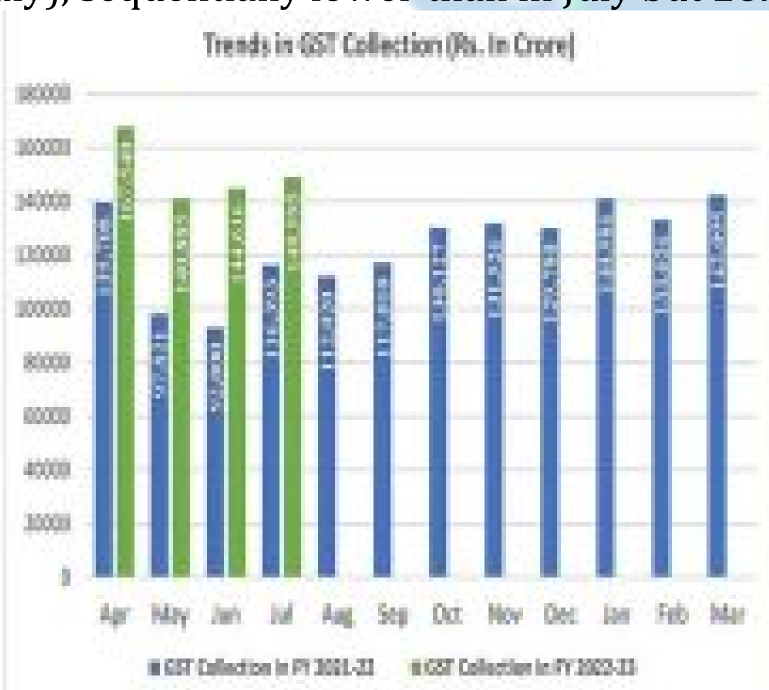
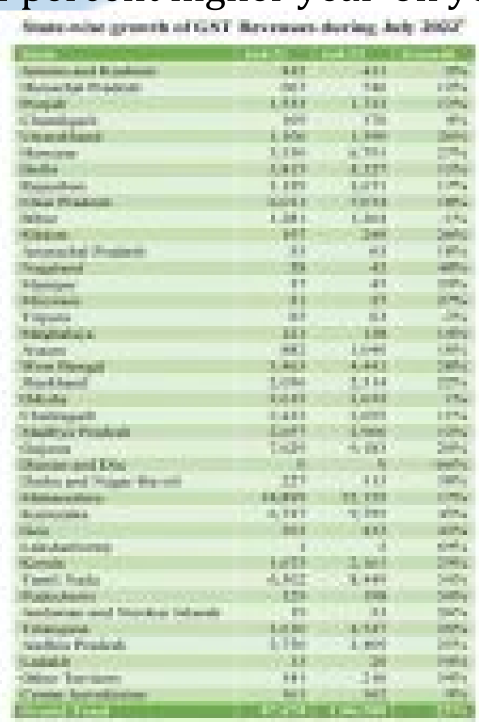
Date –3 September 2022

Rise in GST revenue collections

GS Paper 3: Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment.

News: Data released by the Finance Ministry shows that Gross Goods and Services Tax (GST) collections rose to Rs 1,43,612 crore in August (for sales in July), sequentially lower than in July but 28.2 percent higher year-on year.





What are the reasons for the increase in GST revenues?

- Revival in consumption.
- High inflation rate.

- Recovery from Pandemic.
- Tights checks and balances by the government.
- Partial impact of the rate hike decisions taken in the 47th GST council meeting.
- End of GST Compensation regime: Now states would no longer be compensated by the Centre for a shortfall in the revenues and hence SGST departments of states too are getting aggressive in terms of collections.

What is the government view on higher GST revenues?

The Finance Ministry said that the 28 per cent increase in GST revenue displays a "very high buoyancy". Ministry said that positive impact on the GST revenues on a consistent basis is due to

- Various measures taken by the Council in the past such as action against tax evaders, including steps being taken by state authorities to ensure better compliance.
- Better reporting coupled with economic recovery.
- More enforcement related measures are being taken by the authorities in the wake of the end of the compensation regime.
- At the end of the compensation regime revenue targets have been set for the state officers also which they would now try to achieve. Again, it is important to note that even if a dealer is registered with the Centre, the state can still investigate it on a specific issue and vice-versa.
- Government had set Rs 1.40 lakh crore as the "rough bottom line" for monthly GST revenue collections but with current trend the Ministry of Finance is optimistic that they are not going below that, they will remain above that.

