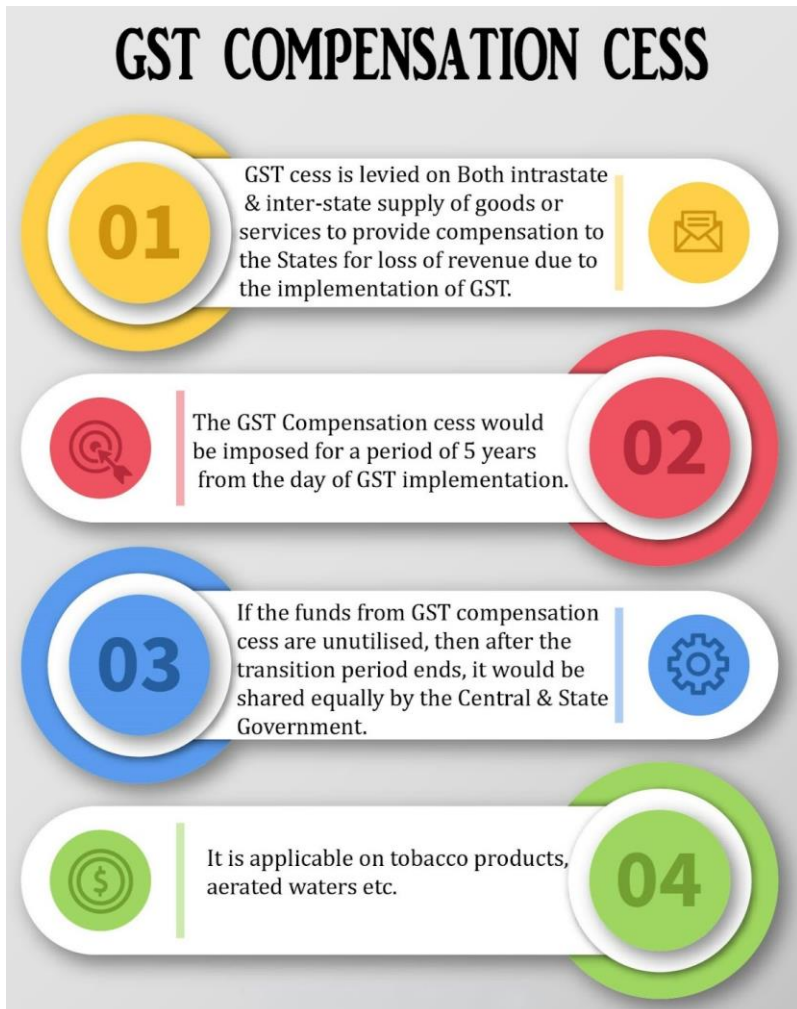


Extending GST compensation as a reforming catalyst

1. It has been claimed that the implementation of the Goods and Services Tax (GST) in India was a grand experiment in cooperative federalism in which both the Union and the States joined hands to rationalise cascading domestic trade taxes and evolve a value-added tax on goods and services.

2. Although the rate structure was presumed to be revenue-neutral, the States agreed to forgo their revenue autonomy in favour of tax harmonisation.

3. This was in the hope that it would turn out to be a money machine in the medium term due to improved compliance arising from the self-policing nature of the tax.



The calculation of compensation

1. To allay the fears of States of possible revenue loss by implementing GST in the short term, the Union government promised to pay compensation for any loss of revenue in the evolutionary phase of five years.
2. The compensation was to be calculated as the shortfall in actual revenue collections in GST from the revenue the States would have got from the taxes merged in the GST.

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3. This was estimated by taking the revenue from the merged taxes in 2015-16 as the base and applying the growth rate of 14% every year.
4. To finance the compensation requirements, a GST compensation cess was levied on certain items such as tobacco products, automobiles, coal and solid fuels manufactured from lignite, pan masala and aerated waters.
5. In the first two years of its implementation, the amount of compensation to be paid to the States was modest and the compensation cess was sufficient to meet the requirements.

Reason for mistrust

1. The entire compensation payment episode plunged the Union-State relationship to a new low, creating humongous mistrust.
2. The agreement to pay compensation for the loss of revenue was for a period of five years which will come to an end by June 2022; and considering the uncertainty in revenue collections faced by the States, they are keen that the compensation scheme should continue for another five years.

