

GST: Biggest Move To End Black Money

The tax will generate multiple audit trails

We commend adoption of the goods and services tax, the biggest tax reform since Independence, to create a seamless common market. Prime Minister Narendra Modi, President Pranab Mukherjee and finance minister Arun Jaitley have done well to acknowledge that political collaboration and the spirit of cooperative federalism ensured the transition to the new tax paradigm. The GST Council, a collective body of the Centre and states, deserves to be lauded for its consensus-driven approach to transact the legal changes needed to adopt GST on July 1. Rightly, the PM billed this as a good and simple tax that would subsume and eliminate the previous cascade of 17 central and state taxes and 23 cesses, leading to efficiency gains and lowering retail prices. The audit trails the levy creates would curb evasion, widen the tax base and boost collections, both in indirect and direct taxes.

The GST network that provides the IT infrastructure for taxpayers to pay tax, file returns and claim refunds, without having to interface with a tax official, except if taken up for audit and scrutiny, is a major innovation. Sensibly, businesses have been given more time to file returns in the first two months. This will make the transition smooth: companies need time to recast their accounting systems for full compliance. Compliance should be easy, and taxpayers must not be harassed having to deal with two sets of administrative bureaucracies for the tax. Industry's fear that the anti-profiteering clause may be a perverse incentive to routinely suspect the pricing policy of producers is not misplaced. It must have a sunset clause. An institutional mechanism to assess the experience of GST as it rolls out to make swift course correction makes sense.

Ideally, we should have started with low rates, achieved compliance and acquiescence, and pushed rates up gradually. Multiple rates are not inherently inimical to GST but make administration a little complicated. It is still possible to reduce the rates and the number of rates, as government gathers experience implementing the new tax.



Last Hurdle: Opaque Political Funding

Speaking at the foundation day anniversary of the Institute of Chartered Accountants of India, Prime Minister Narendra Modi repeated his clarion call against black money and urged the assembled chartered accountants to help their clients pay taxes rather than evade them. Those who try to take tax-evaded income outside the country will run up against the automatic exchange of information agreements that are shaping the global consensus to end base erosion and profit shifting. The goods and services tax will create multiple audit trails that will lead the taxman to undisclosed income. Tax rates have moderated and will moderate further. The government will take strong punitive measures against tax evaders. The PM ticked all the right boxes. Except one.

The element of the black economy he failed to mention is not the largest but is of the most consequence. This is political funds. Spending on political activity has soared, rising faster than per capita income. However, the bulk of political expenditure remains off the books, and so, naturally, does most of the funding that finances the expenditure. Today, industry funds individual politicians, who amass war chests, out of which they dole out money to followers, supporters and activists, apart from the party to which they hold allegiance. Much remains with the politicians, after meeting their political expenses. This builds personal fortunes of politicians. Unless this system is replaced with one of transparent accounting of political income and expenditure, corruption and black money cannot be eliminated.

The politician will turn a blind eye to the black money generated to fund his coffers, and to the misuse of the state machinery/banking system to generate the unaccounted funds in question. This, too, must change.

Monsoon Can Never be too Soon

Once the skies become overcast and squally thundershowers throw normal life out of gear at this time of the year, most people can be forgiven for thinking the monsoon has arrived. Only the weather mavens know better, and call it "pre-monsoon". Not that most know the difference, but the Met department and private weather forecasters do, and obstinately refuse to prematurely herald its arrival, no matter how much the downpour. Then one day, they finally declare that the monsoon is here. The key, as is helpfully revealed every year but apparently forgotten by most, lies in the shape and size of cloud formations and the timing of the showers, not the quantity of precipitation — always bafflingly recorded only in millimeters. Those towering vaporous grey behemoths seen in the afternoons and early evenings of hot and muggy days are pre-monsoon thunderheads that unleash torrents in a single shot and then whiz away. The real monsoon clouds are not as tall, spread much wider and cause prolonged and repeated spells of rain usually beginning late at night and continuing the next day, which also results in consistently lower temperatures.

Such distinctions are just for the experts. Most others, already weary of the long scorching summer, would rather just echo Sadhguru Jaggi Vasudev's succinct words, "Ah monsoon, never too soon."