What do the improved revenues signify?.

- ICRA's Chief Economist Aditi Nayar said that "GST collections reported a healthy trend, rising for the second month in a row, with the 28% YoY rise being a function of the economic recovery, better compliance as well as elevated inflation. With the headline GST collection in July 2022 exceeding our monthly average forecast of Rs 1.45 trillion for this year, we foresee an upside of Rs 1.15 trillion relative to the FY 2023 for CGST collections" .
- Higher GST revenue growth is expected to ease the revenue concerns for some states going ahead as the compensation regime for states ends in

June 2022.However, states with a heavy dependence on compensation may find FY 2023 to be a challenging year, with some even resorting to higher enforcement actions to shore up revenue.

What is the Goods and Services Tax(Compensation to States)Act, 2017?

- Under GST, as per the Goods and Services Tax (Compensation to States) Act, 2017, the states were guaranteed compensation at the compounded rate of 14 per cent from the base year 2015-16 for losses arising due to implementation of the taxation regime for five years since its rollout. This came to an end on June 30. The GST Council meeting held in June did not take any decision to extend the compensation mechanism despite at least a dozen states making a demand for the same.

What is the detailed break-up of recent GST revenues?

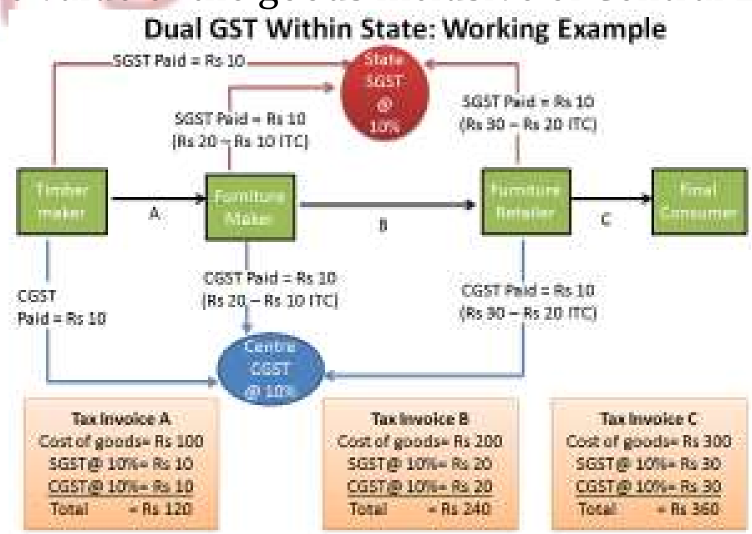
- Before this, GST collections had recorded the highest-ever level of Rs 1.68 lakh crore in April 2022 for year-end sales in March.
- This is the sixth time that monthly GST collections have crossed Rs 1.40 lakh crore mark since inception of GST and fifth month in a row since March 2022. GST collections in July 2021 had stood at Rs 1,16,393 crore.
- **States that recorded contraction in GST revenues** are Daman & Diu, Bihar, Tripura.
- **Leading states/UTs recorded a growth in GST in their respective regions,** Maharashtra, Karnataka, Gujarat, Tamil Nadu, and Uttarakhand.
- **Total number of e-way bills generated** in June were 7.45 crore, higher than 7.36 crore e-way bills generated in May.
- The **average monthly gross GST collection for the first four months of the financial year 2022-23** has been Rs 1.50 lakh crore against the average monthly collection of Rs 1.12 lakh crore in the same period last fiscal.
- **Revenue from import of goods** was 48 per cent higher in July.
- **Revenue from domestic transactions (including import of services)** was 22 per cent higher compared to last year.
- Out of gross GST revenue of Rs 1,48,995 crore, CGST is Rs 25,751 crore, SGST is Rs 32,807 crore,IGST is Rs 79,518 crore,Cess is Rs 10,920 crore (including Rs 995 crore collected on import of goods).

What are the differences between Central GST (CGST), State GST (SGST), Union territory GST (UTGST) and Integrated GST (IGST)?

