Fiscal Developments

02

CHAPTER

"Precision Beats Power, and Timing Beats Speed"

— By Conor McGregor

In the backdrop of an unprecedented crisis, the year 2020-21 has been a challenging one on the fiscal front. The shortfall in revenue collection owing to the interruption in economic activity and the additional expenditure requirements to mitigate the fallout of the pandemic on vulnerable people, small businesses, and the economy in general, created immense pressure on the available limited fiscal resources. In order to cater to the increased demand for resources, the target for gross market borrowings of the Central Government for the financial year 2020-21 was revised from the Budget estimate of ₹ 7.8 lakh crore to ₹ 12 lakh crore.

India, therefore, adopted a calibrated approach best suited for the evolving situation of the economy in contrast to front-loaded large stimulus packages adopted by many countries. India's fiscal policy reflected the understanding that aggregate demand, especially that for non-essential items, reflects precautionary motives to save, which inevitably remains high when overall uncertainty is high. Therefore, during the initial months of the pandemic when uncertainty was high and lockdown imposed economic restrictions, India did not waste precious fiscal resources in trying to pump up discretionary consumption. Instead, the policy focused on ensuring that all essentials were taken care of, which included direct benefit transfers to the vulnerable sections, emergency credit to the small businesses, and the world's largest food subsidy programme targeting 80.96 crore beneficiaries. During the unlock phase, when uncertainty declined and the precautionary motive to save subsided, on the one hand, and economic mobility increased, on the other hand, India ramped up its fiscal spending focusing on overall demand revival. India's demand-side policy, thus, underscores the idea that pressing on the accelerator while the brakes are clamped only wastes scarce fuel.

Owing to the recovery of the economy over the past few months, the monthly revenue collections have witnessed a revival. The monthly GST collections have crossed the ₹ 1 lakh crore mark consecutively for the last 3 months, reaching its' highest ever in December 2020. Reforms in tax administration have set in motion a process of transparency, accountability and more importantly, enhancing the experience of an honest tax payer with the tax authority, thus incentivising tax compliance. The expenditure policy for 2020-21 has been focused on re-prioritisation of expenditure according to evolving situation, with an increasing emphasis on capital expenditure. Capital expenditure during the last three months of the year 2020 recorded an unprecedented YoY growth of 129 per cent in October, 249 per cent in November and 62 per cent in December. Keeping in view the revenue shortfall and the demand for higher expenditure during the year, the Government *is expected to register a fiscal slippage in 2020-21. This deviation from the path of fiscal consolidation may however be transient as the fiscal indicators rebound with the recovery in the economy. Thus, focusing on boosting GDP growth would be pivotal for enabling a sustainable fiscal path in the medium term.*

INTRODUCTION

2.1 The global economy experienced an unprecedented crisis in the year 2020. The COVID-19 pandemic forced countries to resort to lockdown that had a sudden and intense impact on the economic activity, financial markets and survival of the vulnerable sections of the society. Amidst this phase of shock and uncertainty massive fiscal measures, amounting to 12 percent of global GDP[1], were taken globally to mitigate the adverse impact of the pandemic. Fiscal policy, in combination with monetary policy measures, emerged as an effective policy tool in times of crisis.

2.2 The fiscal policy response of the Government of India to the pandemic was distinct from other countries. Unlike many other countries that chose a front-loaded grand stimulus package for revival of the economy, Government of India adopted a step-by-step approach. The approach was to provide a cushion for the poor and vulnerable section of society and to the business sector (especially the MSMEs) in the initial phase of lockdown. This included the world's largest food programme, direct transfers to Jan Dhan accounts, as well as government guarantees for credit, postponement of financial deadlines etc. With the gradual un-locking of the economy, the focus of the fiscal stimulus has been widened with various measures taken to boost the domestic demand such as ramping up of capital expenditure, Production Linked Incentives and other schemes to revive consumption demand.

2.3. This chapter reviews the fiscal developments in India both before and after the outbreak of pandemic. It begins with a discussion of fiscal performance and policy response to the pandemic in the current financial year, followed by the section on the major reforms introduced in tax administration in 2020-21. The chapter then gives a detailed analysis of the medium to long term trends in Central, State and General Government finances, and concludes with a snapshot of the outlook for 2021-22.

FISCAL SITUATION AND RESPONSE TO COVID-19 PANDEMIC

2.4 The pandemic year 2020-21 has so far entailed fiscal challenges for the Indian economy, which were characterized by additional expenditure requirements directed towards ensuring basic means of sustenance and livelihoods for the vulnerable people, relief measures for MSME sector, accommodating additional health infrastructure and services to fight COVID-19 and measures to boost the demand. Throughout this period, the Government followed a carefully calibrated strategy in the management of expenditure.

2.5 During the first two quarters of financial year 2020-21, Ministries were classified into three categories. Ministries in category 'A' were providing relief or welfare to the public. No expenditure restrictions were placed on these Ministries and in fact enhanced allocations were made available to them. Other Ministries which were not directly involved in the pandemic were placed in the category 'B' and allowed to spend 20% of their budget per quarter. Ministries with low priority in the pandemic situation were placed in category 'C' and allowed to spend

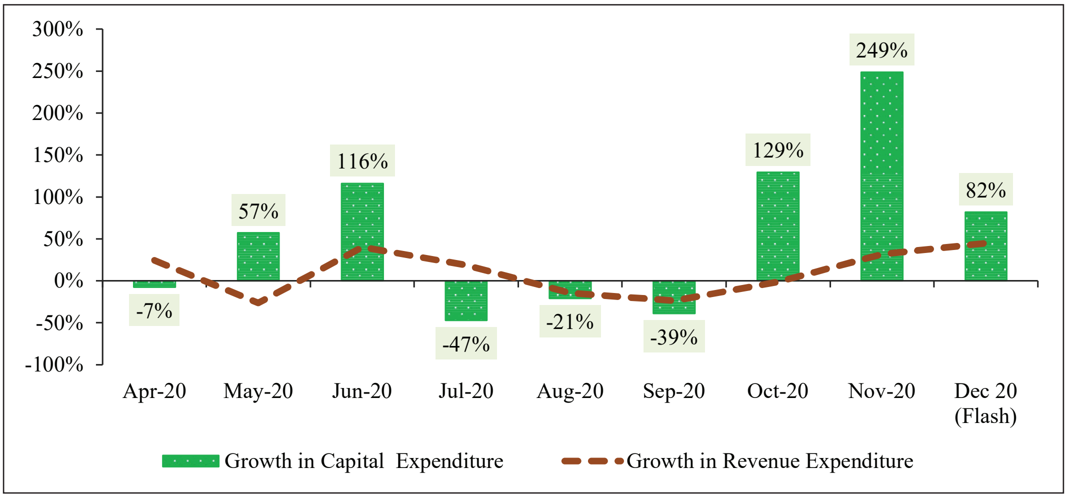
[1]as on September 11, 2020 (October 2020 IMF Fiscal outlook)

15% of their budget in each of the first two quarters. However, even in Category B and C Ministries, spending on domestic capital expenditure was permitted beyond these ceilings. This categorization enabled the Government to ensure that funds for essential activities were made available in full despite a sharp contraction in revenue receipts, and that scarce resources were conserved for re-prioritisation.

2.6 With effect from the third quarter, the spending ceilings were relaxed on the basis of revised full year allocations. The revised allocations reflected a substantial re-prioritisation of expenditure to those sectors with the most positive effect on the economy, either in terms of re-kindling growth or meeting welfare needs. Ministries were allowed to decide the timing of expenditure within the revised allocation. Despite the absence of curbs on capital expenditure, the pace of capital expenditure was restrained in the first two quarters on account of movement restrictions in containment zones, and unwillingness or inability of contractors and workers to carry out works.

2.7 With the easing of movement and health-related restrictions in the third quarter, the pace of government expenditure has picked up sharply. Second to pandemic relief, the Government has placed maximum priority on productive domestic capital expenditure which has a high multiplier effect on the economy. The capital expenditure for April to December 2020 (Flash)[2] stood at ₹ 3.17 lakh crore, 24 per cent higher than the capital expenditure during the corresponding period in the previous year. The total expenditure also recorded a YoY growth of 11 per cent, increasing from ₹ 21.1 lakh crore during April to December 2019 to ₹ 23.4 lakh crore during April to December 2020 (Flash). An analysis of the monthly expenditure also shows that the total expenditure registered an increase during the last three months of the year 2020 by 9.5 per in October, 48.3 per cent in November and 50.2 per cent in December (Flash) compared to the same months in the previous year. Moreover, the capital expenditure during the last three months of the year 2020 recorded a phenomenal growth of 129.5 per cent in October, 248.5 per cent in November and 81.9 per cent in December (Flash) as compared to same months in previous year (Figure 1). It can clearly be seen that by timing the expenditure push, especially the capital expenditure, after the reduction in health-related curbs, the growth "bang" for the fiscal buck has been maximized.

Figure 1: Growth (YoY) in monthly Expenditure during FY 2020-21

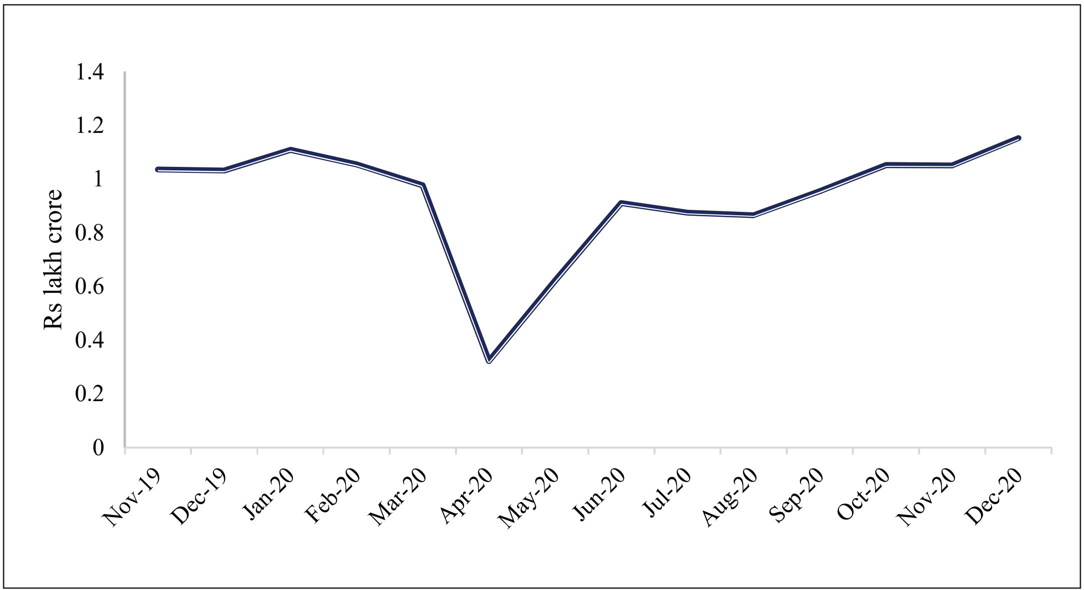


Source: Department of Expenditure

[2]Flash figures from Office of CGA as on 11th January 2021.

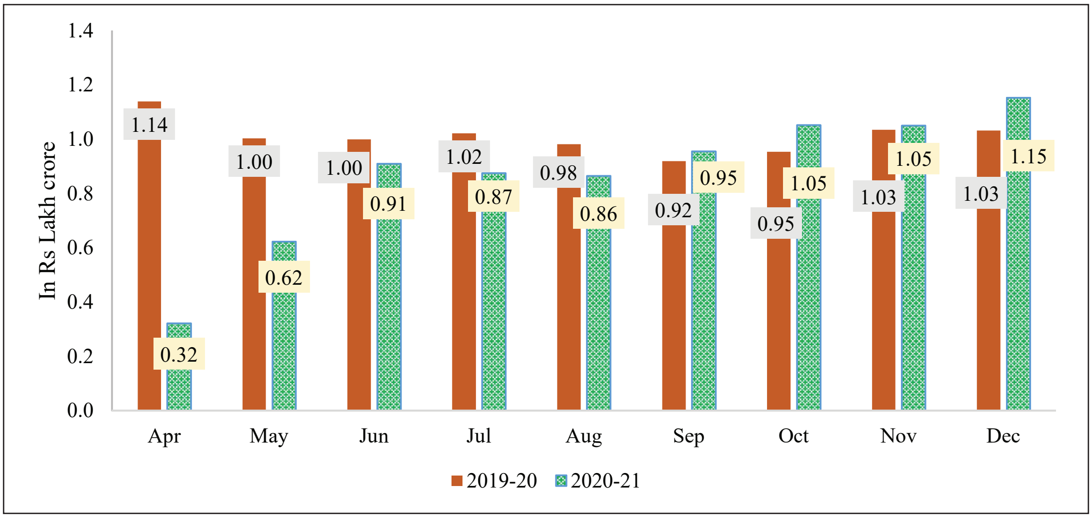
2.8 Recovery is also evident on the revenue front, as the monthly gross GST collection[3] has crossed the ₹ 1 lakh crore mark consecutively for the last 3 months (Figure 2). Monthly GST revenues for the month of December 2020 stood at ₹ 1.15 lakh crore, after registering a 12 per cent growth in the GST revenues over December 2019 (Figure 3). This has been the highest monthly GST collection since the introduction of GST. The recovery in GST collection has been due to the combined effect of the rapid economic recovery post pandemic and the nation-wide drive against GST evaders and fake bills along with many systemic changes introduced recently, which have led to improved compliance.

Figure 2: Recovery in GST collections during 2020-21



Source: Department of Revenue

Figure 3: Trends in GST collection during 2020-21



Source: Department of Revenue

[3]Centre and States taken together

2.9 The remaining section analyses the performance of fiscal indicators and their components for period April to November 2020. The data on Government accounts for April to November 2020, released by the Controller General of Accounts, show that the fiscal deficit of the Central Government at end November 2020 stood at 135.1 per cent of the BE compared to 114.8 per cent during the same period in 2019-20 (Table 1). Given the enormity of the situation faced by the pandemic, most of the countries including India have been fiscally strained, which reflected in the deficit figures. In order to cater to the increased demand for resources required by the Government, the target for gross market borrowings of the Central Government for the financial year 2020-21 was revised from the Budget estimate of ₹ 7.8 lakh crore to ₹ 12 lakh crore.