Only weather experts care about whether it is pre-monsoon or the real thing

Economic unification of states & GST Council make the tax rollout an epochal event, warts and all

On a Wing and a Prayer



Mythili Bhusnurmath

The hype over the much-awaited launch of the goods and services tax (GST) at a special midnight session in the central hall of Parliament house last Saturday might seem a bit excessive. But not if you consider how long it has taken us to get there, and how tortuous the journey has been.

It has finally made us one economic entity with a single national market. India, in the words of an imaginative campaigner run by the government, has been transformed from being a political union to a political and economic union in the true sense.

However, given the challenges that lie ahead, it would be naive to imagine the ideal of a single national market will be realised overnight. There are glitches aplenty that will have to be ironed out. It will be a while before the jungle of indirect tax laws (with all its associated ills, including corruption) that impeded competition and ease of doing business is replaced by the seamless operation envisaged under GST. But we are on our way to getting there.

Even better, we finally have on the ground the working semblance of a blueprint for true fiscal federalism. Something that was, perhaps, not envisaged even by the framers of the Constitution. The Indian Constitution has often been described as 'federal in form, but unitary in spirit'.

Cooperative federalism is the only way forward in a country as diverse as ours. GST's structure is such it allows this diversity to get reflected on the ground.

Though it is based on a division of powers between the Union and the states, the division of powers, especially taxation powers, was weighted in favour of the Union government.

This state of affairs might have been appropriate in a milieu where we had only national parties, but not in a scenario where regional parties and regional aspirations have become increasingly important. Cooperative federalism is the only way forward in a country as diverse as ours. The beauty of GST is that its structure allows this diversity to get reflected in policy on the ground.

Powerful Council

The structure of the GST Council, the powerful decision-making body on all things related to GST, is such that neither the Union nor state governments will be able to do anything unilaterally. On the contrary. With states collectively having two-thirds of the vote share and the Union, one-third, even as all decisions are to be taken by three-fourth majority, the earlier skew in taxation powers in favour of the Union is now history.

From a time when states were seen as subservient to the Centre, states today sit at the same high table as the Union government when it comes to GST. Indeed, the word 'Centre', with its subtle subtext of superiority vis-à-vis states, does not figure at all in the Constitution, which uses the more neutral 'union' to describe the national government.

True, the council is only a recommending body. But for all practical purposes it will be the de facto agency that decides all matters relating to indirect taxes: rates, slabs, classification of goods and services, administration and dispute settlement.

For all the benefits that GST is expected to deliver — and there are in-



One satisfied consumer

numerable — it is these two features, the economic unification of states and the institution of the GST Council, more than any other, that make the launch of GST a truly epochal event, warts and all.

But does that mean GST is some kind of a magic wand that will change India overnight? Not at all. First, we will have to tone down our expectations. Accept that though there are many benefits, these will not be realised immediately and, in fact, will be realised only after we have overcome many challenges en route.

Challenges

The two biggest challenges (ignoring innumerable procedural hassles, issues relating to transitional rules, refund procedure in case of inverted duty structure, e-way bill mechanism, anti-profiteering clause and so on) relate, first, to technology. The robustness of the IT backbone required to process an estimated 3.5 billion invoices every month. And, more importantly, the readiness and preparedness of small businesses, retailers and traders.

The success of GST depends on how quickly businesses adapt to the digital taxation. Under GST, compliance procedures like registration, pa-

yments, refunds and returns can only be done through online portals. This is going to be a huge challenge in a country where there is a large number of small and medium enterprises, accounting for a significant share of the GDP.

The second big challenge is the short-term adverse fallout on economic activity as a result of teething troubles arising from the sheer complexity of the new regime and, more importantly, its impact on prices. If producers cut back on production for want of clarity on tax incidence or logistics problems, then we could see supply, and hence prices, being impacted.

On paper, consumer price inflation should come down since food accounts for close to 50% share in the consumption basket and prices of most food items (except for more expensive branded items) should remain the same or fall. However, international experience suggests there could be a brief inflationary surge, in which case government could find itself on the back foot.

None of this, however, can take away from the sheer economic logic and, indeed, necessity for GST. Remember, nothing venture, nothing win.



Freedom from Exile

KSRAM

Destiny and the dynamics of living often remove us from the place we belong to, from what we refer to as our hometown. Living away, we tend to get "home sick". We split ourselves and suffer a "body here, mind there" syndrome. Interestingly, this can happen not just to an individual or a family, but even collectively to a whole people.