- **Central GST (CGST):** Tax levied on intra-state supplies of goods and services by the Centre.
- **State GST (SGST):** Tax levied on intra-state supplies of goods and services by the states.
- **Integrated GST (IGST):** Tax levied on all inter-state supplies of goods and services.
- **Union Territory GST (UGST):** Taxes levied within a single Union Territory (UT).

How would a particular transaction of goods and services be taxed simultaneously under Central GST (CGST) and State GST (SGST)?

- The Central GST and the State GST would be levied simultaneously on every transaction of supply of goods and services except on exempted goods and services, goods which are outside the purview of GST and the transactions which are below the prescribed threshold limits. Further, both would be levied on the same price or value unlike State VAT which is levied on the value of the goods inclusive of Central Excise.



What are the benefits of GST for business and industry?

- **Easy compliance:** A robust and comprehensive IT system would be the foundation of the GST regime in India. Therefore, all taxpayer services such as registrations, returns, payments, etc. would be available to the taxpayers online, which would make compliance easy and transparent.
- **Uniformity of tax rates and structures:** GST will ensure that indirect tax rates and structures are common across the country, thereby increasing certainty and ease of doing business. In other words, GST would make doing business in the country tax neutral,irrespective of the choice of place of doing business.
- **Removal of cascading:** A system of seamless tax-credits throughout the value-chain, and across boundaries of States, would ensure that there is minimal cascading of taxes. This would reduce hidden costs of doing business.
- **Improved competitiveness:** Reduction in transaction costs of doing business would eventually lead to an improved competitiveness for the trade and industry.
- **Gain to manufacturers and exporters:** The subsuming of major Central and State taxes in GST, complete and comprehensive set-off of input goods and services and phasing out of Central Sales Tax (CST) would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the international market and give a boost to Indian exports. The uniformity in tax rates and procedures across the country will also go a long way in reducing the compliance cost.

What are the benefits of GST for Central and State Governments ?

- **Simple and easy to administer:** Multiple indirect taxes at the Central and State levels are being replaced by GST. Backed with a robust end-to-end IT system, GST would be simpler and easier to administer than all other indirect taxes of the Centre and State levied so far.
- **Better controls on leakage:** GST will result in better tax compliance due to a robust IT infrastructure. Due to the seamless transfer of input tax credit from one stage to another in the chain of value addition, there is an inbuilt mechanism in the design of GST that would incentivize tax compliance by traders.

- **Higher revenue efficiency:** GST is expected to decrease the cost of collection of tax revenues of the Government, and will therefore, lead to higher revenue efficiency.

What are the benefits of GST for the consumer?

- **Single and transparent tax proportionate to the value of goods and services:** Due to multiple indirect taxes being levied by the Centre and State, with incomplete or no input tax credits available at progressive stages of value addition, the cost of most goods and services in the country today are laden with many hidden taxes. Under GST, there would be only one tax from the manufacturer to the consumer, leading to transparency of taxes paid to the final consumer.
- **Relief in overall tax burden:** Because of efficiency gains and prevention of leakages, the overall tax burden on most commodities will come down, which will benefit consumers.

Sharad

Inflation Rate Differentials

News: India-U.S. inflation differentials to support rupee.
GS Paper 3: Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment.

Key analysis by Yes Securities on Indian Economy

- Inflation rate differentials between the U.S. and India suggest that the worst of the rupee's decline may be over.
- The Federal Reserve in order to quell inflation resorted to **aggressive monetary tightening** which led to depreciation of the rupee more than 7% against the dollar this year.
- The local currency had touched a record low of 80.12 against the dollar earlier this week, before the Reserve Bank of India (RBI) intervened to arrest its decline.
- **Retail inflation** in India was at 6.7% in July, above the RBI's tolerance band of 2-6%, while **consumer inflation** in the U.S. is running at 8.5%, more than four times the Fed's medium-term target.

What is an Inflation Differential?

- The inflation rate differential is the difference between the inflation rate in one country and the inflation rate in another.

What is the relationship between Purchasing Power Parity and Inflation Rates?