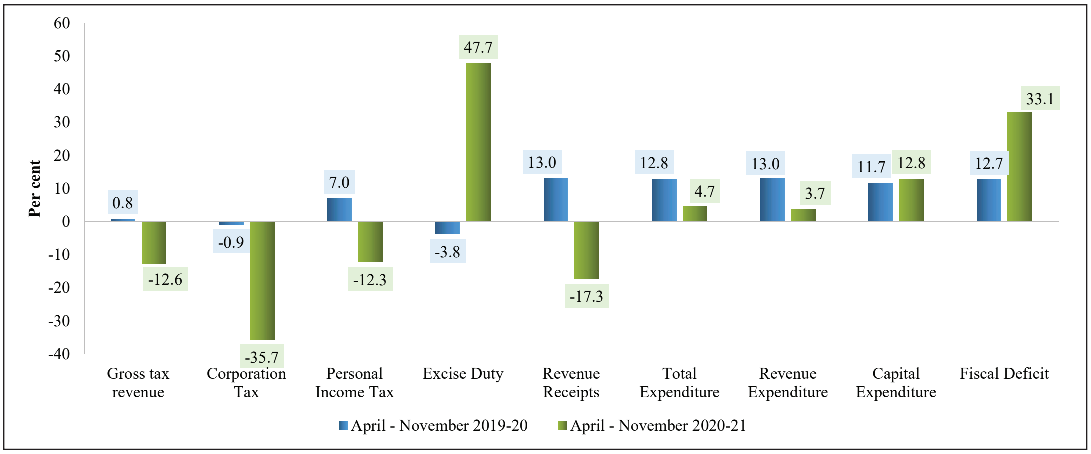
Table 1: Provisional Outcome for 2020-21 (Up to November 2020)

		2020-21 BE	In ₹ lakh crore		Percentage of respective BE		Growth over last year (per cent)	
			2019-20 (Apr – Nov)	2020-21 (Apr – Nov)	2019-20 (Apr – Nov)	2020-21 (Apr – Nov)	2019-20 (Apr – Nov)	2020-21 (Apr – Nov)
1	Revenue Receipts	20.21	9.83	8.13	50.1	40.2	13.0	-17.3
2	Gross tax revenue	24.23	11.74	10.26	47.7	42.4	0.8	-12.6
3	Assignment to States	7.84	4.22	3.34	52.1	42.6	-2.3	-20.7
4	Tax Revenue (net to Centre)	16.36	7.51	6.88	45.5	42.1	2.6	-8.3
5	Non Tax Revenue	3.85	2.33	1.24	74.3	32.3	67.8	-46.6
6	Non Debt Capital Receipts	2.25	0.29	0.18	24.2	8.1	10.4	-37.5
7	Non Debt receipts	22.46	10.12	8.31	48.6	37.0	12.9	-17.9
8	Total Expenditure	30.42	18.20	19.06	65.3	62.7	12.8	4.7
9	Revenue Expenditure	26.30	16.06	16.65	65.6	63.3	13.0	3.7
10	Capital Expenditure	4.12	2.14	2.41	63.2	58.5	11.7	12.8
11	Revenue Deficit	6.09	6.23	8.52	128.4	139.9	13.0	36.8
12	Fiscal Deficit	7.96	8.08	10.76	114.8	135.1	12.7	33.1
13	Primary Deficit	0.88	4.66	6.92	1076.5	785.3	26.5	48.5

Source: CGA Monthly Accounts; BE: Budget Estimates

2.10 The non-debt receipts have been adversely hit by the slump in economic activity after the pandemic outbreak. During April to November 2020, the non-debt receipts have registered a growth of -17.9 percent relative to the corresponding period last year (Table 1). This shortfall is attributed to a fall in all components of non-debt receipts viz. net tax revenue, non-tax revenue and non-debt capital receipts. The Non-Tax revenue collections up to November 2020 registered a decrease of 46.6 per cent relative to the corresponding period last year. This was led by a decrease in dividends and profits by ₹ 0.88 lakh crore over April to November 2019, which stood at 45.4 per cent of BE.

Figure 4: Growth rate of fiscal indicators in 2020-21 (up to November 2020)



Source: CGA Monthly Accounts

2.11 The Gross Tax Revenue during the first eight months of 2020-21 was ₹10.26 lakh crore, 42% of BE, 12.6 per cent lower than in the same period last year. This decline was owing to the negative growth in all direct taxes and major indirect taxes, except excise duties. In particular, the shortfall in direct tax collection contributed to 92 per cent of the shortfall in Gross Tax Revenue. Out of the shortfall in GTR of ₹ 1.48 lakh crore relative to corresponding period last year, a shortfall of more than ₹ 1 lakh crore was attributed to Corporation taxes, shortfall ₹ 0.3 lakh crore was due to Personal Income taxes and ₹ 0.14 lakh crore was due to the Indirect taxes. The Corporation Tax and Personal Income Tax stood at 27.3 per cent of BE and 36.8 per cent of BE for the period up to November 2020.

2.12 The shortfall in indirect taxes during April to November 2020 was led by shortfall in customs and GST collections for the Centre. Revenue collection from customs stood at 45.7 per cent of BE and GST collections for the Centre were 48 per cent of BE during April to November 2020. This shortfall was partly offset by the revenue collection through the excise duties, which rose by 48 per cent during the first eight months of the fiscal relative to the same period last year. A series of measures undertaken for direct and indirect taxes in the year 2020-21 in the wake of COVID-19 are presented in Annex. These measures focused on supporting the businesses and individuals by extension of time limits for compliances and statutory actions, improving the working capital/ liquidity availability with the industry/ trade, simplification of procedures and use of technology for submission of documents or holding personal hearings so as to reduce the physical interface between the tax payer and the department, expeditious clearance of drugs/ medicines/ safety and medical equipment required for COVID-19 treatment/ prevention.

2.13 The adverse market conditions arising due to COVID-19 have also negatively impacted the Government's plans to achieve the target for disinvestment receipts, which is a major component of Non-debt Capital receipts. The Budget 2020-21 had envisaged to mobilize ₹ 2.1 lakh crore from disinvestment proceeds during current fiscal year, of which ₹ 90,000 crore was envisaged for disinvestment in financial institutions. As on 20th January, 2021, the Government has been able to raise ₹ 15,220 crore of which ₹ 443 crore was raised through Initial Public Offer (IPO) (Mazagaon Dock Shipbuilders Limited (MDL)), while ₹ 10,169 was realized through Offer For Sale (₹ 4924 crore- Hindustan Aeronautics Limited (HAL), ₹ 771 crore- Bharat Dynamics Limited (BDL) and ₹ 4474 crore- Indian Railway Catering and Tourism Corporation Ltd (IRCTC), ₹ 2770 crore was yielded through buyback (₹ 156 crore- KIOCL, ₹ 1065 crore- NTPC Ltd., ₹ 173 crore- RITES Ltd., and ₹ 1376 crore- NMDC Ltd), and ₹ 1838 crore from other transactions. During the year, the Government announced the Atma Nirbhar Bharat package that sought to redefine public sector participation in commercial enterprises. The Government recognizes the need for opening up all the sectors to the private sector while public sector enterprises play an important role in strategic areas. The focus of the Government is to embark on a significant privatisation exercise of CPSEs and speeding up big-ticket strategic sale/ privatisation of large CPSEs such as Air India, BPCL, CONCOR and SCI.

2.14 The expenditure policy during the year 2020-21 has focused on restructuring and prioritisation of expenditure to meet the unforeseen expenditure demands arising due to COVID-19. The total Government expenditure during April to November 2020 stood at 62.7 per cent of Budget estimate, compared to 65.3 per cent in April to November 2019. The revenue expenditure has grown by 3.7 per cent during the first eight months of 2020-21 compared to the same period in 2019-20. The monthly accounts data up to November 2020 shows that subsidies registered a negative growth of 14 per cent during the first eight months of FY 2020-21 (refer to Table 2). The Revised Estimates would give more clarity on the subsidy expenditure during the current year. The decline in global petroleum prices acted as an important fiscal shock absorber during 2020-21, as it led to a decline in petroleum subsidies and an increase in revenue collection from excise duties (owing to increased excise duty levies on petroleum products).

Table 2: Expenditure on major subsidies

Items	Budget Estimate (In ₹ lakh crore)	April to November (In ₹ lakh crore)			Rate of growth over same period in previous year (April -Nov)		
	2020-21	2018	2019	2020	2018	2019	2020
Total Major Subsidies	**2.28**	**2.19**	**2.35**	**2.02**	**6.3**	**7.3**	**-14.0**
Food Subsidy	1.16	1.42	1.32	1.16	5.3	-7.2	-12.0
Nutrient Based Fertilizers Subsidy	0.24	0.20	0.22	0.16	14.9	11.3	-29.6
Urea Subsidy	0.48	0.33	0.51	0.50	4.6	52.7	-1.8
Petroleum	0.41	0.23	0.30	0.20	8.1	27.7	-31.9

Source: CGA Monthly Accounts

2.15 In order to support the creation of long term assets and infrastructure, the Central Government had enhanced the budget provision for Capital Expenditure on roads, defence, water supply, urban development and domestically produced capital equipment by ₹ 25,000 crore for FY 2020-21. This is in addition to ₹ 4.12 lakh crore Capital Expenditure estimated in Budget 2020-21. The capital expenditure during April to November 2020 has grown by 12.8 per cent over the same period in 2019-20.

2.16 During the past months, positive signs of recovery in revenue collections have been seen in terms of positive growth in monthly GST collections and more than 50 per cent growth in revenue receipts for the month of October 2020 and November 2020 relative to the corresponding months of 2019. However, given the adverse impact of COVID-19 on economic activities particularly the decline in individual and corporate incomes, consumption of goods and services and the muted domestic and international trade in the first half of FY 2020-21, it is expected that the tax revenues may fall short of the Budget estimates during 2020-21. Therefore keeping in view the concurrent demand of expenditure pertaining to the stimulus packages announced by the Government during the year to mitigate the impact of the pandemic and the anticipated revenue shortfall, it is expected that the fiscal deficit of the Central Government may overshoot its Budget Estimate for the current fiscal year. The details of the fiscal policy stimulus package announced by Government in response to COVID-19 may be seen in Box 2.

2.17 In view of this shock on the fiscal system induced by COVID-19, the important concern therefore is whether the medium term fiscal policy strategy should focus on growth or fiscal restraint. Chapter 2 in Volume I of the Survey discusses this in detail. Adoption of countercyclical expansionary fiscal policy in times of crisis is expected to boost the growth in GDP both directly, and indirectly through multiplier effects on private consumption expenditure and private investment. Higher GDP growth would thereby facilitate buoyant revenue collection in the medium term, and thereby enable a sustainable fiscal path.

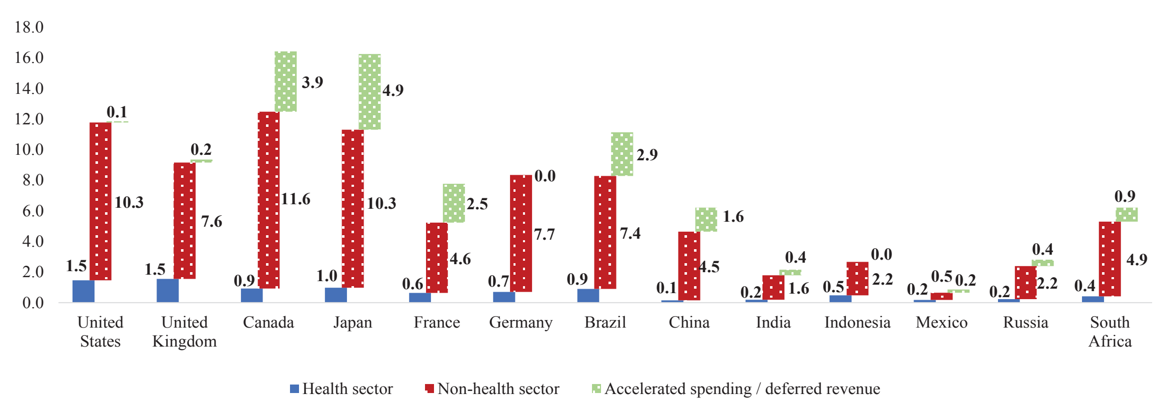
Box 1: Fiscal Policy response to COVID-19 across the globe

The economies across the world have undertaken massive use of fiscal policy measures with an objective to protect the lives and livelihoods against the health and economic effect of COVID-19 pandemic, to boost the demand and foster the reopening of the economies after the lockdown phase. The fiscal measures adopted have been diverse, comprising of above the line measures, below the line measures and contingent liabilities (guarantees, quasi-fiscal operations).

"Above-the-line" measures include those for which full cost is reflected in the fiscal deficit, government debt, and increased borrowing needs in the short term. These measures include additional spending (for example, health services and unemployment benefits); capital grants and targeted transfers (for example, wage subsidies or direct transfers); or tax measures (for example, tax cuts or other relief) provided through standard budget channels. "Below-the-line" measures are defined as generally involve the creation of assets, like equity injections, loans, asset purchase etc., which may have little or no upfront impact on the fiscal deficit all although they can later increase debt or reduce liquidity (IMF Fiscal Monitor April 2020).

The composition of various above-the-line measures and other liquidity support measures announced by the governments in response to the COVID-19 pandemic, as of September, 2020, may be seen in Figure 5 and Table 3. These estimates by IMF show that Government of India announced above-the-line measures equivalent to 2.2 per cent of GDP and other liquidity support measures of around 5.3 per cent of GDP up to September, 2020. It may be noted that additional fiscal measures equivalent to 1.7 per cent of GDP were introduced by the Government of India in October & November 2020 (See Box 2). Although India's measures were smaller than those of other developed countries, they were successful in facilitating a recovery in the economy. This also leaves India with a greater elbow room to deploy fiscal resources in the future.

Figure 5: Above the line measures (as a percent of GDP) - upto September 2020



Source: IMF Fiscal Outlook, October 2020.
Includes key fiscal measures announced by the governments in response to the COVID-19 pandemic as of September 11, 2020

Table 3: Liquidity Support measures (as a percent of GDP) - upto September 2020

	Below the line measures: equity injections, loans, asset purchase or debt assumptions.	Contingent liabilities-Guarantees	Contingent liabilities-Quasi-fiscal operations
United States	0.3	2.2	
United Kingdom	0.0	16.5	
Canada	0.2	4.0	
Japan		3.0	20.7
France	0.9	14.8	
Germany	6.0	24.8	
Brazil	1.0		5.3
China		0.4	0.9
India	0.3	4.5	0.5
Indonesia	0.2	0.9	
Mexico	0.2		0.3
Russia	0.1	0.5	0.5
South Africa		4.1	0.1

Source: IMF Fiscal Outlook, October 2020.