Take the plight of America's founding fathers. Mostly victims of religious persecution, they dared to cross the Atlantic to found a new settlement. They fled bodily, but mentally they remained in England. Many American cities reflect this nostalgia. England's York became New York. The new Americans sought liberty but could not free themselves of their emotional bondage to the "mother country".

Many of us are employed and are living in places we are prejudiced to believe is not our home. We live in a state of exile, longing for the day when we shall get back to our "home place". We poison our minds with thoughts of imagined alienation. Finally, maybe after retirement, if and when we do get back to the home place, we hardly feel at home, what with so much changed and the change often not to our liking. We feel even more miserable than before.

If we view the people we are destined to live amidst as our people, we will learn to feel at home always. If we evince a little interest and involvement in our neighbourhood, we will discover an exciting world. Home is where the heart is.

Chat Room

Doing Business Will Get Easier

Within a year, two back-to-back historic economic measures — demonetisation and GST — have been enforced to weed out corruption and make India a right place to do business. GST, a destination-based tax, cuts out a cascade of taxes and would fetch more revenue to the states where the goods are consumed. Though Centre has promised to compensate the producer states, it would to some extent discourage interstate movement of goods, so a lion's share of IGST can be distributed to the producer states.

SLAKSHMINARAYAN
Vridhachalam

AI Needs Full Autonomy

Apropos the Cabinet's in-principle decision to divest stake in the loss-making national carrier Air India. A panel will decide the modalities. The ailing airline can be nurtured back to health with a professional management, sans any interference from politicians and complete autonomy in decision-making.



BEHRAM AGA
Via Email

Well Done, Mr PM!

The Narendra Modi government's decision to keep trust with GST despite all odds is commendable and ushers a new dawn in India's taxation history. The reform has, in one stroke, eliminated the need for a host of central and state taxes that we had to put up with. Besides unifying India's economy into a common market, GST will also bring in greater transparency, curb corruption, bring down prices and simplify the way we approach and pay our taxes. However, the government needs to address the concerns of small businesses and resolve glitches. The Opposition would do well to give up their protests, after having cooperated in enacting the law.

NJ RAVI CHANDER
Bengaluru

Letters to the editor may be addressed to editet@timesgroup.com

WIT & WISDOM

"Yesterday is history, tomorrow is a mystery, but today is a gift. That is why it is called the present."

Oogway
Kung fu master

Ending Child Marriage

The welfare benefits from lower population growth by ending child marriage are estimated globally (for 106 countries) at \$22 billion in 2015 and \$566 billion in 2030, according to a World Bank report. The rapid increase in the benefits stems from the fact that the impact of ending child marriage and early childbirths on population growth is cumulative. That is, each year the gains become larger because the cumulative reduction in population growth keeps growing from one year to the next...

Welfare gains from ending child marriage & early childbirths due to lower population growth

(Order of Magnitudes at the Global Level for more than 100 Countries)

Year	Cost of child marriage in billion \$ (PPP)	Cost of early childbirth in billion \$ (PPP)
2015	22.1	27.8
2016	44.8	56.3
2017	68.6	86.2
2018	93.8	117.9
2019	120.8	151.8
2020	149.5	187.8
2021	179.9	225.9
2022	211.9	266.1
2023	245.8	308.5
2024	281.7	353.4
2025	319.6	400.9
2026	360.4	451.9
2027	405.1	507.7
2028	454	568.5
2029	507.6	634.9
2030	566.3	707.5

Source: World Bank

NEUTRON TO NYLON

Hard Rock from the Sky



Debkumar Mitra

The part of the universe that forms our neighbourhood mostly works like clockwork. This helps astronomers predict the visits of comets, movement of planets, eclipses and tides with an unerring degree of certainty. The same science helps researchers calculate dangers from the sky brought about by objects such as asteroids. One such large rock is widely believed to have pummeled into the Yucatan peninsula in Mexico and wiped away the dinosaurs millions of years ago.

It is unimaginable what would happen if one such big rock collides with Earth today. The probability of an asteroid hitting Earth is 100%. We are, indeed, getting hit every day. Look up on a clear, dark night and you will find a shooting star. Most of these are too small and burn out upon entering Earth's atmosphere. What matters is the size of the asteroid. The larger it is, the greater is the size of disaster it will cause on the planet.