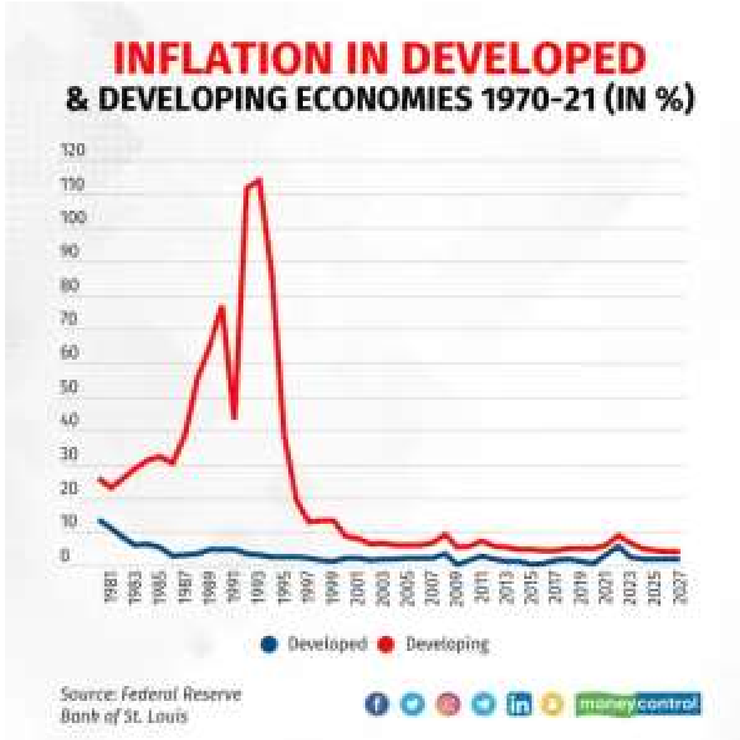
- One economic principle that governs the theoretical behavior of exchange rates is purchasing power parity. When comparing economic behavior in one country to another, purchasing power parity (PPP), states that the currency that has the higher inflation rate will depreciate relative to the currency with the lower inflation rate. When a currency's exchange rate behaves exactly as described here, economists state that the currency's real effective exchange rate was constant.

How is inflation connected to exchange rates?

- **Inflation** means a rise in aggregate prices in an economy. **Exchange rate** means a price with which we buy and sell goods and services from other countries. If prices are higher in one country compared to another, it should reflect in the exchange rate too, else there will be arbitrage.
- **Example:** Inflation is higher in India compared to the US. Assuming exchange rates do not change and there is no trade friction, then a trader can sell from the US to India. The import of foreign goods will lead to a rise in demand for US dollars, resulting in appreciation of the USD against INR.
- **In the real world,** there is hardly any such frictionless markets and more so in international trade. Therefore, the inflation differential and its impact on exchange rate plays out over a long term. So, economists say that countries which have higher inflation, face depreciation of the exchange rate over time.

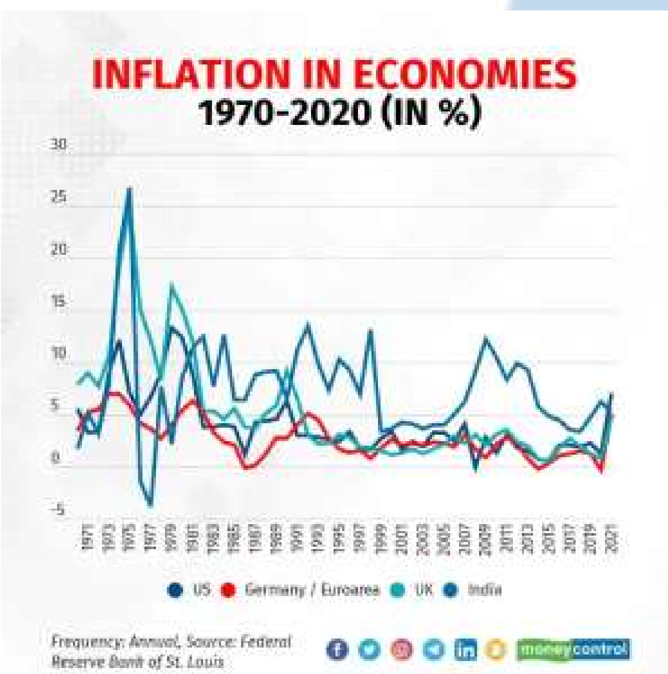
How does this relationship play between developed and developing economies?

