Sambhav-2023

Day 85

Question 1: Surmounting collection of Goods & services Tax (GST) is showing its commendable success. Is there any need to change the tax regime from indirect to direct tax? Discuss. (250 Words)

Question 2: What is FRBM Act? What provisions does it contain regarding fiscal consolidation? (250 Words)

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Approach / Explaination / Answer

Answer 1

Approach

- Give a brief introduction about Goods & Services Tax (GST).
- Discuss the effectiveness of Goods and Services Tax.
- Clarify if there is any need to change the tax regime from indirect to direct tax regime.
- Write a holistic and effective conclusion.

Introduction

- Goods and Services Tax (GST) is a value-added tax levied on the supply of goods and services in India.
- It is a comprehensive, indirect tax system that subsumes a variety of taxes such as VAT, excise duty, service tax, etc., and replaces them with a single tax.
- GST is levied at every stage of the supply chain, from production to final consumption, and the tax paid on the value-added at each stage can be claimed as input tax credit.

Body

- **Good and Services Tax (GST):**
  - The implementation of Goods and Services Tax (GST) has indeed led to a significant increase in the collection of indirect taxes in India.
  - The GST has streamlined the indirect tax system by subsuming a variety of taxes, such as VAT, excise duty, and service tax, into a single tax.
  - This has not only made the tax system more efficient but has also reduced the cascading effect of taxes, making it easier for businesses to operate.
  - The GST has also increased the revenue of the government, providing a stable and

predictable source of income that can be used for public welfare programs and infrastructure development.

- The debate over whether to change the tax regime from indirect to direct tax is a complex one and depends on various factors such as the economic conditions of a country, the taxation system, and the administration's ability to implement and enforce the laws.
- **Need to change the tax regime from indirect to direct tax: Indirect vs Direct Tax debate.**
  - Advocates of direct taxation argue that it is a more equitable system, as it taxes individuals and corporations based on their income or wealth.
  - This system is seen as fairer because those who earn more pay more taxes, and the burden is distributed more evenly.
  - Direct taxes are considered progressive as they are levied on individuals and organizations in proportion to their income or wealth.
  - Direct taxes, such as personal income tax and corporate tax, provide a stable and predictable source of revenue for the government, which can be used for public welfare programs and infrastructure development.
  - A shift towards direct taxes can help increase the tax base, as it encourages individuals and organizations to declare their actual income, and it can also help reduce tax evasion and increase government revenue.
- While the GST has helped simplify the tax system and increase the tax base, indirect taxes are still considered regressive as they impact lower-income individuals more severely compared to higher-income individuals.
- It is important to note that a complete shift from indirect to direct taxes is not feasible or practical.
- Both types of taxes play an important role in a balanced and sustainable tax system, and the appropriate mix of direct and indirect taxes will depend on the specific circumstances and needs of each country.

Conclusion

The implementation of the Goods and Services Tax (GST) has proven to be a successful initiative for the collection of taxes. Despite some initial challenges, the GST has streamlined the tax system and has helped in increasing the revenue of the government. However, it is important to note that the effectiveness of a tax system depends on various factors, including the economic conditions of a country, the simplicity of the tax regime, and the willingness of citizens to comply with the tax laws.

Answer 2

Approach

- Give a brief introduction about FRBM Act.
- Mention the provisions which are important for fiscal consolidation.
- Write a holistic and appropriate conclusion.

Introduction

- FRBM stands for Fiscal Reduction and Management Act. The FRBM Act is an act of the Parliament of India which was enacted in 2003 with the aim of **ensuring fiscal discipline, transparency and accountability in government spending.**
- The act requires the government to ensure that the fiscal deficit, which is the difference between government's total revenue and total expenditure, is reduced over a period of time and to eliminate revenue deficit, which is the excess of government's total expenditure over its total revenue.
- **Fiscal consolidation** is a reduction in the underlying fiscal deficit. Fiscal Consolidation refers to the policies undertaken by Governments (national and sub-national levels) to reduce their deficits and accumulation of debt stock.

Body

- **The Fiscal Reduction and Management (FRBM) Act contains several provisions regarding fiscal consolidation, including the following:**
  - **Fiscal Deficit Targets:** The act requires the government to reduce its fiscal deficit to a specified target over a period of time. The fiscal deficit would be brought down to below 4.5 per cent by 2025-26.
  - **Elimination of Revenue Deficit:** The act requires the government to eliminate its revenue deficit, which is the excess of government's total expenditure over its total revenue.
  - **Medium-term Fiscal Strategy:** The act requires the government to formulate and implement a medium-term fiscal strategy, which outlines the government's plans for reducing its fiscal deficit over a period of three years.
  - **Annual Fiscal Reports:** The act requires the government to present an annual fiscal responsibility statement to Parliament, which outlines the government's progress in achieving its fiscal consolidation targets.
  - **Penalties for Non-compliance:** The act imposes penalties on the government for non-compliance with the provisions of the act, including the imposition of fines and the disqualification of elected members from holding public office.

Conclusion

The Fiscal Responsibility and Budget Management (FRBM) Act is a piece of Indian legislation aimed at promoting fiscal responsibility and sustainability in the government's budget management. It contains provisions for fiscal consolidation, including targets for reducing fiscal deficit and debt-to-GDP ratio, as well as measures for ensuring transparency and accountability in budget planning and execution. The FRBM Act is an important tool for ensuring that the government's finances are managed in a responsible and sustainable manner, and is seen as critical to maintaining economic stability and growth in India.