Core issues

1. Although it was hoped that the tax structure would stabilise in the first five years, the reform is still in transition.
2. First, the technology platform could not be firmed up for a long time due to which the initially planned returns could not be filed. This led to large-scale misuse of input tax credit using fake invoices.
3. The adverse impact on revenue collections due to this was compounded by the pandemic-induced lockdowns.
4. Second, this is the only major source of revenue for the States and considering their increased spending commitments to protect the lives and livelihoods of people, they would like to mitigate revenue uncertainty to the extent they can.
5. They have no means to cushion this uncertainty for the Finance Commission which is supposed to take into account the States' capacities and needs in its recommendations has already submitted its recommendations; the next Commission's recommendations will be available only in 2026-27.
6. More importantly, the structure of GST needs significant changes and the cooperation of States is necessary to carry out the required reforms.

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Revisiting compensation scheme:

1. It has been pointed out by many including the Fifteenth Finance Commission that the compensation scheme of applying 14% growth on the base year revenue provided for the first five years was far too generous.



Alcohol for human consumption

Power to tax remains with the State



Five petroleum products – crude oil, diesel, petrol, natural gas and ATF

GST Council to decide the date from which GST will be applicable



Tobacco

Part of GST but power to levy additional excise duty with Central Government

2. The issue can be revisited and the rate of growth of reference revenue for calculating compensation can be linked to the growth of GSDP in States to ensure the comfort of minimum certainty on the revenue.

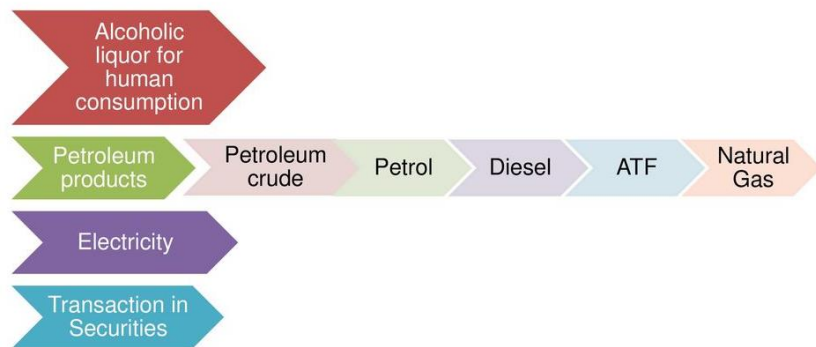


Entertainment tax levied by local bodies

Power to tax remains with local bodies

3. This will incentivise them to accomplish the reform in the true spirit of cooperative federalism.

Goods outside GST



A case for amendments

1. It is very well-acknowledged that the structure of GST requires significant reforms. Notably, almost 50% of the consumption items included in the consumer price index are in the exemption list; broadening the base of the tax requires significant pruning of these items.
2. Second, sooner or later, it is necessary to bring **petroleum products, real estate, alcohol for human consumption and electricity** into the GST fold.
3. Third, the present structure is far too complicated with four main rates (5%, 12%, 18% and 28%). This is in addition to special rates on precious

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and semi-precious stones and metals and cess on 'demerit' and luxury items at rates varying from 15% to 96% of the tax rate applicable which have complicated the tax enormously.

4. Multiple rates complicate the tax system, cause administrative and compliance problems, create an inverted duty structure and lead to classification disputes.
5. Reforming the structure to unify the rates is imperative and this cannot be done without the cooperation of States. They would be unwilling to agree to rationalise rates unless the compensation payment for the revenue loss is continued.
6. Thus, extending the compensation payment for the loss of revenue for the next five years is necessary not only because the transition to GST is still underway but also to provide comfort to States to partake in the reform.
7. GST is the most important source of revenue to States and any revenue uncertainty from that source will have a severe adverse effect on public service delivery.

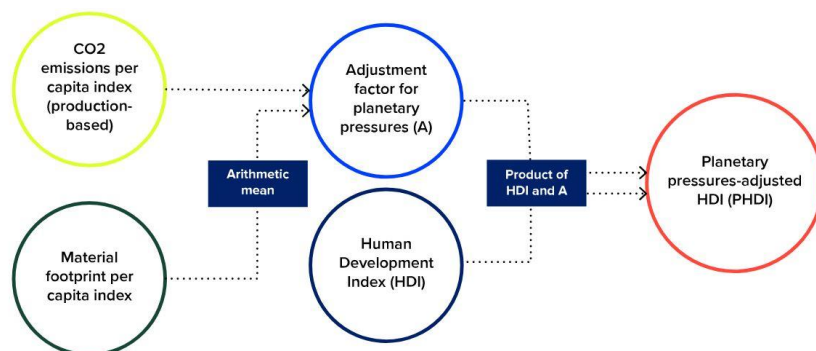
Reforming the structure to complete the process of transition to a reasonably well-structured GST is important not only to enhance the buoyancy of the tax in the medium term but also to reduce administrative and compliance costs to improve ease of doing business and minimise distortions.