- Since 1980, developing economies have had higher inflation than developed economies in each year. The differences have narrowed down in recent years due to better inflation management in developing economies. Thus, developing economies collectively see their exchange rate depreciate against developed economies.



How do India's inflation and exchange rate compare with developed economies?

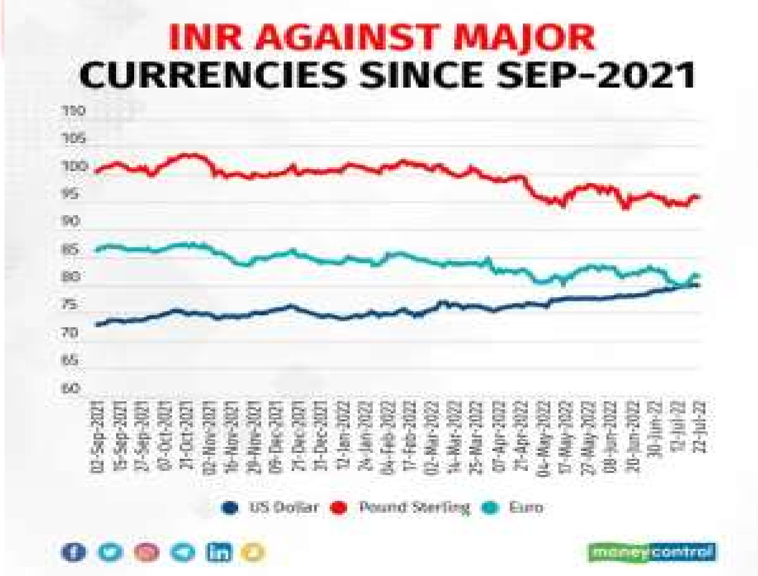
- India's inflation has been higher than advanced economies in most of the years in the 50 year history.
- Accordingly, the INR has depreciated against the currencies of major advanced economies and inflation differential is one of the major factors behind rupee depreciation.



What changed in 2021?

In the second half of 2021, the inflation differential between India and developed countries has reversed. The inflation has been higher in select developed countries than inflation in India. India's inflation has been lower than that of the US since September 2021, lower than that of the UK since February 2022 (and in some other months too) and lower than the Euro area since March 2022.

On analysing the impact of inflation differentials on the exchange rate, INR has appreciated against the pound (from Rs 100 per pound in September 2021 to Rs 95 per pound in July 2022) and euro (from Rs 86 per euro in September 2021 to Rs 81 per euro in July 2022) which is in line with the inflation differential. However, INR has depreciated against the USD in the same period from Rs 73 per USD to near 80 levels in July 2022.



The Chief Economic Adviser also recently commented that INR may have depreciated against USD but has appreciated against other currencies. He also added that other currencies have depreciated more against USD than INR. In particular, euro has depreciated recently and reached parity with USD (1 EUR = I USD) for the first time in 20 years.

What explains INR depreciation against USD despite India having lower inflation than US?

- **Rise in demand for US dollars leads to appreciation of USD and depreciation of the other currency:** In case of a global economic crisis, the foreign capital leaves local shores and is invested in the US.
- **Investors believe that investing in other economies might be risky but USD with its global currency status remains a safe bet. For Example:** In the 2008 crisis, US was at the centre of the crisis which should have led to depreciation but saw appreciation as capital flew to the country. The Federal Reserve cut interest rates to near zero levels yet it did not impact currency flows.

In 2022, we are seeing a repeat of 2008 sentiments playing across the world economy:

- The **Federal Reserve has started to aggressively increase interest rates for taming inflation.** The higher interest rates and rise in global risks have **led capital to once again flow** to the US, leading to large-scale appreciation of USD against most currencies.
- **Investors view the Federal Reserve policy stance as more credible** than that of central banks of England and the Euro area.
- **Inflation expectations:** Even if inflation is higher in India compared to developed countries, inflation in future is expected to trend lower.

Hence, the Indian rupee (INR) is also in the same basket as other currencies and has depreciated against USD.

What are the measures taken by the Reserve Bank of India (RBI) and the government to stop depreciation of Rupee?

- **Increase capital inflows** through FDI, FPI, external assistance, external commercial borrowings, short-term trade credit, net international liabilities of commercial bank.

