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Plugging GST leaks

Tighter GST registration norms are fine, but data coordination between agencies is crucial, too

With tax frauds pertaining to GST "to the tune of more than ₹1.19-lakh crore in the last three years" (according to the website of the Directorate General of Goods and Services Tax Intelligence, or DGSTI), it is hardly surprising that the DGSTI has unleashed a crackdown on fake invoicing networks. To put this sum in perspective, it approximates the budgets of small States, and is close to the deficit that the Centre owes to the States in GST revenues. Of the ₹1.19-lakh crore, it appears that roughly a quarter has been recovered so far. The DGSTI needs to crack down on existing fraudsters and recover the amounts involved, while the GST Council should improve systems to ensure that future frauds are checked. The law committee of the GST Council has suggested stringent GST registration processes, which includes an Aadhaar-like biometric identification and an examination of the track record of the applicant, in terms of income-tax and GST transactions. The law panel has also suggested that 2 per cent of the GST dues be set aside as a deposit or a bank guarantee. Meanwhile, the DGSTI arrested over 60 individuals in recent days, the amounts running up to ₹2,500 crore or more.

A Finance Ministry memorandum issued in May last year details the modus operandi and motives of fake invoicing. While the motive is generally to claim input tax credit without doing any transaction (supplying goods), it could also be aimed to "defraud other authorities such as banks by inflating turnovers, laundering of money, etc". Fake invoicing can be used to show lower profit and avoid payment of income-tax. Improved coordination with direct taxes data is called for — whether the transactions being reported are in sync with the wealth of the firm and its promoter. The movement of goods is falsified by issuing fake e-way bills. "The lack of real time connect between the e-way bill system and GSTN is being exploited by fraudsters," the Ministry notes. The e-invoicing system, which has been introduced for entities above ₹500 crore, is expected to tackle this problem. However, it will apply to firms above ₹100 crore only after April next year.

The fake invoicing network also involves powerful vested interests, as is borne out by the involvement of the son of a Maharashtra MLA. The Ministry points to a network of shell companies at work. The DGSTI needs a free hand. At the same time, a distinction needs to be made between booking the guilty and leaving bonafide entities alone. To prevent the wrong choice of parties to transact business, a list of wrongdoers should be published on the DGSTI portal. The Centre should pursue the matter in a fair, even-handed way, sending out the message that the rule of law rather than arbitrariness shall prevail.

Reaping the whirlwind: On farmer protests

Farmers need more than verbal assurances on continuance of MSP, guaranteed procurement

Farmers of India have felt exploited for long. The **reforms that the Centre brought in**, apparently to make the agriculture sector more efficient and lucrative in the form of three ordinances in June, have had the effect of upsetting large sections of them further. **Parliament passed them into Acts** in September. More than 500 **farmers' unions are now on a path of agitation**. Thousands of farmers from the neighbouring States, **stopped by the police** on their way to Delhi, are **camping at several points** around the national capital. They have **refused to move to a designated site**, a condition set by the Centre for talks. The Centre has aggravated its original mistake of rushing through these laws without wide consultation and political consensus by taking a condescending attitude towards critics. Prime Minister **Narendra Modi said on Sunday that farmers stood to benefit** from the new measures, and this may well be true. The trouble is that most farmers are not convinced by the assurances and fear that their precarity will increase as a result of the changes. Farmer leaders have pointed out that the Centre has refused to address their specific concerns regarding the new laws, which they are concerned will render them helpless in the face of exploitative market forces.

At the **heart of the fears is the potential end of the MSP and guaranteed government procurement** of the produce. The new legal architecture allows farmers more choices in selling their produce, in theory, and creates a national market for their produce. The end of a monopoly market could theoretically lead to more efficiency, but procurement at MSP has been the backbone of India's food security edifice. If the new laws lead to a dismantling of the MSP and the *mandi* system, the farmers fear that they will have little leeway in contracts with private buyers. There are loopholes in the existing system and the case for reforms is strong. But railroading a raft of measures cannot be the way forward. If the Centre is open to legislating a guarantee of procurement at MSP, farmers could be convinced to accept the new laws. Agitating farmers are also pressing for the withdrawal of the proposed **Electricity (Amendment) Bill 2020**, fearing it will end subsidised electricity. While market factors must be taken into consideration, any country's agriculture sector must find an equilibrium of the interest of the producers and consumers, and account for uneven environmental factors across different regions. The apprehensions of the farmers are not unfounded. The onus is on the government to win their confidence. It must unconditionally reach out to the farmers and empathetically listen to them and not precipitate a crisis by high-handedness.

Historic recession: On India's GDP slump

India's economy needs a robust demand stimulus to avoid a protracted slump

The fact that India's economy **entered a technical recession** in the July-September period has now been **confirmed by National Statistical Office data**. Provisional estimates of gross domestic product for the second quarter of the year ending in March 2021 show economic output shrank by 7.5%, following the **23.9% contraction in the first quarter**. Not only has the economy shrunk for a second successive quarter, marking a recession for the first time in independent India's history, but the overall GDP figure of ₹33,14,167 crore (at 2011-12 prices) reveals output has slid back to the lowest level in 12 quarters. This one fact alone ought to give cause for serious concern, notwithstanding the apparent improvement in economic momentum that helped narrow the contraction from the preceding period's precipitous fall. Even there, a closer look at both the expenditure side and the gross value added across various industry categories leaves little room for comfort. Private consumption expenditure — the single biggest component propelling GDP with a share exceeding 50% at constant prices and edging toward 60% in current prices — continued to shrink albeit at a slower pace (-11.3%), reflecting both consumer wariness to spend amid the pandemic and the impact of lost jobs and reduced incomes. And, government consumption spending that was hitherto a bulwark and what kept the bottom from falling out in the first quarter when it grew 16%, contracted by 22% revealing the precarious state of public finances. Taken together, demand was largely missing.

And even though the contractions in gross fixed capital formation, exports and imports all narrowed, it was a puzzling almost fourfold growth in 'discrepancies' at ₹56,962 crore that limited the extent of decline in the overall GDP. In the real economy, electricity and other utility services joined agriculture in posting growth, expanding 4.4%, as the post-lockdown resumption of industrial activity lifted power and water consumption. Surprisingly, manufacturing GVA inexplicably jettisoned its correlation with official IIP data on the sector: while the latter had signalled an average contraction of 6.7% in the July-September period, GVA data from the NSO on Friday showed manufacturing rebounding to a marginal 0.6% expansion after a 39% collapse in the preceding quarter. One possible explanation for this uptick in provisional manufacturing GVA is that the year-earlier period had witnessed a contraction and the statistical effect of a low base coupled with inventory restocking likely lifted the figure. Financial, real estate and professional services, which contribute about a fourth of the GVA, widened contraction from the first quarter, shrinking 8.3%. Clearly, the financial services sector is not in good health and is an ominous portent for the economy given its crucial role in credit intermediation. The economy urgently needs a robust demand stimulus if a protracted slump is to be prevented.