Treating the planet well can aid progress

An integrated perspective is necessary as social and environmental problems cannot be addressed in isolation anymore

Planetary pressure-adjusted Human Development Index (HDI)

1. The 2020 Human Development Report of the United Nations Development Programme (UNDP), titled "The Next Frontier - Human Development and



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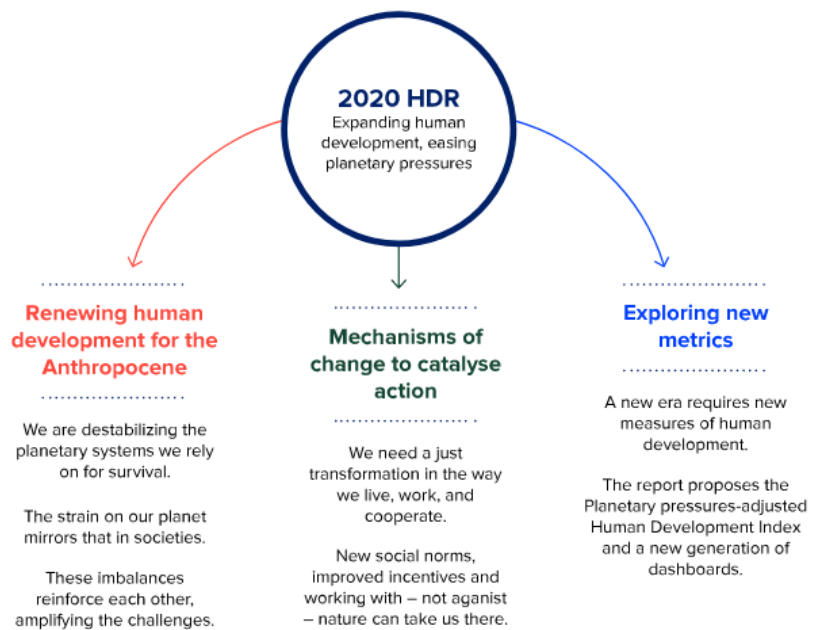
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the Anthropocene” proposed a planetary pressure-adjusted Human Development Index (HDI).

2. Ever since the UNDP took up the computation of the HDI driven by the vision of Mahbub ul Haq and articulated by Amartya Sen in 1990, there have been adjustments such as *inequality-adjusted HDI*.
3. Besides, there was the computation of several other indices such as the Gender Development Index, Gender Inequality Index, and *Multidimensional Poverty Index* to flag the issues that warranted the attention of policymakers.

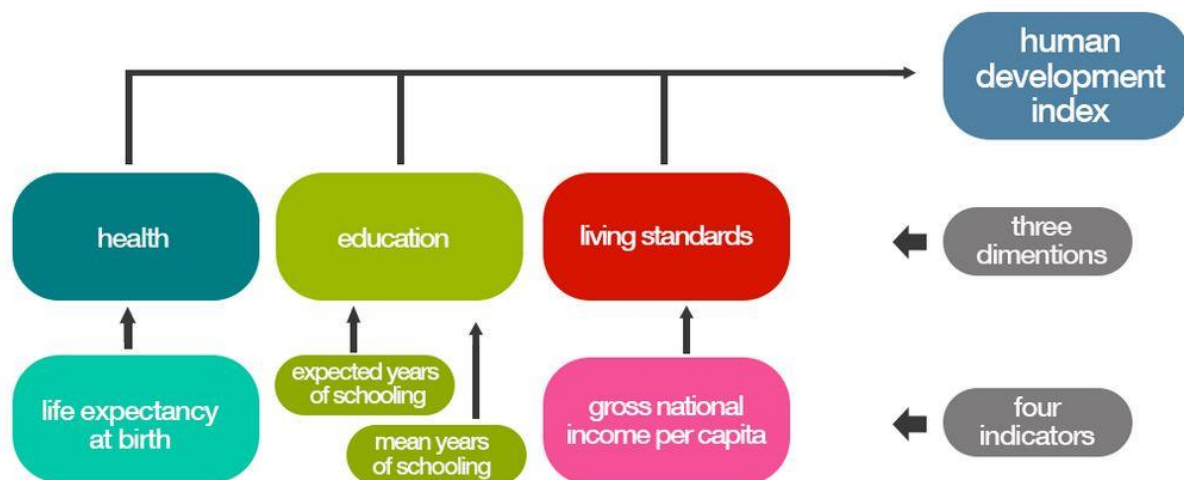
Human-induced change

1. The environment is one such issue now considered to be an essential component to be factored in to measure human development.
2. The concept of the planetary boundary was to highlight that human-induced environmental change can irrevocably destabilise the long-term dynamics of the earth system, thereby disrupting the life-supporting system of the planet.
3. Both global and local evidence indicate that biodiversity loss, climate change, land system/land-use change, disruption of biogeochemical cycles, and scarcity of freshwater availability are a threat and increase the vulnerability of society.
4. The purpose of the planetary pressure adjusted HDI, or PHDI, is to communicate to the larger society the risk involved in continuing with existing practices in our resource use and environmental management, and the retarding effect that environmental stress can perpetuate on development.