- **Internationalizing** the rupee: Reserve bank of India(RBI) in its recent announcement on July 11, 2022, has allowed domestic traders to settle their import and export bills in Indian Rupee.
- The RBI has **increased policy rates** and is selling foreign exchange reserves to defend INR.

Why is there optimism that the worst of the rupee is over?

- According to analysis by Yes Securities through the prism of the inflation differentials, it seems that the worst for the rupee is behind us as historical data showed inflation differentials tend to have a strong correlation with currency trajectory.
- The inflation differential has turned topsy-turvy this year, with price pressure in the U.S. of a higher magnitude than in India.
- India's stable economic growth and resumption of portfolio inflows into financial markets could further support the rupee.
- Foreign investors have poured in about $6 billion into Indian equities this month, the biggest inflow since Dec 2020. This compares to the almost $28 billion of outflows in the first six months of 2022.
- On the debt side, overseas investors turned net buyers for the first time this year in August.

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Cyber Crime & Cyber Infrastructure

GS Paper 3: Basics of Cyber Security.

News: According to the National Crime Records Bureau (NCRB), from 12,317 cases of cybercrime in 2016, there were 50,035 cases registered in 2020 due to increased use of information and communication technology (ICT).

What is the Definition of Cyber Crime?

- Cybercrime refers to criminal conduct committed with the aid of a computer or other electronic equipment connected to the internet. Individuals or small groups of people with little technical knowledge and highly organized worldwide criminal groups with relatively talented developers and specialists can engage in cybercrime.

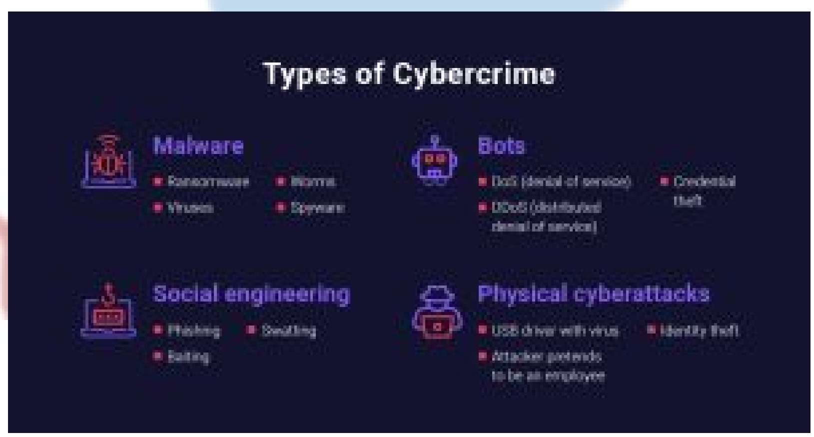
What are the examples of Basic CyberCrimes?

- **Stolen credit card information:** The most common cybercrime is when a person's credit card information is stolen and used unlawfully to acquire or purchase goods or services over the internet.
- **Hacking into a government website:** Another type of cybercrime is tampering with sensitive government data.
- **Theft of user accounts:** Yahoo experienced a serious data breach from 2013 to 2016 that resulted in the theft of three billion user accounts. The attackers gained access to private information and passwords that were used to access user accounts in other online services. Most of this data is available even today on the dark web.
- **Compromised IoT devices:** In 2016, over one million connected devices in the IoT were compromised by attackers who took advantage of existing software vulnerabilities. It is the largest DDoS attack to date and one that caused outages in the global DNS affecting popular services including Netflix, PayPal, Twitter, and many more.
- **Loss of control and access to content:** The WannaCry attack, which was allegedly launched by North Korea, in 2017, unleashed ransomware that locked down content on user devices. This ransomware rapidly spread itself and infected 300,000 computers worldwide. The victims had to pay hundreds of dollars to restore their data.
- **Phishing campaigns:** The phishing campaigns infiltrate corporate networks by sending authentic-looking fraudulent emails to users in an organization and tricking them into performing actions such as downloading attachments or clicking on links. The viruses or malware then spreads to the systems, and, eventually, ends up in the organizations' networks.

What are the Different Types of Cyber Crime?

- **Malware:** Malware is a broad phrase that encompasses a wide range of cyberattacks such as Trojans, viruses, and worms. Malware can simply be described as code written to steal data or destroy things on a computer.