Astronomers have already catalogued many of these dangerously large objects lurking in Earth's backyard. The bad news is that we are sitting ducks for asteroid target practice. We already know that very large asteroids, capable of triggering mass extinction of diameters of 1 km or more, hit Earth only about every half-a-million years. However, there are many smaller asteroids, and these hit us more often.

In 2013, one 18 meter in diameter asteroid broke up nearly 30 km above the city of Chelyabinsk in Russia and generated a shockwave that shattered glass and injured about

1,200 people. These rocks hit us every 20-30 years. And space rocks of the size that exploded in the sky over the remote forest of Podkamennaya Tunguska River in Siberia, flattening close to 80 million trees on June 30, 1908, pay us a visit once every few hundred years.

According to Nasa astronomers, there are no near-Earth objects (NEO) on collision course with Earth right now. However, there is no assurance that the situation will not change dramatically. The uncertainty arises because NEO orbits are chaotic. Even in a clockwork universe, this makes the behaviour of these rocks uncertain. Suddenly a predicted innocuous asteroid flyby becomes a catastrophic event.

Fortunately, constant refinement of tools and meticulous observation by a dedicated team of researchers from Nasa, the European Space Agency (ESA) and other nations have increased the event prediction time of both fortunate and difficult kinds involving asteroids and other NEOs. In 2004, asteroid Apophis raised anxiety levels when a group of scientists announced the likelihood of it hitting Earth to be quite high. As always, the media interpreted it as Apophis heading towards us. The NEO had a quiet flyby.

Recently, the possibility of an impact during its close approach in 2029 was excluded by asteroid watchers. But what will happen in the



The last time there was serious panic

more distant future is less known.

This clear and present danger of a cataclysmic event often gets lost in the din of political and economic crises. The information vacuum gives rise to superstitions, grossly misinterpreted TV news and Hollywood-style exaggeration. The scientific community also needs a voice in the corridors of power to get more attention to this issue.

The answer to the need came from astrophysicist Brian May, more famous as the guitarist of the rock band, Queen. In 2015, May — along with astronaut Rusty Schweickart, filmmaker Grigorij Richters and Danica Remy of the B612 Foundation, a non-profit organisation to protect Earth from asteroids through early detection — created Asteroid Day to educate and raise awareness about asteroids. They selected the date of the Tunguska disaster, June 30, as the Day of Space Rock. Last year, the UN decided to mark the day to spread the knowledge of asteroids.

Every day scientists are adding to our knowledge about asteroids. But the fact remains that there is no plan, secret or otherwise, to stop an asteroid if it comes hurtling towards Earth. There are a few interesting proposals to prevent an impact — ranging from blasting an asteroid to deflect it using a "slingshot" — on the table from Nasa, the European Space Agency and other independent teams. There have been dialogues in the recent past between the US and Europe to fund a couple of these proposals. But nothing has happened. And the clock keeps ticking.

It is a natural disaster that we can predict. With a bit more understanding and experiments, we may even prevent one. But politicians are busy squabbling over other issues impacting funding.

It is true that you cannot see a large asteroid falling from the sky. Sixty-six billion years ago, many of the dinosaurs did not see one coming. They just perished.

MEME'S THE WORD



Citings

Investor Learning

FRANK ZHOU

I look at how investor learning affects firms' voluntary disclosure decisions. By voluntary disclosure decision, I mean management annual earnings forecast decisions. What are the forces that shape management earnings forecast decisions? Empirically, there is a very interesting phenomenon, which is that earnings forecast decisions tend to be "sticky" over time. I built a model trying to explain why the stickiness occurs and to empirically quantify this mechanism that I propose. The mechanism is investor learning about unknown firm profitability.

We know that investors don't know everything, so it is a reasonable assumption that investors don't know firm profitability. Just by taking this simple premise, I show that investor learning leads to sticky disclosure incentives. Say that you invest in Apple; you think that Apple is a pretty good firm. Just observing that Apple's performance drops a little bit at a certain time doesn't mean that Apple is a bad firm for you. In other words, investors' beliefs are sticky over time. I showed that investors' beliefs, in turn, affect managers' voluntary disclosure decisions. My structural estimation shows that investor learning leads to very sticky disclosure incentives so that there is a 10% increase in the likelihood of disclosure in one year caused by investor learning. That would, in turn, lead to about a 10% increase in the likelihood of disclosure in the next year.

From: How Investor Learning Affects Firm Behaviour