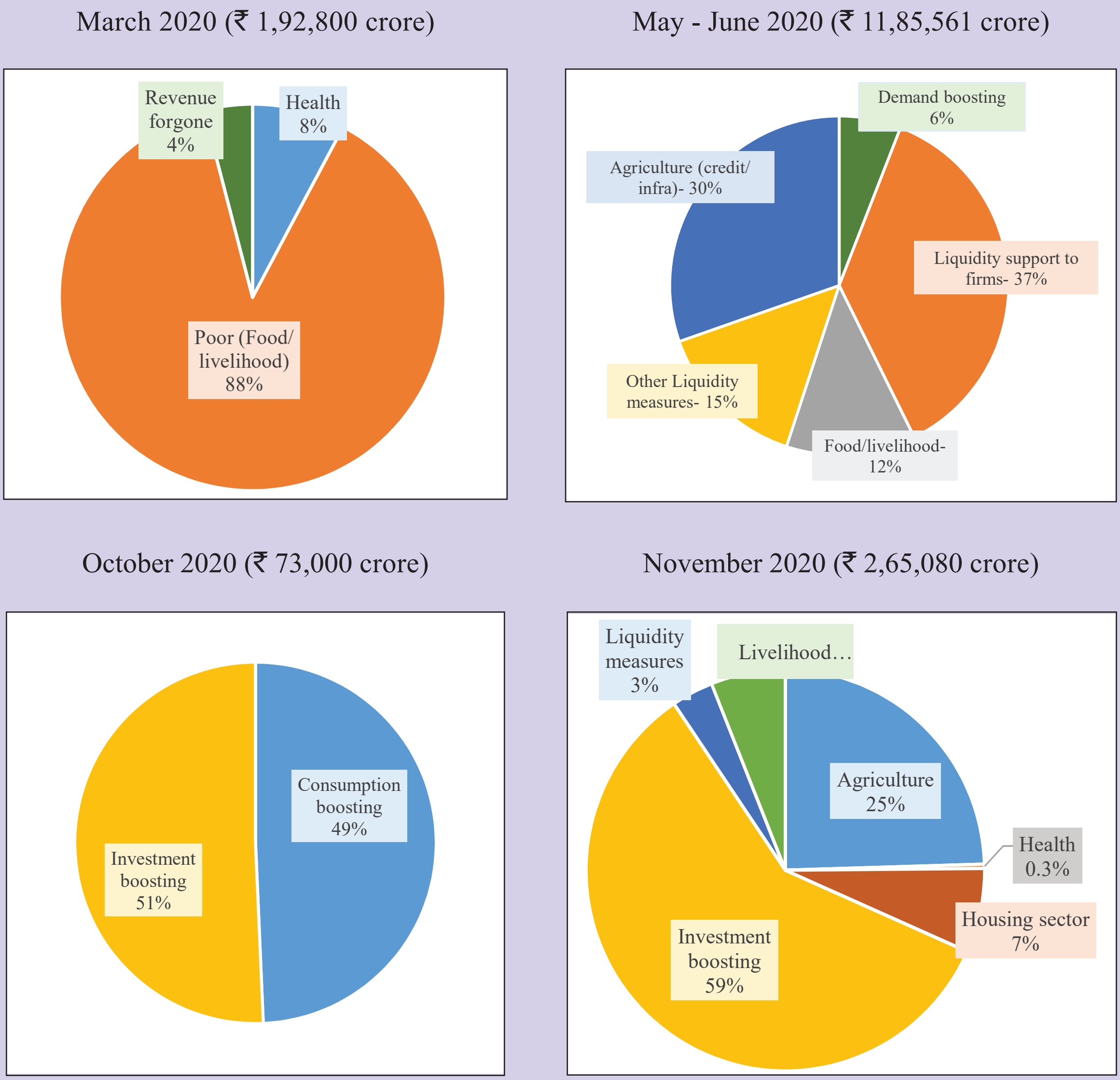
Box 2: Fiscal Stimulus by Government of India

In order to facilitate a resilient recovery of the economy from the impact of COVID-19 pandemic and the following lockdown, Government of India and RBI together announced a total stimulus worth ₹ 29.87 lakh crore, which is 15% of national GDP. Out of this, stimulus worth 9% of GDP has been provided by the Government under Atma Nirbhar Bharat Package. This stimulus was provided in the following tranches:

a. Special economic and comprehensive package, announced from 13-17 May 2020.
b. Measures to stimulate consumer spending in the economy announced on 12 October 2020.
c. Measures under Atma Nirbhar Bharat 3.0 announced on 12 November 2020.

It may be emphasized that in contrast with the fiscal policy approach adopted by some of the other countries, whereby a one-time large demand stimulus package was announced, the fiscal stimulus by the Government of India was introduced in a phased manner. The special economic and comprehensive package announced in the initial phase of lockdown focused on measures to primarily provide a cushion to the vulnerable sections of the society and the small businesses. This included direct food transfers to the poor and vulnerable, livelihood programmes, guarantees and liquidity enhancing measures. Subsequently, along with the steady unwinding of the lockdown and restrictions, the demand side impetus was given to re-inflate consumption demand. When the economic recovery began after the lifting up of the lockdown, the focus of the stimulus measures shifted towards on investment boosting measures like Production Linked Incentives, enhancing capital expenditure and steps to encourage investment in infrastructure sector. This change in mix of the stimulus measures, as shown in the figure below, reflects that the fiscal policy had the flexibility of adapting to an evolving situation in order to enable a resilient recovery.

Figure 6: Mix of stimulus measures announced in response to COVID-19



The sequencing of fiscal stimulus provided by the Government may be seen in the Table below

Table 4: Fiscal Stimulus- Atma Nirbhar Bharat Package

Sequencing of the measures	Amount (₹ Crore)	As % of GDP*
Total stimulus by Government of India	1716441	8.8
March 2020		
Pradhan Mantri Garib Kalyan Package	170000	0.87
PM's announcement of health measures	15000	0.08
Revenue lost due to tax measures announced since 22.03.2020	7800	0.04
May 2020		
Pradhan Mantri Matsya Sampada Yojana	20000	0.10
Additional MGNREGS allocation	40000	0.21
EPF Support for Business & Workers	2800	0.01
Reduction in EPF rates	6750	0.03
Liquidity Injection for DISCOMs	90000	0.46
Reduction in TDS/TCS rates	50000	0.26
Free Food grain Supply to Migrant Workers for 2 mths	3500	0.02
Collateral Free Automatic Loans Facility for Business including MSMEs	300000	1.54
Subordinate Debt for Stressed MSMEs	20000	0.10
Equity Infusion through Fund of Funds for MSME	50000	0.26
Special liquidity Scheme for NBFC/HFC/MFIs	30000	0.15
Partial credit guarantee Scheme 2.0 for Liabilities of NBFCs/MFIs	45000	0.23
Interest Subvention for MUDRA Shishu Loans	1500	0.01
Special Credit Facility to Street Vendors	5000	0.03
Extension of Credit Linked Subsidy Scheme for Middle Income group (Housing Sector)	70000	0.36
Additional Emergency Working Capital through NABARD	30000	0.15
Additional credit through KCC	200000	1.03
Food Micro enterprises	10000	0.05
TOP to TOTAL: Operation Greens	500	0.00
Agri Infrastructure Fund	100000	0.51
Animal Husbandry Infrastructure Development Fund	15000	0.08
Promotion of Herbal Cultivation	4000	0.02
Beekeeping Initiative	500	0.00
Viability Gap Funding Scheme for Social Infrastructure projects	8100	0.04

June 2020		
Extension of PMGK Anna Yojana from July to November (5 months)	82911	0.43
October 2020		
Boost Capital Expenditure	37000	0.19
LTC voucher Scheme	28000	0.14
Festival Advance	8000	0.04
November 2020		
Boost for Atma Nirbhar Manufacturing - Production Linked Incentives	145980	0.75
Boost for Rural Employment under Atma Nirbhar Bharat 3.0	10000	0.05
R&D Grant for COVID Suraksha – Indian vaccine development	900	0.00
Atma Nirbhar Bharat Rozgar Yojana (overall ₹ 36,000 crore) under Atma Nirbhar Bharat 3.0	6000	0.03
Industrial Infrastructure, Industrial Incentives and Domestic Defence Equipment	10200	0.05
Support for Agriculture – Fertiliser Subsidy	65000	0.33
Housing for All - Pradhan Mantri Awas Yojana Urban	18000	0.09
Boost for Infrastructure-equity infusion in NIIF Debt Platform	6000	0.03
Boost for Project Exports – Support for EXIM Bank	3000	0.02

* First Advanced Estimates for GDP for 2020-21 i.e. ₹ 1,94,81,975 has been used.

Source: PIB

REFORMS IN TAX ADMINISTRATION

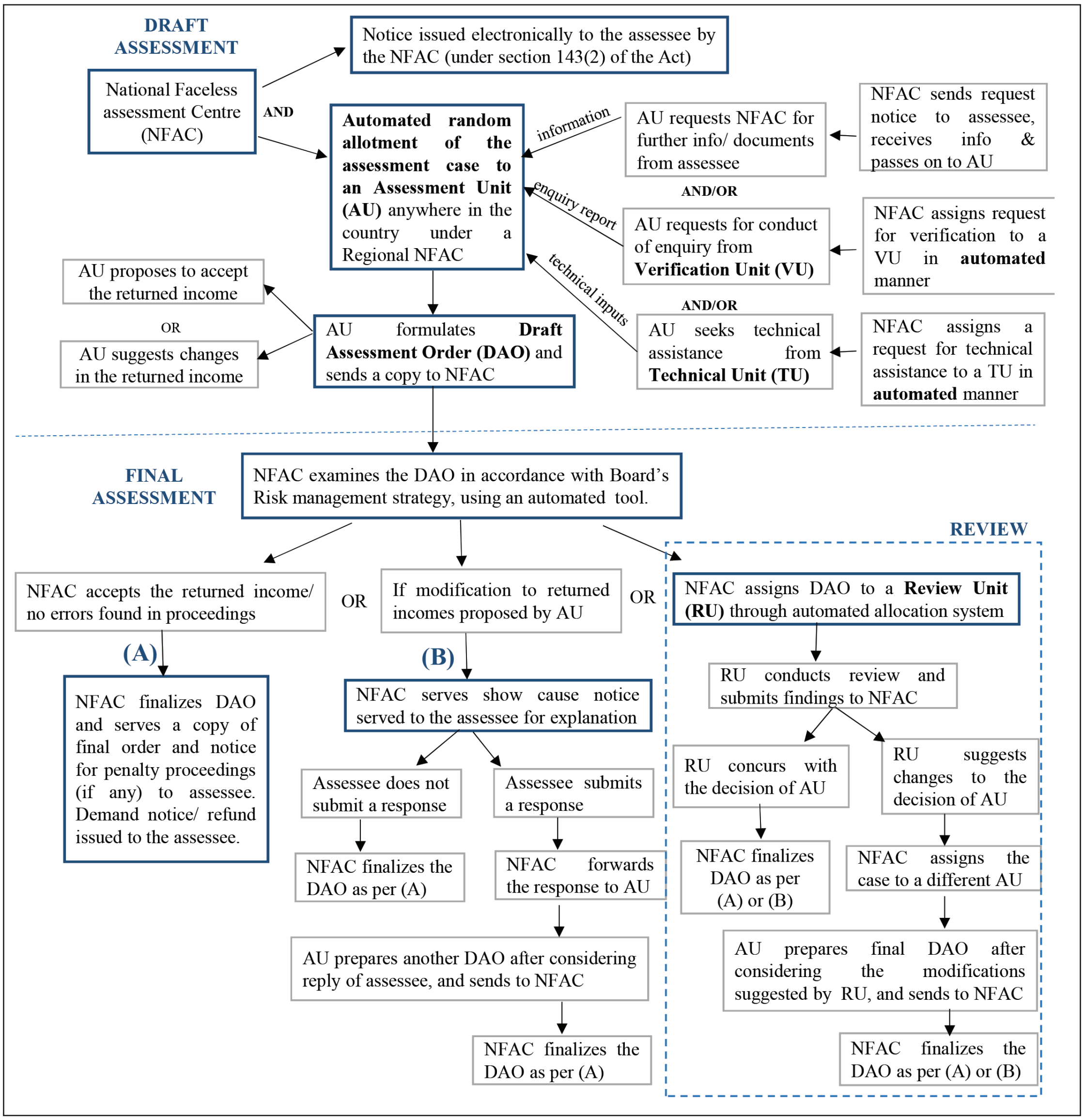
2.18 The Government has consistently adopted reform measures aimed at the long term benefits of a more transparent, efficient and tax-payer friendly tax administration. A major step in this direction is the introduction of 'Honoring the Honest' platform. The platform for 'Transparent taxation- Honoring the Honest' was launched in August 2020 with an objective to impart greater efficiency, transparency and accountability, and to eliminate physical interface between taxpayers and tax officers. The key features of the platform are (i) Usage of technology, data analytics and Artificial Intelligence and (ii) Recognizing taxpayers as partners in nation-building. The Platform stands on 3 pillars of tax administration reforms namely, Faceless assessment, Faceless appeal, and Taxpayers' charter. The platform is designed to ensure fairness by adopting measures like random selection through system using data analytics and Artificial Intelligence, dynamic jurisdiction, automated random allocation of cases, team based assessment/ review, provision of draft assessment order/review and finalization of the order in different cities each and no requirement of physical interface between taxpayers and the Income Tax department.

Faceless Assessment Scheme 2020

2.19 The Faceless Assessment Scheme, 2019 (earlier called the e-assessment Scheme and renamed in August 2020) was based on the idea that automated random allocation of cases across Income Tax teams with dynamic jurisdiction and elimination of face-to-face contact between the income-tax authorities and the taxpayer can lead to an efficient, non-discretionary, unbiased single window system of assessment. In 2020, the scope of Faceless Assessment Scheme 2019 was broadened by bringing all the pending assessment cases across the country within the purview of the Scheme and declaring that any order passed outside the scheme shall be invalid.

2.20 The scheme establishes a National Faceless Assessment Centre (NFAC) in Delhi, headed by Principal Chief Commissioner of Income Tax, as the sole point of contact between the Department and the taxpayer. All notices or communications to and from the taxpayer, and internal communications related to assessment process within the Department are routed through the NFAC. To further facilitate and streamline the process of assessment there are various Regional Faceless Assessment Centers which are vested with the power to make assessments. A schematic diagram of Faceless Assessment procedure may be seen in figure 7.

Figure 7: Faceless Assessment Procedure



Source: Survey compilation based on inputs from Department of Revenue.