- **Phishing:** Phishing frequently poses as a request for information from a reputable third party. Phishing emails invite users to click on a link and enter their personal information.
- **Denial-of-service (DoS) attack:** A denial-of-service (DoS) attack focuses on disrupting network service. Attackers transmit a large amount of data traffic via the network until it becomes overloaded and stops working. A DoS attack can be carried out in a variety of ways, but the most common is a distributed denial-of-service (DDoS) attack. It involves the attacker sending traffic or data, by utilizing several machines, that will overload the system.
- **Man-in-the-middle Attack:** A man-in-the-middle attack can obtain information from the end-user and the entity with which they are communicating by impersonating the endpoints in the online information exchange.
- **Drive-by Download Attack:** Simply opening a compromised webpage may now allow dangerous code to be installed on our device. We only need to visit or drive by a website by clicking accept for any software, and malicious code will be downloaded in the background on our device.



What are the Issues in India related to Cyber Crimes:

- **No procedural code:** Electronic evidence is entirely different in nature when compared with evidence of traditional crime but there is no separate procedural code for the investigation of cyber or computer-related offences.
- **Shortage of technical staff:** A regular police officer, with an academic background in the arts, commerce, literature, or management may be unable to understand the nuances of the working of a computer or the

Internet, but there have been half-hearted efforts by the States to recruit technical staff for the investigation of cybercrime.

- **Cyber forensic laboratorie**s of States are equipped to analyze hard disks and mobile phones, many are yet to be notified as **'Examiner of Electronic Evidence' (by the central government)** to enable them to provide expert opinion on electronic records.
- **Insufficient State Capacities:** Offenses related to crypto-currency remain under-reported as the capacity to solve such crimes remains limited.
- **Trans-national nature of cyber crimes:** Most cyber crimes are trans -national in nature with extra-territorial jurisdiction. The collection of evidence from foreign territories is not only a difficult but also a tardy process.
- **Insufficient financial support from center:** Center helps in upgrading the State laboratories by providing modernisation funds, though the corpus has gradually shrunk over the years.
- **Firms are reluctant to notify the cyber breach incidents to the regulators:** This is because any security or privacy breach has a negative impact on the reputation of the associated firms. Empirical evidence shows that in the long term, breached companies underperformed in the market.So, firms weigh the penalties they face for not disclosing the incidents versus the potential reputational harm due to disclosure, and decide accordingly.

Initiatives taken by India to tackle cyber crime:

- Cyber Surakshit Bharat Initiative.
- Computer Emergency Response Team-India (CERT-IN).
- Information Technology (IT) Act, 2000.
- Cyber Swachhta Kendra.
- Indian Cyber Crime Coordination Center(I4C)
- Natioanl Cybersecurity Coordination Center.

Way forward:

- **Periodic cyber security audits through third party cyber security auditors:** These audits should be comprehensive enough to identify cyber crime incidents that might not have been reported by the firm.
- **Extension of Common Criteria Testing Laboratories and certification bodies** set up as part of cyber security assurance

initiatives of the Government of India, to evaluate and certify IT security products and protection profiles towards cyber security audits and assessments as well.

- **Upgrade cyber labs:** Since there is now a state-of-art National Cyber Forensic Lab and the Cyber Prevention, Awareness and Detection Centre (CyPAD) of the Delhi Police, there may be an extension of professional help to States in getting their labs notified.
- **Data localisation:** Most cyber crimes are transnational in nature but in most social media crimes, except for the prompt blocking of an objectionable website or suspect's account, other details do not come forth quickly from large IT firms. Therefore, 'data localisation' must feature in the proposed Personal Data Protection law so that enforcement agencies are able to get timely access to the data of suspected Indian citizens.
- India should develop its **in-house capacity and/or make intermediaries accountable** to identify and remove online CSAM for immediate action by the police. As, the police still get CyberTipline reports on online Child Sexual Abuse Material (CSAM) from the U.S.'s non-profit agency, the National Center for Missing & Exploited Children (NCMEC).
- Centre and States should work in tandem and frame statutory guidelines to facilitate investigation of cybercrime but also need to commit sufficient funds to develop much-awaited and required cyber infrastructure.

Sharad