Impact on country rankings

1. When planetary pressure is adjusted, the world average of HDI in 2019 came down from 0.737 to 0.683. This adjustment has been worked out by factoring in per capita carbon dioxide (CO₂) emission (production), and per capita material footprint.
2. The average per capita global CO₂ emission (production) is 4.6 tonnes and the per capita material footprint is 12.3 tonnes. The global ranking of several countries was altered, in a positive and negative sense, with adjustment of planetary pressure.
3. Among 66 very high human development countries, 30 countries recorded a fall in rank values ranging from minus 1 for Germany and Montenegro to minus 131 for Luxembourg.
4. It succinctly brings out the nature of planetary pressure generated by the developed countries and indirectly indicates their responsibility in combating the situation.



Indian Case:

1. In the case of India, the PHDI is 0.626 against an HDI of 0.645 with an average per capita CO₂ emission (production) and material footprints of 2.0 tonnes and 4.6 tonnes, respectively.
2. India gained in global rankings by eight points (131st rank under HDI and 123rd rank under PHDI), and its per capita carbon emission (production) and material footprint are well below the global average.



Challenges in India, SDGs

1. Nevertheless, India's natural resource use is far from efficient, environmental problems are growing, and the onslaught on nature goes on unabated with little concern about its fallout — as evident from a number of ongoing and proposed projects.
2. At the same time, India has 27.9% people under the Multidimensional Poverty Index ranging from 1.10% in Kerala to 52.50% in Bihar, and a sizable section of them directly depend on natural resources for their sustenance.
3. Kerala has an exemplary achievement in human development with an HDI value of 0.775, well above the all-India average. However, on the environmental front, there are several challenges that warrant concrete actions; otherwise, the gains of human development may not be sustained.
4. The twin challenges of poverty alleviation and environmental safeguarding that former Prime Minister Indira Gandhi first articulated in her lecture during the Stockholm conference on the human environment in 1972 still remain unattended. Fifty years have passed.
5. There is little change in the scenario. In fact, the situation is much more complex now. Since the Stockholm conference was held, there have been several summits and initiatives by the United Nations, the latest being the adoption of 17 Sustainable Development Goals (SDG) with a specific target to meet by 2030.
6. The SDGs have acquired high priority in the context of the issue of climate change and its impact on society. Human-induced climate change has emerged as an important issue of global deliberations.
7. The Sixth Assessment Report (AR6) of the Intergovernmental Panel on Climate Change (IPCC) 2021 laid stress on limiting global temperature rise at the 1.5° C level and strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty. This was reaffirmed in the Conference of Parties (COP) 26 at Glasgow in 2021.

Better awareness now

1. There are wide gaps in managing the environment. The Chipko movement (1973) in Uttarakhand and the Silent Valley movement (the late 1970s) in Kerala are two of the most well-known modern-day people's movements for environmental protection in India that inspired several other environmental movements during the last five decades.

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2. Subsequently, there is now widespread awareness about the environment and several initiatives both at the level of the government and the community.
3. However, standalone environmental safeguarding actions are not sufficient to navigate the Anthropocene.

Anthropocene

noun [an-thruh-puh-seen, an-throp-uh-]

a proposed epoch of the present time, occurring since mid-20th century, when human activity began to effect significant environmental consequences, specifically on ecosystems and climate.

Way Forward:

Local-level involvement and Technology

1. It is now essential to consider people and the planet as being a part of an interconnected social-ecological system. Social and environmental problems cannot be addressed in isolation anymore; an integrated perspective is necessary.
2. This can be conceived and addressed at the local level, for which India has constitutional provisions in the form of the 73rd and 74th Amendments.
3. The remarkable advances in earth system science and sustainability research along with enabling technology of remote sensing and geographic information system have helped to document and explain the impact of human activities at the ground level and stimulate new interdisciplinary work encompassing the natural and social sciences.
4. They also provide insights into how to mitigate these impacts and improve life. What is required is a reorientation of the planning process, adoption of a decentralised approach, a plan for proper institutional arrangements, and steps to enable political decisions.