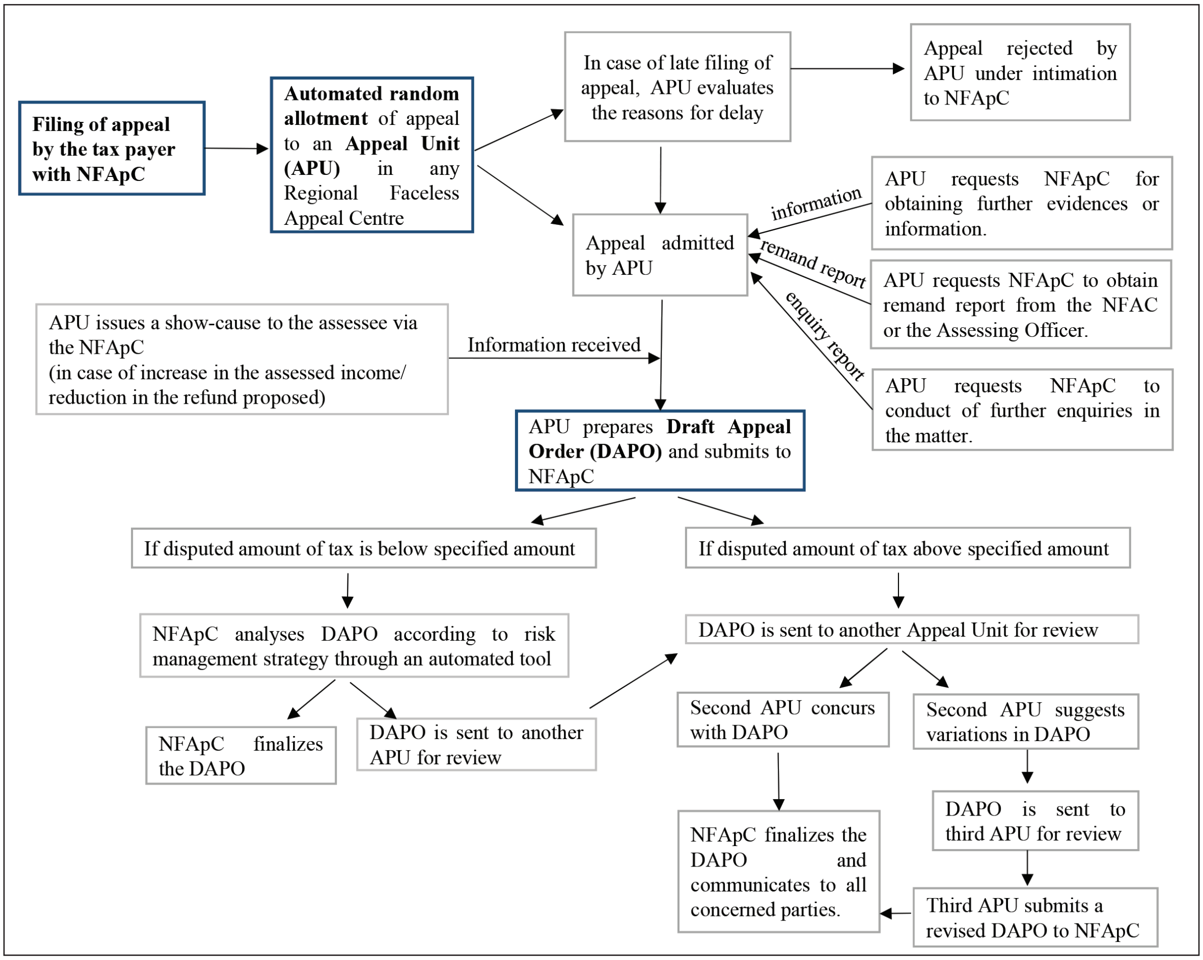
Note: NFAC: National Faceless Assessment Centre, AU: Assessment unit, TU: Technical Unit, VU: Verification Unit, RU: Review Unit, DAO: Draft Assessment Order.

Faceless Appeals Scheme 2020

2.21 Under Faceless Appeals Scheme, 2020, all Income Tax appeals will be finalised in a faceless manner under the faceless ecosystem with the exception of appeals relating to serious frauds, major tax evasion, sensitive & search matters, International tax and Black Money Act.

2.22 The Scheme establishes a National Faceless Appeal Centre (NFApC) as the apex body for conduct of e-appeal proceedings in a centralized manner. Under the NFApC are Regional Faceless Appeal Centers (RFAC) to facilitate the e-appeal proceedings. The Appeal Units, headed by one or more Commissioner (Appeals) and are placed under the RFAC. The NFApC will be the only point of contact between the taxpayer and the underlying Appeal Units; and Appeal Units and NeAC/Assessing Officer. All internal and external communication takes place electronically and the assessee or the Assessing Officer are not required to attend the proceedings personally or through an authorised representative. A schematic diagram of Faceless Appeals procedure may be seen in the figure below.

Figure 8: Faceless Appeal Procedure



Source: Survey compilation based on inputs from Department of Revenue.
Note: NFApC: National Faceless Appeal Centre, NFAC: National Faceless Assessment Centre, APU: Appeal Unit, DAPO: Draft Appeal Order

Taxpayers' Charter

2.23 The third pillar of Honoring the Honest platform is the introduction of taxpayers' charter.

The taxpayer's charter for India comprises of commitments by the Income Tax Deparment and obligations of the taxpayers. A detailed discussion on the taxpayers' charter may be seen in Box 3.

Box 3: Introduction of Taxpayers' Charter

Traditionally tax administrations paid limited attention to taxpayer service while performing the functions of regulator and enforcer of tax laws. However, due to an increased demand for better services to the tax payers, there has been a worldwide recognition of the rights of the tax payers, by publishing formal 'taxpayers' charters' or including behaviour expected from officials in the revenue body's 'mission statement'. For instance, the concept of taxpayers' Bill of Rights was first introduced in the US in 1988 and the Taxpayer Bill of Rights, which grouped the existing rights in the tax code into ten clearly defined fundamental rights and applied to all taxpayers, was adopted by the revenue authorities in 2014. Similarly, the Canadian taxpayers' Bill of Rights defining 16 taxpayers' rights, was adopted in May 2007 to increase the accountability of the Canada revenue Agency to taxpayers and to enhance the level of awareness among taxpayers about their rights and avenues of redress when dealing with revenue authorities. The UK government published its first charter concerned with taxpayer interactions with revenue authorities in 1986, and adopted the new publication 'Your Charter', which explicitly sets out rights and obligations of taxpayers in 2009 (subsequently refreshed in 2016).

The introduction of taxpayer charter by Government of India as a part of the 'Honoring the Honest' platform is, thus, an important step in this direction, as it emphasizes the importance of fair, courteous and reasonable treatment to taxpayer. The tax payer charter includes the following, as a part of Income Tax Department's commitment:

1. Courteous, fair and reasonable treatment to taxpayers.
2. Treatment of taxpayers as honest unless the department has a reason to believe otherwise.
3. Fair and impartial appeal procedure and review mechanism.
4. Accurate and complete information for fulfilling tax compliance obligations under the law.
5. Timely decisions in every income tax proceeding (within the time prescribed under law).
6. Collection of the correct amount of tax due as per the law.
7. Respect for taxpayer's privacy by following due process of law, and ensuring no more intrusive than necessary in inquiry, examination, or enforcement action.
8. Maintaining confidentiality by not disclosing any information provided by taxpayer to the department unless authorized by law.
9. Ensuring accountability for the actions of the tax authorities.
10. Provision to allow taxpayer to choose an authorized representative of his choice.
11. Provision for a mechanism to lodge complaint and ensure its prompt disposal thereof.
12. Fair and impartial system and resolving the tax issues in a time-bound manner
13. Publishing the service standards and report periodically by the Tax Department.
14. Reduced cost of compliance as the Department shall duly take into account the cost of compliance when administering tax legislation.

The taxpayers' obligations specified under the Charter are:

1. Taxpayer is expected to honestly disclose full information and fulfil his compliance obligations.

2. Taxpayer is expected to be aware of his compliance obligations under tax law and seek help of department if needed.
3. Taxpayer is expected to keep accurate records required as per law.
4. Taxpayer is expected to know what information and submissions are made by his authorised representative.
5. Taxpayer is expected to make submissions as per tax law in a timely manner.
6. Taxpayer is expected to pay amount due as per law in a timely manner.

Need for an independent Ombudsman – to ensure enforcement of taxpayers' rights

In addition to explicitly recognizing the taxpayers' rights, presence of a dedicated institution aimed to take up issues from taxpayers' perspective helps in developing trust of the taxpayers in the system. This ensures that the taxpayers understand their rights and are treated fairly. Thus the next step may be to ensure enforcement of rights.

India's experience with Tax Ombudsman

- In India, the institution of Income Tax Om budsman was created in 2003 and Indirect Tax Ombudsman came to existence in 2011. The ombudsman was appointed at the regional offices by the Central Government from amongst the serving officers, to enquire into grievances/ complaints against the functioning of the tax authority.
- Since the functioning of Ombudsman was governed by the guidelines (Income Tax Ombudsman Guidelines 2010 and Indirect Tax Ombudsman Guidelines 2011), and there was no act of law empowering it with different functions, the institution of Ombudsman was ineffective and the decisions only advisory in nature. The Ombudsman could settle complaints either through agreements between the complainant and the tax department through conciliation and mediation or by passing an award, with a token compensation for loss suffered by the complainant not exceeding ₹ 5,000.
- The institutions of Ombudsman for direct and indirect taxes were, therefore, abolished in February 2019. The present tax grievance redressal system consists of grievance cells headed by department officials/ Aaykar Sewa Kendras (ASK), e-nivaran portal which is a separate and dedicated window for grievance redressal in the Income Tax Business Application, and CPGRAMS (Central Public Grievance Redress and Monitoring System).

Global experience with Independent tax Ombudsman

- The global experience suggests that countries with an independent tax Ombudsman have performed better on the tax administration front through better trust between taxpayers and tax authorities, and have exhibited a higher average Tax to GDP ratio and lower time taken to file taxes (OECD 2017). Dedicated bodies like the Ombudsman in Australia, Canada, UK, Brazil, South Africa and tax mediators in Belgium and France look into tax related complaints across many countries. These bodies are independent of the tax administration.
- For instance US have an independent organization within the IRS called the Taxpayer Advocate Service (TAS) to act as the guardian of taxpayers rights. It protects taxpayer rights and promotes

taxpayer confidence in the integrity and accountability of the IRS; and has significant independent powers. It is headed by the National Taxpayer Advocate and has a local presence and accessibility through Local Taxpayer Advocate and Low-Income Taxpayer Clinics.

- Similarly the Office of the Taxpayers' Ombudsman (OTO) established in 2007 in Canada is mandated to review and address the complaints relating to the services provided to a taxpayer by the CRA, thus working to enhance CRA accountability in its service to, and treatment of, taxpayers through independent and objective reviews of service-related complaints and systemic issues.
- Based on best international practices of Canada, US and UK, an independent Tax Ombud system was established in South Africa in the year 2013 through Tax Administration Act (TAA). The Tax Ombud is appointed by and reports directly to the Minister of Finance, with the mandate to review and address any taxpayer complaint regarding any service, procedural or administrative matter arising from the application of the provisions of the Tax Act

A Possible solution

- International experience suggests an ombudsman system is necessary for ensuring protection of taxpayer's rights. However the institution, in India's past experience, was not effective and was abolished. A possible reason may have been inadequate independence from the tax department. Therefore, there is a need to reinvigorate the systems of grievance redressal in India, and incorporate a more holistic view of enhancing customer experience and protecting taxpayer rights. In such a case to avoid the conflict of interest, ensure fair dealings and consequently build the trust between taxpayers and the concerned tax authority, it is imperative that the redressal organisation has adequate teeth and is independent of the tax department. Such an institution would thereby make the 'Honoring the Honest' platform more successful by ensuring accountability and trust in the tax administration system.

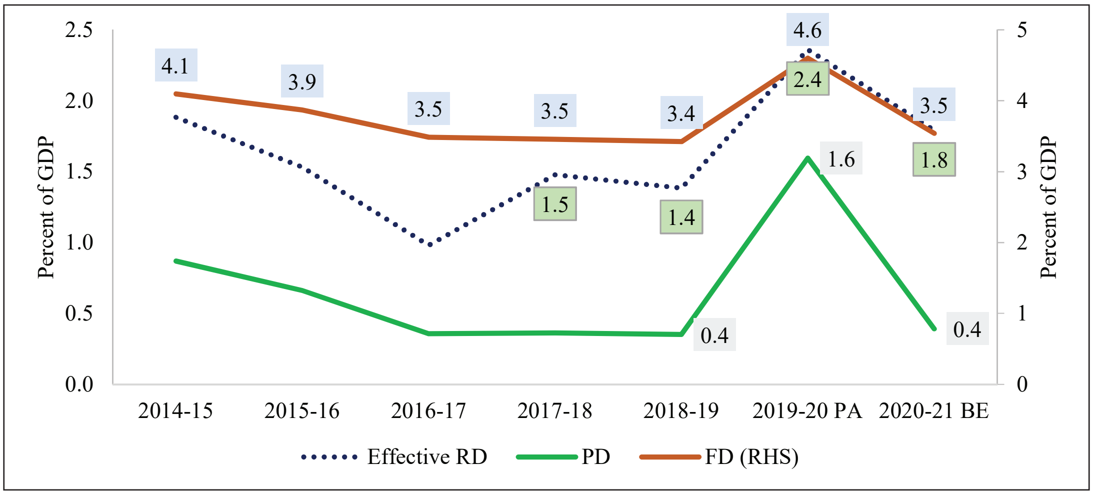
TRENDS IN GOVERNMENT FINANCES: CENTRE, STATES AND GENERAL GOVERNMENT

Central Government Finances

2.24 During the year 2019-20, the structural reforms initiated by the Central Government to boost the economic performance had fiscal implications for the economy. As a result the Fiscal Deficit for 2019-20 Provisional Actuals stood at 4.6 per cent of GDP, which was 0.8 percentage points higher than the Fiscal Deficit envisaged in 2019-20 RE, and 1.2 percentage points higher than Fiscal deficit in 2018-19. The effective Revenue Deficit which captures the shortfall in current receipts over current expenditure also increased by 1 per cent of GDP to reach 2.4 per cent of GDP in 2019-20 PA relative to 2018-19 (Figure 9).

2.25 The Medium Term Fiscal Policy (MTFP) Statement presented with Budget 2020-21 pegged the fiscal deficit target for FY 2020-21 at 3.5% of GDP, after providing adequate space for fiscal impact of the reforms adopted by the Government in FY 2019-20. Major fiscal indicators of the Central Government and their growth rates are presented in Table 5 and Table 6, respectively.

