement them. They cannot be considered as panacea for evils like poverty, low incomes etc. In other words, cash transfers are desirable and can play a positive redistributive role if they are additional to other basic goods and services, provided in-kind to the needy.

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Indirect taxation in India: GST- a must needed switch

Shivani Jain

There is a saying in Kautilya's Arthshastra, one of the earliest books on economics in the world, that the best taxation regime is the one which is "liberal in assessment and ruthless in collection". The proposed GST (Goods and Service Tax) seems to be based on this very principle. Although there has been a lot of hype about the much needed change in the Indian indirect taxation system with an introduction of GST, its true relevance and salient features have not yet been highlighted.

In recent years, the Indian government has undertaken significant reforms in the indirect taxation system. This includes the initiation of a region-based and state-level VAT on goods. However, in order to remove barriers to inter-state trading and to attain a secured market for the activities related to services and goods, more reforms are needed. Some of the reforms that can be

introduced for a better indirect taxation system in India are:

- The serialized set of Indirect Taxes so far activated at the central and state levels should be amalgamated and treated as a single tax and should be neutral at all levels.
- The Central Sales Tax, which obstructs easy trading between different states, should be terminated in order to boost inter-state trade.

The Indian government has planned to activate a Goods and Services tax neutral at all levels in order to fulfill these objectives.

Goods and Services Tax is a broad based and a single comprehensive tax levied on goods and services consumed in an economy. In simple terms, GST may be defined as a tax on goods and services, which can be levied at each point of sale or provision of service, in which at the time of sale of goods or providing the services the seller or service provider may claim the input credit of tax which he has paid while purchasing the goods or procuring the service.

The government plans to introduce dual GST structure in India. Under dual GST, a Central Goods and Services Tax (CGST) and a State Goods and Services Tax (SGST) will be levied on the taxable value of a transaction. This dual structure will ensure a higher involvement from the states, and consequently their buy-in into the GST regime, thus facilitating smoother implementation. Both the tax components will be charged on the manufacturing cost. The government is deliberating on fixing the value of combined GST rate at the moment, which is expected to be between 14-16 per cent. After the combined GST rate is decided, the centre and the states will finalize the CGST and SGST rates. All kinds of goods and services, barring some exceptions, would be under the GST purview.

Salient Features of Proposed GST in India

1. Consistent with the federal

structure of the country, the GST will have two components: one levied by the Centre (hereafter referred to as Central GST), and the other levied by the States (hereafter referred to as State GST). This dual GST model would be implemented through multiple statutes (one for CGST and SGST statute for every State). However, the basic features of law such as chargeability, definition of taxable event and taxable person, measure of levy including valuation provisions, basis of classification etc. would be uniform across these statutes as far as practicable.

2. The Central GST and the State GST would be applicable to all transactions of goods and services except the exempted goods and services.
3. Since the Central GST and State GST are to be treated separately, in general, taxes paid against the Central GST shall be allowed to be taken as input tax credit (ITC) for the Central GST and could be utilized only against the payment of Central GST. The same principle will be applicable for the State GST.
4. Cross utilisation of ITC between the Central GST and the State GST would, in general, not be allowed.
5. To the extent feasible, uniform procedure for collection of both Central GST and State GST would be prescribed in the respective legislation for Central GST and State GST.
6. The taxpayer would need to submit periodical returns to both the Central GST authority and to the concerned State GST authorities.

Benefits of Goods and Services Tax:

- Eliminates cascading effect of taxes across all supply chains by reducing cost of doing business and makes the economy competitive.
- Eliminates multiplicity of taxes, rates, exemptions and exceptions.
- Eliminates dual taxation of the same

transaction (e.g. VAT & Service tax on EPC (engineering, procurement and construction) contracts.

- Reduces cost of production.
- Achieves, uniformity of taxes across the territory, regardless of place of manufacture or distribution.
- Provides, greater certainty and transparency of taxes.
- Ensures tax compliance across the economy.

Need For Goods and Services Tax in India:

The introduction of the GST brings about a macroeconomic dividend as it reduces the overall incidence of indirect taxation and therefore the overall tax burden by removing the many distortionary features of the present sales tax system. There are four important macroeconomic channels through which this happens:

- a) The failure to tax all goods and services distorts consumption decisions; GST reduces these distortions and enables all economic agents to respond more effectively to price signals.
- b) The non-refundable taxation of capital goods discourages savings and investment and retards productivity growth. This is perhaps the most important gain through introduction of GST in an emerging economy like India.
- c) For a given constellation of exchange rates and price levels, violation of the destination principle places local producers at a competitive disadvantage, relative to producers in other jurisdictions.
- d) Differences in tax bases of different States and the Central government greatly increase costs of doing business. The GST based tax reform provides a real policy opportunity to do something about this problem without waiting for prior and sweeping political economy changes.

There has been a lot of controversy on implementing GST in India, one of the main reasons behind being the pivotal and a major change needed in the constitution written by our forefathers:

The Constitution provides for delineation of power to tax between the Centre and States. While the Centre is empowered to tax

services and goods up to the production stage, the States have the power to tax sale of goods. The States do not have the powers to levy a tax on supply of services while the Centre does not have power to levy tax on the sale of goods. Moreover, the Constitution also does not empower the States to impose tax on imports. Therefore, it is essential to have Constitutional Amendments for empowering the Centre to levy tax on sale of goods and States for levy of service tax and tax on imports and other consequential issues. As part of the exercise on Constitutional Amendment, there would be a special attention to the formulation of a mechanism for upholding the need for a harmonious structure for GST along with the concern for the powers of the Centre and the States in a federal structure.

Despite the major hurdle mentioned above, GST is seen as the panacea for removing the ill-effects of the current indirect tax regime prevalent in the country. If adopted and implemented in its true spirit, GST may neutralize the existing problem of taxes being levied on top of taxes and would also help to spur the economic growth.

FDI in Retail: Boon or Bane

Ganganjyot Kaur Narwal

For some time now, India has been witnessing heated debates over allowing Foreign Direct Investment (FDI) in some more sectors. Most recently, allowing 51% foreign direct investment in multi-brand retail saw a huge uproar. It drew attention from almost all sections of the society. On one hand, FDI is believed to be a boost to economic growth, but on the other, apprehensions have surfaced emphasizing the loss of social welfare to small farmers and traders. To find a balanced solution to this issue, a deep understanding of the complex composition of the Indian economy is essential.