

## Offset Russia-Ukraine War's Economic Impact with Smart Fiscal Moves

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By TIOL Edit Team

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adverse impact of Russia-Ukraine War (RUW) on Indian economy can be analysed in diverse ways. One can perceive the impact as a golden opportunity for Modi Government to turn it into a revenue-generation mission with a spirit of nationalism.

We are not referring to the much-anticipated hike in prices of petroleum products, fertilizers and power. The last two are derived partly from imported liquefied natural gas (LNG). Thermal Power is also partly generated from imported coal. The increase in prices would help the Government contain fertilizer and LPG subsidy.

The price hikes by oil and power companies would also help the Centre and States improve revenue from levies that are ad valorem. The price rise-led tax buoyancy and the levy of new taxes are two easy options in a difficult situation. We don't recommend them as they might push the economy on path of stagflation.

We instead urge the Finance Ministry(FM) to launch a national mission to recover tax and non-tax revenue to cushion impact of RUW on economy. A part of the accruals from the proposed initiative should be used to create a National Defence Fund.

If defaulters respond well to appeal to pay overdue taxes for national security, then FM might well consider instituting a Sovereign Wealth Fund (SWF) too. This optimism is based on the size of total tax and non-tax arrears.

They have increased by a shocking 182.47% to Rs.1,961,965.64 crore in 2020-2021 from Rs.694,563 crore in 2013-14 under Modi Government. These are official figures & hence credible. How much of this colossal amount is irrecoverable? And why a tax due is allowed to turn irrecoverable?

The Government ought to explain all this to citizens who pay taxes religiously. It should realize that ballooning arrears serve as inkling for regular taxpayers to default too.

The arrears fall in two broad categories – "disputed one and undisputed one. Both disputed and undisputed tax revenue streams are grouped into four categories on the basis of their pendency starting from one year to fourth category of over 10 years. The Receipts Budget contains tax-wise break-up of revenue raised but not realized for each of the four pendency categories.

Arrears for all taxes keep growing in spite of recommendations from numerous government committees, parliamentary panels and Comptroller and Auditor General (CAG) since Independence.

RUW's fall-out offers apt opportunity to dust out their unimplemented recommendations and act on the ones that are still relevant. It is high time to unveil a carrot and stick policy for tax defaulters. The Government should fix responsibility on the officials who let undisputed tax arrears turn irrecoverable.

Tax authorities should keep a special watch on companies that seek loan recast. Many such companies' borrowings later turn into non-performing assets. This is followed by start of insolvency proceedings. The Department of Revenue should disclose how much tax authorities are able to recover from companies undergoing liquidation under insolvency process.

Let the Laws be amended, if need be, to make public names of all defaulters. At present, only the names of confirmed defaulters under the Income Tax Act are in public domain. The list of confirmed defaulters, hidden in income tax department's website, is too small.

Let the public know the fate of annual targets for recovery of arrears set separately by Central Board of Direct Taxes (CBDT) and Central Board of Indirect Taxes and Customs (CBIC).

We urge Prime Minister Narendra Modi to take personal interest in monitoring collection of arrears. It would be great on his part to order fast-track final settlement of tax disputes within a year. Let laws be amended to stipulate that all tax disputes should be settled within one year. The Government should not open purse-strings to expand appeals, tribunals and judicial system to achieve the proposed time limit.

PM would win plaudits from millions of citizens if he addresses a national conclave of businessmen on tax arrears. Mr. Modi has the knack to awaken tax morality of tycoons. He has the power to convince tax defaulters to show responsibility to defend the nation through tax payments.

We urge Finance Ministry to unveil a specific scheme for recovery of non-tax revenue. The arrears on this count stood at Rs.342574.64 crore at the end of 2020-2021. Similarly, separate schemes for recovery of undisputed tax and non-tax revenue are required.

The Government might well consider reviving two schemes for recovery of disputed taxes which were executed in 2019 and 2020. The first scheme- Sabka Vishwas Legacy Dispute Resolution Scheme (SVLDRS) 2019 was applicable to excise and service tax revenue under dispute.

SVLDRS had two elements -Dispute resolution and amnesty. The dispute resolution focused on liquidating the legacy cases of Central Excise and Service Tax locked up in litigation. The amnesty component, on the other, sought to bring the non-compliant tax payers under the tax net through voluntary disclosure.

SVLDRS closed on 31 December 2019. It reportedly brought to Government revenue of over Rs.39500 crore.

The second scheme for direct taxes defaulters yielded Rs.53,684 crore. Named Vivad Se Vishwas Scheme (VSVS) 2020, its primary objective was to provide for resolution of disputed tax and allied matters.

The revamped SVLDRS should cover customs duties and central goods and services tax (CGST). The Centre should also urge the States to launch special schemes to settle disputed tax and non-tax arrears and recover undisputed revenue.

The Government should, in fact, seek ideas from public as to how to offset impact of RUW without increasing taxes and avoiding price revisions to the extent possible.