Figure 9: Trends in Deficits



Source: Union Budget Documents & CGA
BE: Budget Estimate, PA: Provisional Actuals
FD: Fiscal Deficit; RD: Revenue Deficit; Primary Deficit

Table 5: Central Government's Fiscal Parameters

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20 PA	2020-21 BE
	(in ₹ Lakh crore; Figures in parenthesis are as a per cent of GDP)						
Revenue Receipts	11.01	11.95	13.74	14.35	15.53	16.82	20.21
	(8.8)	(8.7)	(8.9)	(8.4)	(8.2)	(8.3)	(9)
Gross Tax Revenue	12.45	14.56	17.16	19.19	20.80	20.10	24.23
	(10)	(10.6)	(11.2)	(11.2)	(11)	(9.9)	(10.8)
Net tax revenue	9.04	9.44	11.01	12.42	13.17	13.56	16.36
	(7.2)	(6.9)	(7.2)	(7.3)	(6.9)	(6.7)	(7.3)
Non-tax revenue	1.98	2.51	2.73	1.93	2.36	3.26	3.85
	(1.6)	(1.8)	(1.8)	(1.1)	(1.2)	(1.6)	(1.7)
Non-debt capital receipts*	0.51	0.63	0.65	1.16	1.13	0.69	2.25
	(0.4)	(0.5)	(0.4)	(0.7)	(0.6)	(0.3)	(1)
Non-debt receipts	11.53	12.58	14.4	15.51	16.66	17.51	22.46
	(9.2)	(9.1)	(9.4)	(9.1)	(8.8)	(8.6)	(10)
Total Expenditure	16.64	17.91	19.75	21.42	23.15	26.86	30.42
	(13.3)	(13.0)	(12.9)	(12.5)	(12.2)	(13.2)	(13.5)
Revenue Expenditure	14.67	15.38	16.91	18.79	20.07	23.50	26.30
	(11.8)	(11.2)	(11.0)	(11.0)	(10.6)	(11.6)	(11.7)
Capital Expenditure	1.97	2.53	2.85	2.63	3.08	3.37	4.12
	(1.6)	(1.8)	(1.9)	(1.5)	(1.6)	(1.7)	(1.8)
Fiscal Deficit	5.11	5.33	5.36	5.91	6.49	9.36	7.96

	(4.1)	(3.9)	(3.5)	(3.5)	(3.4)	(4.6)	(3.5)
Revenue Deficit	3.66	3.43	3.16	4.44	4.54	6.68	6.09
	(2.9)	(2.5)	(2.1)	(2.6)	(2.4)	(3.3)	(2.7)
Primary Deficit	1.08	0.91	0.55	0.62	0.67	3.25	0.88
	(0.9)	(0.7)	(0.4)	(0.4)	(0.4)	(1.6)	(0.4)
Memo Item							
GDP at Market Price	124.68	137.72	153.62	170.95	189.71	203.40	224.89

Source: Union Budget Documents & CGA
BE: Budget Estimate, PA: Provisional Actuals
*includes disinvestment proceeds

Table 6: Growth rate of Central Government's Fiscal Indicators (in percent)

ITEMS	2015-16	2016-17	2017-18	2018-19	2019-20 PA*	2020-21 BE^
Revenue Receipts	8.5	15.0	4.4	8.2	8.3	20.1
Gross Tax Revenue	16.9	17.9	11.8	8.4	-3.4	20.6
Net tax revenue	4.4	16.7	12.8	6.0	2.9	20.7
Non-tax revenue	27.0	8.6	-29.4	22.3	38.4	18.0
Non-debt capital receipts	22.3	3.8	77.0	-2.5	-39.2	227.8
Total Non Debt Receipt	9.1	14.4	7.7	7.4	5.1	28.3
Total Expenditure	7.6	10.3	8.4	8.1	16.0	13.2
Revenue Expenditure	4.8	9.9	11.1	6.8	17.0	11.9
Capital Expenditure	28.6	12.5	-7.5	16.9	9.4	22.4

Source: Union Budget Documents & CGA
BE: Budget Estimate, PA: Provisional Actuals
* Rate of growth vis-à-vis 2018-19 Actual
^ Rate of growth vis-à-vis 2019-20 PA
#includes disinvestment proceeds

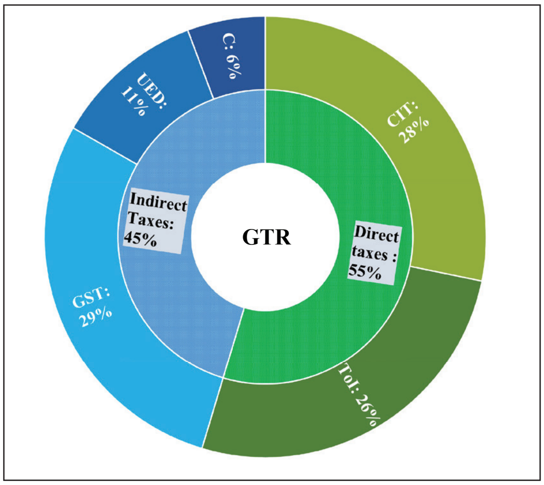
Trends in Receipts

2.26 Central government receipts can broadly be divided into Non-debt and debt receipts. The Non-debt receipts comprise of tax and Non-Tax revenue, and Non-debt Capital receipts like recovery of loans and disinvestment receipts. Debt receipts mostly comprise of market borrowings and other liabilities, which the government is obliged to repay in the future.

Tax Revenue

2.27 Budget 2020-21 estimated the Gross Tax Revenue (GTR) to be ₹ 24.23 lakh crore which is 10.8 per cent of GDP. This builds into growth of 12 per cent over the revised estimates (RE) of 2019-20 and 20.6 per cent over 2019-20 PA. The direct taxes, comprising mainly of corporate and personal income tax, constitute around 55 per cent of GTR. These were envisaged to grow at 12.7 per cent relative to 2019-20 RE and 27.2 per cent relative to 2019-20 PA. On the other hand, the indirect taxes were expected to grow at 11.1 per cent vis-à-vis 2019-20 RE and 15 per cent as against 2019-20 PA. The contribution of different taxes in GTR as envisaged in 2020-21 BE is shown in Figure 10.

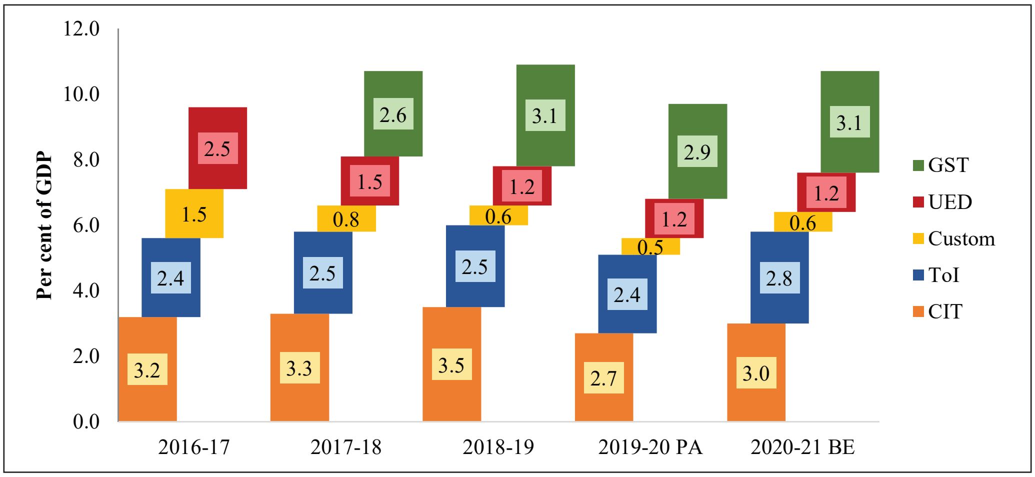
Figure 10: Composition of taxes in Gross Tax Revenue in 2020-21 BE



Source: Union Budget Documents & CGA
GTR: Gross Tax Revenue, CIT: Corporation Tax, ToI: Taxes on Income other than Corporation Tax (includes STT), C: Customs, UED: Union Excise Duties, GST: Goods and Services Tax

2.28 The trends in major taxes in relation to GDP displayed in Figure 11 show that receipts from corporate and personal income tax have come down in 2019-20 PA compared to the trend of improvement observed over the previous years. This is due to the moderation in growth of the economy during 2019-20 and implementation of structural reforms like Corporate Tax rate cut. As against the 2020-21 BE of ₹ 16.36 lakh crore for Net Tax Revenue to the Centre, the actual realization up to November 2020 has been ₹ 6.88 lakh crore, which is 42.1 per cent of BE.

Figure 11: Taxes as a percent of GDP



Source: Union Budget Documents & CGA
BE: Budget Estimate, PA: Provisional Actual, CIT: Corporation Tax, ToI: Taxes on Income other than Corporation Tax (includes STT), UED: Union Excise Duties, GST : Goods and Services Tax

Non-Tax Revenue

2.29 Non-Tax revenue comprises mainly of interest receipts on loans to States and Union Territories, dividends and profits from Public Sector Enterprises including surplus of Reserve Bank of India (RBI) transferred to Government of India, receipts from services provided by the Central Government and external grants. The Budget 2020-21 aimed to raise ₹ 3.85 lakh crore of Non-Tax revenue, 1.7 per cent of the GDP, 0.1 percentage points more than in 2019-20 PA. Nearly 40 per cent of the Non Tax revenue is envisaged to be raised from dividends and profits (refer to Table 7). As against the 2020-21 BE of ₹ 3.85 lakh crore for Non-Tax Revenue, the actual realization up to November 2020 has been 32.3 per cent of the BE.

Table 7: Trends in Non-tax Revenue of Central Government

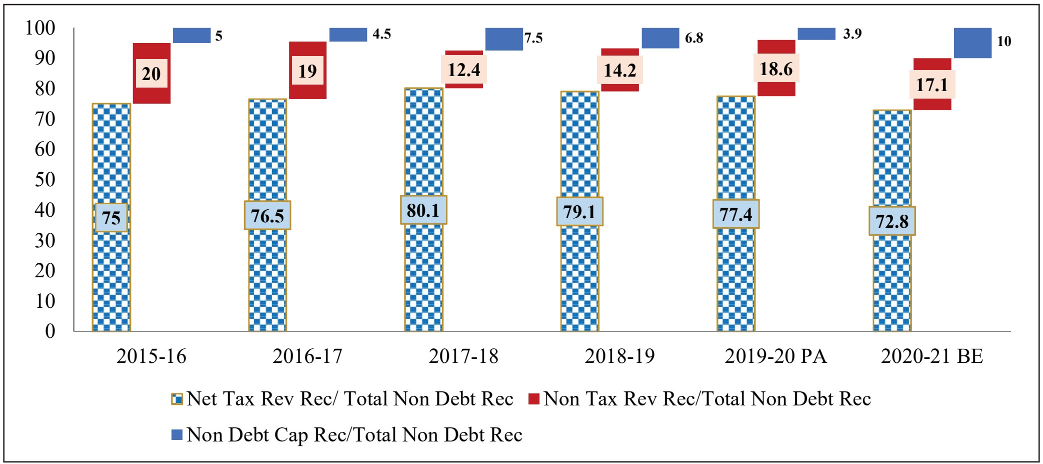
	2015-16	2016-17	2017-18	2018-19	2019-20 PA	2020-21 BE
	(in ₹ Lakh crore)					
Interest receipts	0.25	0.16	0.14	0.12	0.12	0.11
Dividends & Profits	1.12	1.23	0.91	1.13	1.86	1.55
External Grants	0.02	0.01	0.04	0.01	0.00	0.01
Others	1.12	1.32	0.84	1.07	1.28	2.15
Non-tax Revenue	2.51	2.73	1.93	2.36	3.26	3.85

Source: Union Budget Documents & CGA
BE: Budget Estimate, PA: Provisional Actuals

Non-debt Capital receipts

2.30 Non-debt Capital receipts mainly consist of recovery of loans and advances, and disinvestment receipts. The contribution of Non-debt Capital receipts in the total pool of Non-debt receipts have declined from 6.8 per cent in 2018-19 to 3.9 per cent 2019-20 PA, primarily due to shortfall in disinvestment proceeds (Figure 12). The Non-debt Capital receipts have been pegged at ₹ 2.3 lakh crore that is 1 per cent of GDP in 2020-21 BE. The major component of Non-debt Capital receipts is disinvestment receipts that accrue to the government on sale of public sector enterprises owned by the government (including sale of strategic assets). Government envisaged to mobilize ₹ 2.1 lakh crore on account of disinvestment proceeds as per 2020-21 BE. As against the 2020-21 BE of ₹ 2.3 lakh crore for Non-debt Capital receipts to the Centre, the actual realization up to November 2020 has been ₹ 0.18 lakh crore.

Figure 12: Composition of Non-debt receipts of Central Government



Source: Union Budget Documents & CGA
BE: Budget Estimate, PA: Provisional Actuals

Trends in Expenditure

2.31 On the expenditure front, Budget 2020-21 estimated total expenditure at ₹ 30.42 lakh crore, comprising revenue expenditure of ₹ 26.3 lakh crore and capital expenditure of ₹ 4.12 lakh crore, which work out to be 11.7 per cent and 1.7 per cent of GDP, respectively. As a percentage of GDP, the anticipated growth of total expenditure in 2020-21 BE over 2019-20 PA is 0.3 per cent of GDP with growth equivalent to 0.15 per cent of GDP each in both Revenue and capital expenditure.

2.32 Revenue Expenditure, which constitutes over 87 per cent of the total expenditure was envisaged to grow at 11.9 per cent in 2020-21 BE over 2019-20 PA. This is a modest growth rate relative to the 17 per cent growth of revenue expenditure in 2019-20 PA over 2018-19. Interest payments (26 per cent), Defence Revenue expenditure (9 per cent), Major Subsidies (10 per cent), Grants-in-aid to States/UTs (22 per cent) and Pension (8 per cent) are the major items of revenue Expenditure which together accounted for nearly 65% of the total expenditure, as per 2019-20 PA (Table 8). Several initiatives undertaken by the Ministry of Defence for utilization of defence expenditure and improving efficiency, promoting self-reliance, and encouraging private sector participation in the defence sector may be seen at Annex 3.

Table 8 : Major Items of Revenue Expenditure

Items	2015-16	2016-17	2017-18	2018-19	2019-20 PA	2020-21 BE
	(in ₹ Lakh crore)					
Revenue Expenditure of which	15.38	16.91	18.79	20.07	23.50	26.30
	(4.8)	(9.9)	(11.1)	(6.8)	(17.0)	(11.9)
a. Salaries (pay & allowances)	1.45	1.77	1.94	2.11	2.38	2.48
	(7.9)	(22.6)	(9.2)	(9.0)	(12.7)	(4.0)
b. Pensions	0.97	1.31	1.46	1.60	1.84	2.12
	(3.4)	(35.8)	(10.9)	(9.9)	(14.6)	(15.3)
c. Interest payment	4.42	4.81	5.29	5.83	6.11	7.08
	(9.7)	(8.8)	(10.0)	(10.2)	(4.9)	(15.9)
d. Major subsidies	2.42	2.04	1.91	1.97	2.23	2.28
	(-2.9)	(-15.6)	(-6.3)	(2.9)	(13.4)	(2.1)
e. Defence Services	1.46	1.65	1.86	1.96	2.08	2.09
	(3.9)	(13.3)	(12.5)	(5.1)	(6.1)	(0.9)

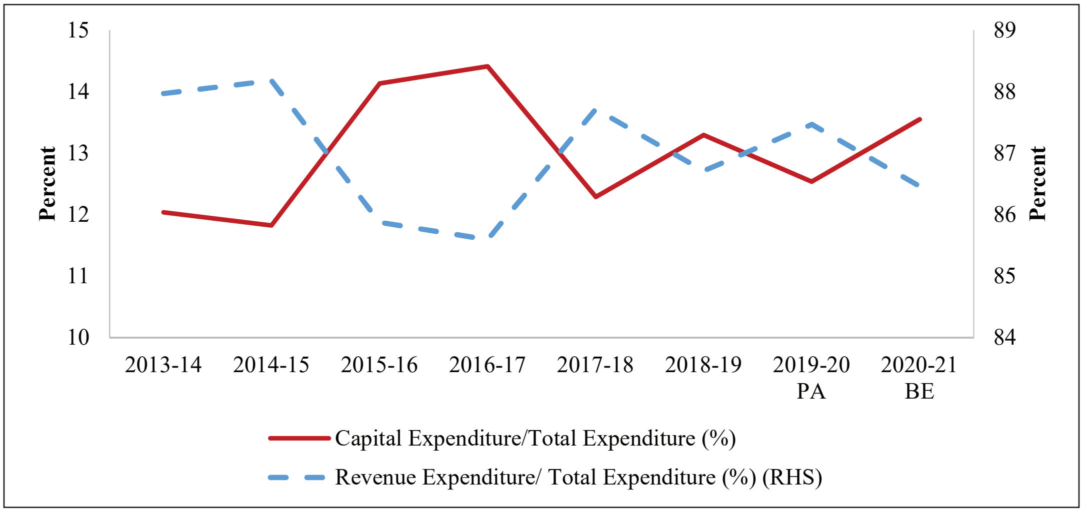
Source: Union Budget Documents & CGA
BE: Budget Estimate, PA: Provisional Actuals
Numbers in parenthesis are growth rates
*The figure for Salaries (Pay & allowances) for 2019-20 is Revised Estimate (RE).

2.33 A significant proportion of revenue expenditure such as expenditure on salaries, pensions and interest payments is broadly committed in nature. Hence the focus of expenditure restructuring and management measures is targeted on the non-committed component such as subsidies. In 2016, approximately 66 Centrally Sponsored Schemes were rationalized into 28 Umbrella Schemes. The cycle of these Schemes was also made co-terminus with the Finance Commission cycle, to ensure more clarity on flow of resources available to both the Union and the State Governments over a Finance Commission cycle.

2.34 The expenditure on major subsidies which was pegged at 1.0 per cent of GDP in 2020-21 BE, accounted for a moderate growth of 2.1 per cent over 2019-20 PA. In 2019-20 PA, there was an increase of 13.9 per cent in the subsidy bill of the Government, as the food, fertilizer and petroleum subsidies grew by 7.3 per cent, 14.9 per cent and 34.5 per cent respectively, relative to 2018-19.

2.35 With a low tax to GDP ratio, Central Government faces the challenge of providing sufficient funds for investment and infrastructure expansion while staying within the bounds of fiscal prudence. Therefore, improving the composition and quality of expenditure assumes significance. Over the past few years, the quality of expenditure measured in terms of the share of capital expenditure in total expenditure has on an average sustained at a level (Figure 13). It is estimated to increase roughly by a percentage point in 2020-21 BE over 2019-20 PA which accounts for an expected growth of 22.4 per cent in capital expenditure over 2019-20 PA. The major sectors apart from defence services, that account for bulk of capital expenditure allocation in 2020-21 BE include industry and minerals, construction of roads and bridges, communication services, and space technology.

Figure 13: Trends in components of Total Expenditure



Source: Union Budget Documents & CGA
BE: Budget Estimate, PA: Provisional Actuals

2.36 Apart from budgetary spending, Extra Budgetary Resources (EBR) have also been mobilized to finance infrastructure investment since 2016-17. EBRs are those financial liabilities that are raised by public sector undertakings for which repayment of entire principal and interest is done from the Central Government Budget. Government has raised EBRs of ₹ 1.35 lakh crore during the period from 2016-17 to 2019-20. It proposes to raise EBR of ₹ 49,500 crore in 2020-21 BE which is 0.22 per cent of GDP.

Transfer to States

2.37 The Central Government has accepted the recommendations made by the Fifteenth Finance Commission (FC-XV) in its Report for financial year 2020-21, relating to the Post Devolution Revenue Deficit Grant, Grants to Local bodies and Disaster Management Grants for the financial year 2020-21. FC-XV recommended Grant-in-Aid amounting to ₹ 1.99 lakh crore for transfer to States during 2020-21 for Post Devolution Revenue Deficit Grant, Grants to Local bodies and Disaster Management Grants which is approximately 50% higher than recommended by the FC-XIV for the award year 2019-20 (Table 9).

2.38 Out of the corpus of ₹ 90,000 crore allocated as grant for local bodies in the year 2020-21, 32.5 per cent have been recommended for urban local bodies and the remaining for rural local bodies. Unlike that of the FC-XIV recommended grants, the local bodies grant during the year 2020-21 were also allocated to Fifth and Sixth Schedule Area as well as Mandal/Tehsil and District/Zila Panchayats in case of rural local bodies, and also allocated to fifty-nine Cantonment Boards in case of the urban local bodies. Moreover for the first time, Finance Commission grants were also allocated for the purpose of improving ambient air quality in million plus cities/ urban agglomerations.

Table 9: Component-wise grants recommended during FC-XIV (for year 2019-20 only) and FC-XV for the year 2020-21 (in ₹ crore)

S. No.	Component	Amount allocated for the year 2019-20 (FC-XIV award period)	Amount allocated for the year 2020-21 (FC-XV award period)
(1)	(2)	(3)	(4)
i	Post-Devolution Revenue Deficit Grant	34,206	74,340
ii	Local Bodies Grant	87,352	90,000
iii	Disaster Management Grant (Union share)	12,120	34,574
	Total	1,33,678	1,98,914

Source: Department of Expenditure

2.39 Due to a decline in the Gross Tax Revenue collections during 2019-20, a moderation in the states' share in Central taxes is seen in 2019-20 RE relative to 2018-19 (Table 10). The Budget 2020-21 envisaged a rebound in the total transfers to States from 5.7 per cent of GDP in 2019-20 RE to 6 per cent of GDP in 2020-21 BE.

Table 10: Transfers to States (in ₹ lakh crore)

Particulars	2015-16	2016-17	2017-18	2018-19	2019-20 RE	2020-21 BE
Devolution of States' share in Taxes	5.06	6.08	6.73	7.61	6.56	7.84
Finance Commission Grants	0.85	0.96	0.92	0.94	1.24	1.50
CSS and Other Transfers	2.39	2.77	3.16	3.32	3.80	4.09
Total transfers to States	**8.29**	**9.81**	**10.81**	**11.87**	**11.60**	**13.43**

Source: Union Budget Documents
BE: Budget Estimates, RE: Revised Estimates
Note: States includes all the States.

Central Government Debt

2.40 Total liabilities of the Central Government include debt contracted against the Consolidated Fund of India, technically defined as Public Debt, as well as liabilities in the Public Account. These liabilities include external debt (end-of-the financial year) at current exchange rate but exclude part of NSSF liabilities to the extent of States' borrowings from the NSSF and investments in public agencies out of the NSSF, which do not finance Central Government deficit. Total liabilities of the Central Government at end March 2020 stood at ₹ 97.05 lakh crore (refer to Table 11). Out of these, 88.67 per cent was public debt and the remaining 10 per cent catered to Public Account liabilities, which include National Small Savings Fund, State Provident Funds, Reserve Funds and Deposits and other Accounts.

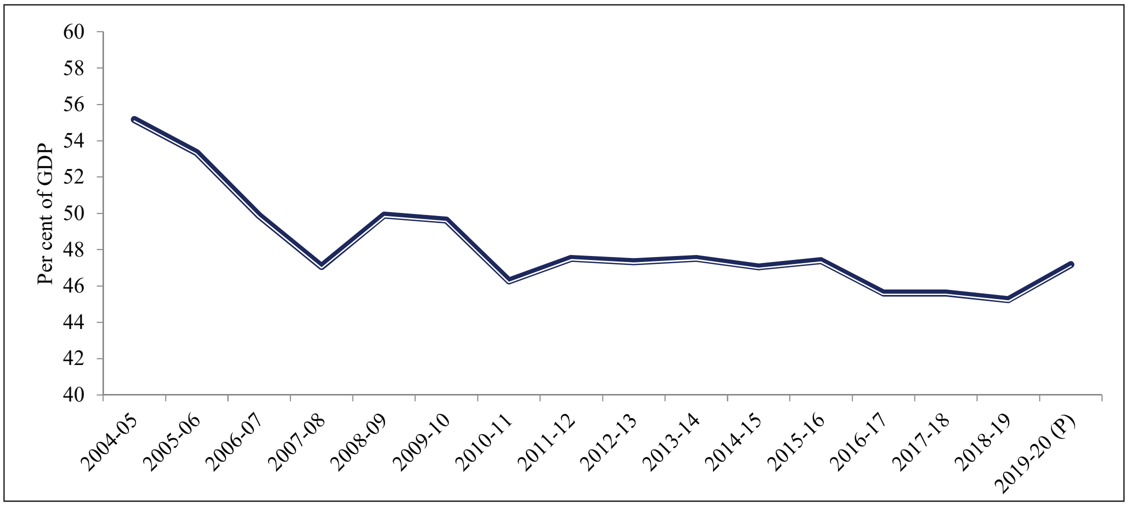
Table 11: Debt Position of the Central Government (in ₹ Lakh crore)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20 P
A. Public Debt (A1+A2)	51.05	57.11	61.50	68.84	75.88	86.05
A1. Internal Debt (a+b)	47.38	53.05	57.42	64.01	70.75	80.20
a. Marketable Securities	43.09	47.28	50.49	55.10	59.69	65.60
b. Non-marketable Securities	4.29	5.77	6.93	8.91	11.06	14.60
A2. External Debt*	3.66	4.07	4.08	4.83	5.13	5.85
B. Public Account - Other Liabilities	7.62	8.16	8.57	9.15	9.96	9.89
C. Extra-Budgetary Resources	0.00	0.00	0.09	0.24	0.88	1.10
D. Total Liabilities (A+B+C)	58.66	65.27	70.16	78.23	86.72	97.05

Source: Various issues of Status Paper on Government Debt and Quarterly Report on Public Debt; P: Provisional

2.41 Figure 14 shows that total liabilities of the Central Government, as a ratio of GDP, declined steadily immediately after the enactment of the FRBM Act, 2003, and has sustained at a level during the last decade.

Figure 14: Trend in Centre's Debt-GDP ratio

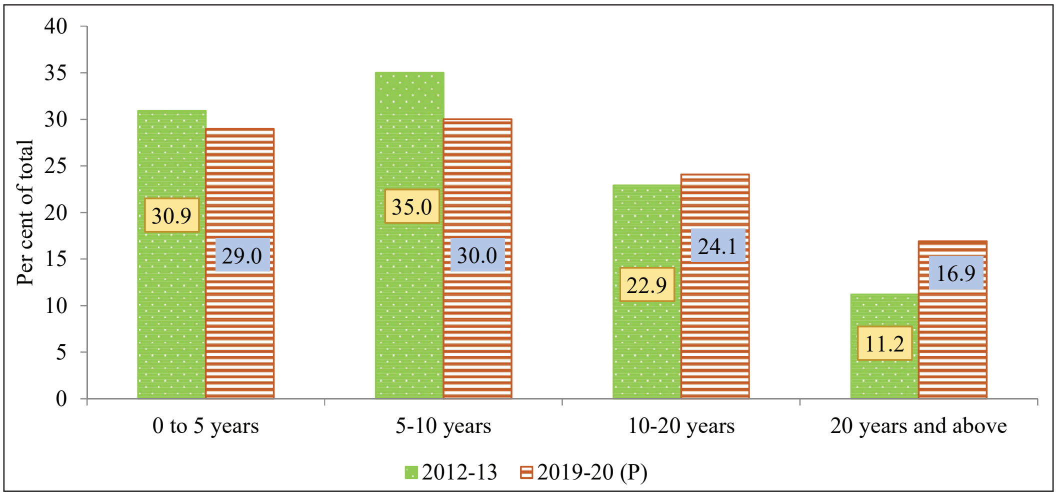


Source: Various issues of Status Paper on Government Debt; PA:Provisional

2.42 Central government debt is characterised by low currency and interest rate risks. This is owing to low share of external debt in the debt portfolio and almost entire external borrowings being from official sources. Further, most of the public debt has been contracted at fixed interest rate making India's debt stock virtually insulated from interest rate volatility. This lends certainty and stability to budget in terms of interest payments.

2.43 The other salient feature is the gradual elongation of the maturity profile of the Central government's debt (refer to Figure 15) leading to reduced rollover risks. The proportion of dated securities maturing in less than five years has seen consistent decline in recent years. The weighted average maturity of outstanding stock of dated securities of the GOI has increased from 9.7 years at end March 2010 to 10.7 years at end March 2020.

Figure 15: Maturity Profile of Outstanding Dated Central Government Securities (as per cent of Total)



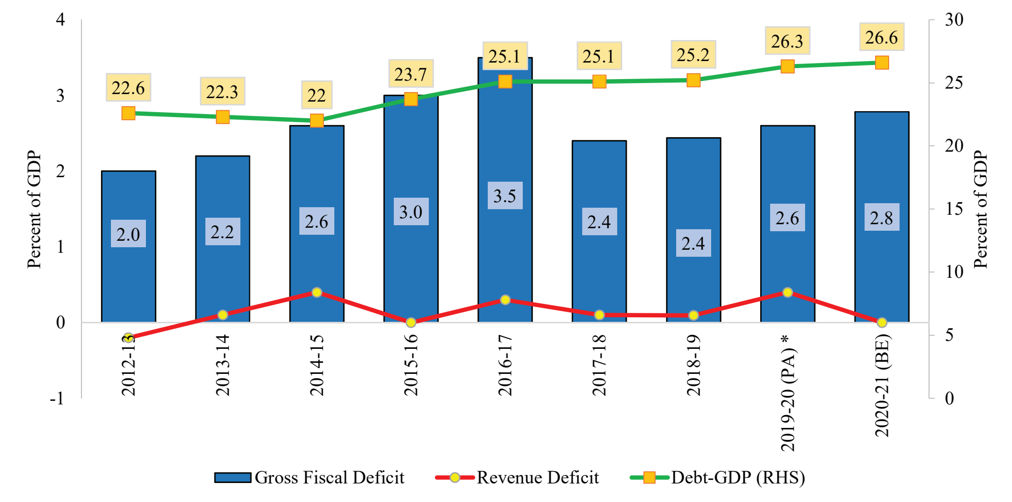
Source: Status Paper on Government Debt; Quarterly Report on Public Debt Management; P: Provisional

State Finances

2.44 The States had budgeted for a consolidated gross fiscal deficit of 2.8 per cent of GDP in 2020-21 BE. The average Gross Fiscal Deficit Budget Estimate for states that presented their budgets before the outbreak of COVID-19 was 2.4 per cent of GSDP, while the average for budgets presented post-lockdown was 4.6 per cent of GSDP (RBI Study on State Finances). Figure 16 depicts the trend of fiscal consolidation for the combined States in the last 3 years, with an average Gross Fiscal Deficit of 2.46 per cent of GDP. The Gross Fiscal Deficit for States is however expected to shoot up relative to the pegged Budget estimate during 2020-21.

2.45 As per 2020-21 Budget Estimates of the State Governments, the States' combined own Tax revenue and own Non-Tax revenue were anticipated to grow at 11.8 per cent and 12.1 per cent respectively over 2019-20 RE, higher than the growth displayed in 2019-20 RE. On the expenditure side, revenue expenditure and capital expenditure in 2020-21 BE were envisaged to grow at 8.2 per cent and 11.8 per cent respectively over 2019-20 RE (refer to Table 12).

Figure 16: Major deficit and debt indicators of States



Source: RBI State Finances: A Study of Budget; PA: Provisional Actuals ; BE: Budget Estimates
Note: States include 29 states and 2 Union Territories with legislatures.
*Data on GFD and Revenue Deficit for 2019-20(PA) for all states has been estimated by RBI by using accounts figures of 24 states available with CAG and 2019-20 BE figures for the remaining 7 states/UTs ; Data for Debt- to-GDP for 2019-20 is Revised Estimates.

2.46 The RBI Study on State Finances highlights the decline in actual capital spending relative to BE observed in the states for the last 3 years (2017-18 Actuals, 2018-19 Actuals and 2019-20PA). This may have adverse implications for the pace and quality of economic development, given the high fiscal multiplier effect of capital expenditure. In fact in the current year, when the states are dealing with the pandemic with a constrained fiscal space, capital expenditure can play a pivotal role in the recovery process. In order to re-orient the focus of the States' fiscal policy on capital expenditure, Central Government has announced Scheme for Special Assistance to States for Capital Expenditure during FY2021, which has been discussed in Box 7.

Table 12: Fiscal Indicators of States

Items	2015-16	2016-17	2017-18	2018-19	2019-20 RE	2020-21 BE
			(in ₹ lakh crore)			
Own Tax Revenue	8.5	9.46	11.3	12.2	13.4	15.0
	(9.0)	(11.3)	(19.5)	(7.5)	(10.3)	(11.8)
Own Non-Tax Revenue	1.5	1.7	1.8	2.2	2.4	2.7
	(7.1)	(14.0)	(5.3)	(21.7)	(9.1)	(12.1)
Revenue Expenditure	18.4	21.22	23.4	26.4	30.8	33.3
	(12.2)	(15.3)	(10.3)	(12.7)	(16.6)	(8.2)
Capital Expenditure	4.2	5.17	4.3	4.9	5.8	6.5
	(40.0)	(23.1)	(-16.6)	(13.0)	(18.7)	(11.8)

Source: RBI State Finances: A Study of Budget for 2020-21,
RE: Revised Estimates; BE: Budget Estimates; Numbers in parenthesis are growth rates
Note: States also includes 2 UTs (Delhi and Puducherry) from 2017-18

2.47 During the year 2019-20, in view of prevalent macro-economic scenario and lower tax collection in 2018-19, one-time special dispensation was allowed to the States by allowing additional borrowings amounting to ₹ 0.59 crore for year 2019-20 beyond the State's eligibility.

2.48 Net borrowing ceilings of the 28 States for the year 2020-21 had been fixed at ₹ 6.41 lakh crore in line with the fiscal deficit target of 3 per cent of respective State Gross State Domestic Product (GSDP) as recommended by FC-XV. However, for the year 2020-21, in view of the unprecedented COVID-19, additional borrowing limit of up to 2 percent of Gross State Domestic Product (GSDP) was allowed to the States, of which 1% was conditional on state-level reform implementation. Several steps taken by the Central Government to support the State Governments towards a faster economic recovery amidst the COVID-19 pandemic may be seen in Box 4.

Box 4: Measures taken by the Centre to support the States in times of COVID-19

The Central Government has taken consistent steps to impart unflinching support to the States in the challenging times of the pandemic. These measures are as follows:

1. Enhanced limit of borrowing for FY2020-21 under Atma Nirbhar Bharat package

- Under the Atma Nirbhar Bharat package, additional borrowing limit of up to 2 percent of Gross State Domestic Product (GSDP) was allowed to the States, which was equivalent to ₹ 4.27 lakh crore. Of the additional 2 per cent borrowing allowed to the States, the first instalment of 0.5 per cent borrowing was untied for all the states. The second part amounting to 1 per cent of GSDP was subject to implementation of following four specific State level reforms, where weightage of each reform is 0.25 per cent of GSDP:-

  a) Implementation of One Nation One Ration Card System;

  b) Ease of doing business reform;

  c) Urban Local body/ utility reforms; and

  d) Power Sector reforms

  The final 0.5 per cent borrowing was conditional on undertaking at least 3 out of the above mentioned reforms.

  As on 30 December 2020, 10 States have implemented the One Nation One Ration Card System, 7 States have completed the stipulated reforms in the Ease of Doing Business, and 2 States have done local body reforms. Total additional borrowing permission issued so far to the States who have done the reforms stands at ₹ 51,682 crore.

2. Compensation to the States for loss in GST revenue

- In order to compensate the states for the loss of GST revenue during FY 2020-21, Central Government had given the states an option to either borrow the shortfall arising out of GST implementation through issue of debt under a Special Window coordinated by the Ministry of Finance which was passed on to the States and UTs (Option 1), or raise the entire shortfall through the issue of market debt (Option 2). All the 28 states and 3 UTs with legislature decided to go for option 1 which involves back-to-back borrowing coordinated by the Ministry of Finance, and would ensure steady flow of resources similar to the flow under GST compensation. The special window of ₹ 1.1 lakh crore has been operationalised since 23rd October, 2020 and the Government of India has already borrowed an amount of ₹ 54,000 crore on behalf of the States in five instalments and passed it on to the States and UTs.

- Under the terms of Option 1, the states are also entitled to get unconditional permission to borrow the final instalment of 0.5 per cent of GSDP out of the 2% additional borrowing permitted for FY 2020-21. This amounts to an additional mobilization of ₹ 1.07 lakh crore, over and above the ₹ 1.1 lakh crore special window to meet the revenue shortfall arising out of GST implementation.
- In addition to this, the States on selecting Option 1, will also be able to carry forward unutilised extra borrowing ceilings allowed for FY 2020-21 to the next financial year, whereby the first and the final instalments of 0.5 per cent each can be carried forward unconditionally; and the reform-linked portions can be carried forward if the States meet the reform criteria within the dates already prescribed for this year.
- With a view to protecting the states from the higher borrowing costs, Centre will endeavour to keep the cost at or close to the G-sec yield for the special borrowing window, and in the event of the cost being higher, it will bear the margin between G-secs and average of State Development Loan yields, of up to 50 bps, through a subsidy. The interest on the borrowing under the Special Window will be paid from the Compensation Cess as and when it arises until the end of the transition period. After the transition period, principal and interest will also be paid from proceeds of the Cess, by extending the Cess beyond the transition period for such period as may be required. The State will not be required to service the debt or to repay it from any other source.

3. Scheme for Special Assistance to States for Capital Expenditure

- During the year 2020-21, considering the fiscal environment faced by the State Governments due to the shortfall in tax revenues arising from the COVID-19 pandemic, 'Scheme for Special Assistance to States for Capital Expenditure', has been approved wherein special assistance is being provided to the State Governments in the form of 50-year interest free loan up to an overall sum not exceeding ₹ 12,000 crore.
- The Scheme comprises of ₹ 1600 crore loan for the eight North East states (200 crore each), ₹ 900 crore loan for the states of Uttarakhand and Himachal Pradesh (₹ 450 crore each), ₹ 7,500 crore for remaining states (as per 15th Finance Commission devolution), and ₹ 2,000 crore for those states which fulfil at least 3 out of 4 reforms mentioned under enhanced borrowing provision in Aatma Nirbhar Bharat Package.

  The loan amount can be used for new or ongoing capital projects needing funds and/ or settling contractors'/ suppliers' bills on such projects.
- As on 12 December 2020, capital expenditure projects worth ₹ 9,879.61 crore for 27 states were approved and an amount of ₹ 4,939.81 crore had been released as first instalment under the scheme.

4. SDRF

- The Central Government by way of a special one-time dispensation had decided to treat COVID-19 as a notified disaster for the purpose of providing assistance under SDRF. To strengthen the States to deal with the pandemic, the Centre had released the 1st instalment of SDRF amounting to ₹ 11,092 crore to State Governments in April 2020. In September 2020, the states' limit for spending the SDRF during FY 2020-21 was raised to 50%, in order to support them in containment measures of COVID-19 including measures for quarantine, sample collection and screening; and procurement of essential equipment/ labs for response to COVID-19.

Source: PIB

General Government Finances

2.49 The General Government finances give an overview of fiscal position of the Government sector as a whole. Figure 13 shows the trends in General Government debt and deficits over the past few years. The General Government liabilities as a proportion of GDP exhibit an increasing trend over the last few years. In 2020-21 BE, the General Government had budgeted for a reduction in deficit in over 2019-20 RE. However in the wake of the global pandemic outbreak, the General Government (Centre plus States) is expected to register a fiscal slippage on account of the shortfall in revenue and higher expenditure requirements. As indicated by the enhanced borrowing provisions for both the Centre and the States for 2020-21, the liabilities of the General Government are expected to increase. This deviation from the path of fiscal consolidation may however be transient as the fiscal indicators may rebound with the recovery in the economy. The medium and long term trajectory of Government debt will depend on the debt sustainability calculations. A more negative interest-rate growth differential lays the foundation for lower General Government debt as a proportion of GDP (Table 13). Detailed discussion on the dynamics of debt sustainability may be seen in Chapter 2 of Volume 1.

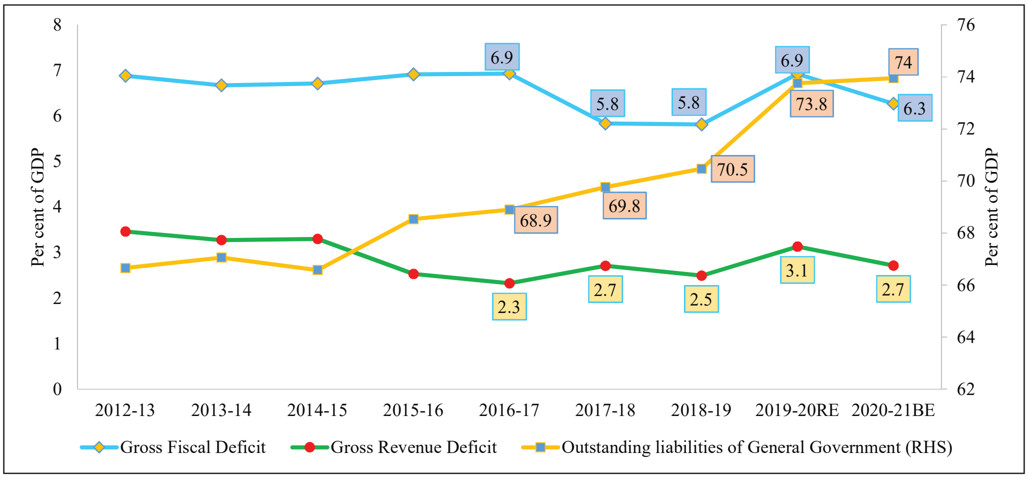
Table 13: Trends in Interest rate-growth differential and General Government Debt-to-GDP

Year	Nominal Interest Rate (i)	Nominal Growth rate (γ)	Interest rate-growth differential ($i-\gamma$)	General Government Debt-to-GDP
2011-12	8.52	15.74	-7.2	67.4
2012-13	8.36	13.82	-5.5	66.7
2013-14	8.45	12.97	-4.5	67.1
2014-15	8.51	10.99	-2.5	66.6
2015-16	7.89	10.46	-2.6	68.5
2016-17	7.16	11.76	-4.6	68.9
2017-18	6.97	11.09	-4.1	69.8
2018-19	7.78	10.95	-3.2	70.5
2019-20	6.85	7.21	-0.4	73.8

Source: RBI, MoSPI

Note:Nominal interest rate is the weighted average interest rate on Central Government dated securities

Figure 17: Trends in General Government Debt and Deficits (as a per cent of GDP)



Source: RBI Handbook of Statistics for Indian Economy;
BE: Budget Estimates; RE: Revised Estimates
For 2019-20 RE, 2019-20 Provisional Estimate of GDP i.e. ₹ 20339849 has been used

OUTLOOK

2.50 The year 2020-21 has been a difficult year from the fiscal perspective. Based on the trends available for April to November 2020, there is likely to be a fiscal slippage during the year. The fiscal policy response of the Government has been a combination of demand and supply side policies under the ambit of 'Atma Nirbhar Bharat' to cushion against the pandemic shock, and subsequently fuel the economic recovery. Going forward, in order to sustain the recovery in aggregate demand, it is expected that the Government may have to continue with an expansionary fiscal stance. The expenditure support along with the various key reforms introduced during the year are likely to impart the required momentum to medium-term growth. The calibrated approach adopted by India allows space for maintaining a fiscal impulse the coming year. The growth recovery would facilitate buoyant revenue collections in the medium term, and thereby enable a sustainable fiscal path. Moreover the release of XV Finance Commission report in the coming months, will lay down the roadmap for the long-term fiscal policy strategy for both the Centre and the States.

CHAPTER AT A GLANCE

- ➢ To facilitate a resilient recovery of the economy from the impact of COVID-19 pandemic, Government of India adopted a calibrated approach best suited for the evolving situation of the economy in contrast with a front-loaded large stimulus package adopted by many countries.
- ➢ The expenditure policy in 2020-21 changed according to the needs of an evolving situation. It was initially aimed at supporting the vulnerable sections but once the lockdown was unwound, it was re-oriented to reinflating overall demand through capital spending.

- Owing to the recovery of the economy over the past few months, the monthly revenue collections have witnessed an uptick. The monthly GST collections have crossed the ₹ 1 lakh crore mark consecutively for the last 3 months, reaching its' highest ever in December 2020.
- Reforms in tax administration have set in motion a process of transparency, accountability and more importantly, enhancing the experience of a tax-payer with the tax authority, thereby incentivising tax compliance.
- During 2020-21, the Central Government has taken consistent steps to impart support to the States in the challenging times of the pandemic.
- In the wake of the global pandemic outbreak, the General Government (Centre plus States) is expected to register a fiscal slippage in FY 2020-21, on account of the shortfall in revenue and higher expenditure requirements. However, longer term sustainability depends crucially on reviving growth relative to the interest cost of Government debt.

ANNEX

Annex 1: CBDT's response to COVID-19 pandemic during 2020-21

In view of the challenges faced by taxpayers in meeting the statutory and regulatory compliance requirements across sectors due to the outbreak of Novel Corona Virus (COVID-19), the Government of India has taken following measures pertaining to direct taxes to support businesses and individuals:

(i) The Taxation and Other Laws (Relaxation and Amendment of Certain Provisions) Act, 2020 has been enacted under which:

   (a) Various time limits for compliances and statutory actions under the taxation laws, other related legislations and the rules or notifications prescribed/ issued under these Acts have been extended;

   (b) Interest for delay in payment of income-tax (e.g. advance tax, TDS, TCS), Equalization Levy, Securities Transaction Tax (STT), Commodities Transaction Tax (CTT) due for payment from 20.03.2020 to 29.06.2020 to be charged at reduced rate of 9% per annum (0.75% per month), if the payment is paid by 30.06.2020. Further, no penalty/ prosecution shall be initiated for these non-payments.

   (c) Extension of date for application of amount payable under the Direct Tax Vivad se Vishwas Act, 2020 [enacted for resolution of pending disputes related to the Act] from 31.03.2020 to 31.01.2021 without payment of additional amount. Further, the due date of payment of tax without additional amount extended to 31.03.2021;

   (d) The time for filing of original as well as revised income-tax returns for FY 2018-19 (relevant to AY 2019-20) has been extended to 30th November, 2020;

   (e) Due date for filing ITR for FY 2019-20 (relevant to AY 2020-21) extended for individuals etc. to 10th January, 2021 for non-audited assesses and for assesses who are required to audit their accounts, it has been extended to 15th February, 2021. Due date for furnishing of tax audit report has also been extended from existing 30th September, 2020 to 15th January, 2021;

   (f) The date for payment of self-assessment tax in case of taxpayers whose self-assessment tax liability is up to ₹ 1 Lakh has been extended to 10th January, 2021 (for non-auditable cases) and to 15th February, 2021 (for cases where tax audit is mandatory);

   (g) The date for making various investment/payment for claiming deduction under Chapter VIA-B of the Act has also been extended to 31st July, 2020;

   (h) The date for making investment/construction/purchase/deduction in respect of capital gains under section 54 to 54GB of the Act has been extended to 30th September, 2020;

   (i) the date for commencement of operation for the SEZ units for claiming deduction under section 10AA of the Act has also been extended to 30th September, 2020 for the units which have received necessary approval by 31st March, 2020;

   (j) The time limit for furnishing of TDS/TCS statements and issuance of TDS/TCS certificates in relation to FY 2019-20 has been extended to 31st July, 2020 and 15th August, 2020 respectively;

   (k) The date for passing of order or issuance of notice by the authorities and various compliances under various direct taxes and Benami Law which are required to be passed/issued/made by 31st December, 2020 has been extended to 31st March, 2021.

(l) The date for linking of Aadhaar with PAN has also been extended to 31st March, 2021;

(m) Compliance or Compliance dates under the Vivad se Vishwas Act, 2020 which are required to be completed by 30th January, 2020 have been extended to 31st January, 2021. Thus, the date of passing order under sub-section (1) of section 5 of the Vivad se Vishwas Act, 2020 has been extended to 31st January, 2021

(n) In case of an individual resident in India referred to in sub-section (2) of section 207 of the Act, the taxes paid by him under section 140A of the Act within the due date (before extension) shall be deemed to be advance tax.

(o) Implementation of new procedure for approval/ registration/ notification of certain entities u/s 10(23C), 12AA, 35 and 80G of the Act has been deferred from 01.06.2020 to 01.04.2021.

(p) The TDS rates for specified non-salary payments to residents and specified TCS rates to be reduced by 25 per cent of the specified rates from 14.05.2020 to 31.03.2021. This measure will provide liquidity to the tune of ₹ 50,000 crore.

(ii) Through Circular No. 10 of 2020 dated 24.04.2020, applicability of clause 30C and clause 44 in respect to reporting of GAAR compliance and GST in Form 3CD of the Income-tax Rules, 1962 has been extended till 31.03.2021.

(iii) Vide Circular No 11 of 2020 dated 08.05.2020 it has been clarified that for determination of residency of an individual on a visit to India (whose stay in India has been prolonged due to the lockdown due to COVID-19) u/s 6 of the Act during FY 2019-20, the period so prolonged shall not be taken into account. Further, a press release has also been issued stating that the circular for exclusion of period for determination of residency for FY 2020-21 shall be issued in due course depending upon normalisation/ resumption of international flights.

(iv) Liberal and simplified procedure for disposal of pending application for lower/nil TDS/ TCS filed for FY2019-20.

(v) Tax exemption has been announced for the specified expenditure incurred in lieu of travel for the LTC.

(vi) Threshold for the deeming of stamp duty value for transfer of specified residential units by the real-estate developer has been increased from 10% to 20%.

Annex 2: CBIC's response to COVID-19 pandemic during 2020-21

The measures taken by CBIC in response to COVID-19 during 2020-21 are as follows:

A. CUSTOMS

i. 24*7 Customs clearance facility has been implemented at all custom formations to avoid any supply chain disruption

ii. Novel Coronavirus Help Desk for EXIM Trade- A dedicated single window COVID-19 helpdesk for EXIM trade has been created on CBIC website to facilitate quick resolution of issue(s) faced by importer/exporter.

iii. Nodal officers have been designated in each customs zone of India for facilitating Customs clearances amidst the COVID-19 crisis

iv. Implementation of automated clearance on All-India basis-To minimize human interface and maximize social distancing, the OOC (Out of Charge) work, so far performed by an officer, has been assigned to the EDI system. The machine-based automated release of import consignments has been launched throughout India on 05.03.2020.

v. To address the difficulties faced due to non-availability of stamp papers during the lock-down period, the requirement of different types of customs bond has been dispensed with. Traders can submit undertaking on plain paper in lieu of bond.

vi. Prioritized clearance of critical goods used for fighting COVID-19, such as medical equipment, drugs and pharmaceuticals, testing kits, PPEs, is ensured. Exemption from basic customs duty and health cess has been granted to such goods- ventilators, masks, personal protection equipment, testing kits and inputs used in manufacturing these items.

vii. Provisional clearance of goods under India's Trade Agreements while extending preferential treatment, without the submission of original signed certificates of origin.

viii. Paperless Customs – Electronic Communication of PDF based Gate-pass and OOC Copy of Bill of Entry to Custom Brokers/Importers. Enabling electronic communication of out of charge, bill of entry and gate-pass to importers/customs brokers.

ix. Personal hearing in respect of any proceeding under Customs Act, 1962 may be conducted through video conferencing with a view to ensure social distancing and reduce physical presence.

  a. Special refund and drawback disposal drive. Drive to expeditiously process all pending customs refund and drawback claims in order to provide immediate relief to business entities, especially MSMEs.

  b. IGST refunds on exports-extension in SB005 alternate mechanism. Extension of the facility of SB005 error correction in the Customs EDI system for Shipping Bills with date upto 31.12.2019.

  c. Waiver of Demurrage Charges levied by ICDs/CFSs/Ports/Terminal Operators during lockdown. Zonal Customs Chief Commissioners have asked local custodians (Inland Container Depots and Container Freight Stations) to exempt demurrage charges during the lockdown period.

  d. An Ordinance to provide relaxation in the provisions of certain Acts and for matters connected therewith or incidental thereto The time limit for filing of appeal, furnishing of return, or any other compliance under the Customs Act or Customs Tariff Act, which was expiring from 20th March 2020 to 29th June 2020, has been extended up to 30th June 2020.

x. As a relief measure for other countries battling with the pandemic, specific export shipments of critical drugs, pharmaceuticals, testing kits, personal protection equipment etc. are actively facilitated by customs at the borders. Some of these shipments are donation from the Government of India.

xi. Based on email requisitions, computers and related accessories have been permitted by Customs to be transferred from the bonded premises to residence of employees of Software Technology Park of India to facilitate work from home during the lockdown period.

xii. CBIC actively coordinated with other Ministries for ensuring that customs operations are declared as an essential service during the lock down period, which has allowed smooth operations at all the customs stations. In line with the aforesaid, further directives were issued permitting movement of customs brokers and transporters, and allowing functioning of warehouses during the lock down period.

xiii. CBIC actively coordinated with other Ministries for ensuring that customs operations are declared as an essential service during the lock down period, which has allowed smooth operations at all the customs stations. In line with the aforesaid, further directives were issued permitting movement of customs brokers and transporters, and allowing functioning of warehouses during the lock down period. All customs formations have been asked to show greater sensitivity in dealing with cargo from affected areas, condone the delay in filing import declarations and waive the late filing fees in genuine cases.

xiv. Special care has been taken in clearance of passengers coming from affected countries. Separate channels were created at the airports, port terminals and land customs stations for such passengers. Customs officers strictly followed instructions to use masks, gloves and sanitizers.

xv. CBIC has coordinated with the port and airport authorities and other custodians to see that ample space is available for storing EXIM cargo in the customs area.

B. GST

i. Notifications issued in order to provide relief to taxpayers due to COVID-19 pandemic

a) The time limit for filing of appeal, furnishing of return, or any other compliance under the GST Act has been extended as per the Ordinance issued.

b) Extension of due date for furnishing FORM GSTR-3B for supply made in the month of May 2020.

c) Extension of due date of compliance which falls during the period from "20.03.2020 to 29.06.2020" till 30.06.2020 and to extend validity of e-way bills.

d) Extension of due date of furnishing FORM GST CMP-08 for the quarter ending March, 2020 till 07.07.2020 and filing FORM GSTR-4 for FY 2020-21 till 15.07.2020.

e) Conditional waiver of late fee for delay in furnishing outward statement in FORM GSTR-1 for tax periods of February, 2020 to April, 2020.

f) Conditional waiver of late fee for delay in furnishing returns in FORM GSTR-3B for tax periods of February, 2020 to April, 2020.

g) Conditional lowering of interest rate for tax periods of February, 2020 to April, 2020

Amendment in CGST Rules (Fourth Amendment) in order to allow opting Composition Scheme for FY 2020-21 till 30.06.2020 and to allow cumulative application of condition in rule 36(4)

ii. Special GST Refund Disposal Drive - Implementation of decision to expedite pending GST and IGST refund claims

iii. Conduct of Personal hearing in respect of any proceeding under Customs Act, 1962 through video conferencing with a view to ensure social distancing and reduce physical presence.

Annex 3: Initiatives undertaken by the Ministry of Defence for utilization of defence expenditure and promoting self-reliance in the defence sector.

Budget performance

The allocation of Defence Budget including Civil estimates and Pensions for 2020-21 is ₹ 4,71,378.00 crore, which is ₹ 40,367.71 crore over BE 2019-20. Capital Expenditure in absolute terms has gone up in the past few years. The allocated Capital budget has been fully utilized since 2016-17, reversing the previous trends of surrender of funds. The trend of underutilization of Defence Budget has also been reversed from FY 2016-17.

Defence Acquisition Procedure (DAP) -2020:

- Ministry of Defence unveiled the Defence Acquisition Procedure (DAP)-2020 on 28th September, 2020. DAP-2020 has been aligned with the vision of the Government's Atma Nirbhar Bharat and empowering Indian domestic industry through Make in India initiative with the ultimate aim of turning India into a global manufacturing hub. With the new Foreign Direct Investment (FDI) policy announced, DAP 2020 has adequately included provisions to encourage FDI to establish manufacturing hubs both for import substitution and exports while protecting interests of Indian domestic industry.
- Some of the specific reforms enunciated in Atma Nirbhar Bharat Abhiyan, are as under:

  a) **Notify a List of Weapons/Platforms for Ban on Import:** Relevant incorporation has been done in the DAP to ensure that NO equipment as mentioned in the list is procured ex import post timelines notified.

  b) **Indigenization of Imported Spares:**

     i. Request for Information (RFI)- RFI stage will explore willingness of the prospective foreign vendors to progressively undertake manufacture and set up and indigenous eco system at the spares/ sub component level.

     ii. New Category of Buy (Global- Manufacture in India)- The new category incorporates manufacture of either the entire/part of the equipment or spares/ assemblies/sub-assemblies/Maintenance, Repair and Overhaul (MRO) facility for the equipment, through its subsidiary in India.

     iii. Co-production through IGA (Inter Government Agreement)- This enables establishment of co-production facilities through IGA achieving 'Import Substitution' and reduce Life Cycle Cost.

iv. Contractual Enablement. Buyer's Right to optimize Life Cycle Support costs and system enhancements through indigenous eco system incorporated.

c) **FDI in Defence Manufacturing:** With the announcement of new FDI Policy, suitable provisions have been incorporated like new category 'Buy (Global – Manufacture in India)' done to encourage foreign OEMs to setup 'manufacturing/ maintenance entities' through its subsidiary in India while enabling requisite protections to domestic industry.

d) **Time Bound Defence Procurement Process and Faster Decision Making:** As part of the Defence Reforms announced in Atma Nirbhar Abhiyan, setting up of a PMU has been mandated to support contract management. The PMU will facilitate obtaining advisory and consultancy support in specified areas to streamline Acquisition process.

- **Ease of Doing Business:** One of the key focus areas of the review was to implement 'Ease of Doing Business' with emphasis on simplification, delegation and making the process industry friendly with certain specific provisions like Single stage accord of AoN in all cases up to ₹ 500 crore to reduce time.
- **Make and Innovation:**
  a) Make I (Government Funded up to 70%)- Laying down a cap of ₹ 250 crore /DA and selection of DAs based on bidding criteria.
  b) Make II (Industry Funded) for production of indigenously designed & developed weapons/equipment/systems/platforms along with sub components/assemblies.
  c) Make III (Indigenously Manufactured) category for manufacture of equipment/ platforms or spares/assemblies/sub-assemblies for enabling import substitution.
  d) Procurement of prototypes developed through 'Innovation' under various initiatives like iDEX, Technology Development Fund and Internal Services Organisations has been facilitated.
- **Offsets:** The Offset guidelines have been revised, wherein preference will be given to manufacture of complete defence products over components and various multipliers have been added to give incentivisation in discharge of Offsets.

Self- Reliance in Defence Production:

To achieve self-reliance in the defence sector and make India a global hub in defence manufacturing the Ordnance Factories (OFs), Defence Public Sector Undertakings (DPSUs) and the private industry ecosystem have enhanced their capabilities and widened the product range. A large number of major products have been developed through R&D initiatives and through transfer of technology. As a policy, DPSUs and OFs have been outsourcing many of their requirement, the value of outsourcing in terms of value of production for the FY 2019-20 stands at 41.70%. Further over the years a wide vendor base has been developed that includes a large number of medium and small scale enterprises and large scale industries. In addition, the DPSUs and OFs are also striving to increase the indigenous content in the equipment's and products manufactured by them. The indigenous content (Degree of Indigenization) as on 31.03.2020 was 74.56%.

Policy Initiative

Under the latest Preference to Public Procurement (Make in India) Order 2017, Department of Defence Production has notified list of 46 items for which there is sufficient local capacity and competition and thus, the procurement of these items shall be done only from local suppliers, irrespective of the purchase value

The innovation ecosystem for Defence tilted “Innovation for Defence Excellence” (iDEX), launched in 2018, intends to engage industries including MSMEs, Start-ups, Individual Innovators, R&D institutes and Academia and provide them grants/funding and other support to carry out R&D, which has potential for future adoption for Indian defence and aerospace needs.

Defence Investor Cell functional since January 2018 under DDP is playing a pivotal role of facilitator and guide to Defence entrepreneurs regarding their queries/grievances. It has addressed more than 1000 such queries/cases from across the country.

Private sector Participation

In May 2001, the Defence Industry sector, which was hitherto reserved for the public sector, was opened up to 100 per cent for Indian private sector participation with Foreign Direct Investment (FDI) up to 26 per cent, both subject to licensing. FDI policy was further liberalized vide Press Note no. 4(2020 Series) dated 17.09.2020 and FDI has been allowed under automatic route up to 74% and above 74% through government route wherever it is likely to result in access to modern technology or for other reasons to be recorded. Foreign Investments in the Defence Sector shall be subject to scrutiny on grounds of Nations Security and Government reserves the right to review any foreign investment in the Defence Sector that affects or may affect national security.

After opening of the Defence Industry Sector for private sector participation, so far 44 FDI proposals/Joint Ventures have been approved in defence sector for manufacture of various defence equipment, both in public and private sectors. DPIIT has issued 496 Industrial Licenses (ILs) to private companies till September 2020 for manufacture of a wide range of defence items.

Export Promotion

Exports from Ordnance Factory Board (OFB), DPSUs and the private sector (based on authorization issued by DDP) in the Financial Year have increased from ₹ 4,682 crore in FY2017-18 to ₹ 9116 crore in FY2019-20.

In order to encourage participation of private sector in indigenous design, development and manufacture of Defence equipment, 'Make' Procedure has been further simplified and incorporated as Chapter-III of Defence Acquisition Procedure 2020 w.e.f 01.10.2020. Apart from "Make-I & Make-II' categories, a new category 'Make-III' has been introduced with an objective to get the defence items already in the inventory of Service, manufactured in the country even if the design & development is not carried out in India. Framework for implementation on 'Make-II' procedure at Ordnance Factories and Defence PSUs was also issued in February 2019 enabling them to take up indigenisation of the items, particularly of import substitution nature, through Indian private industry