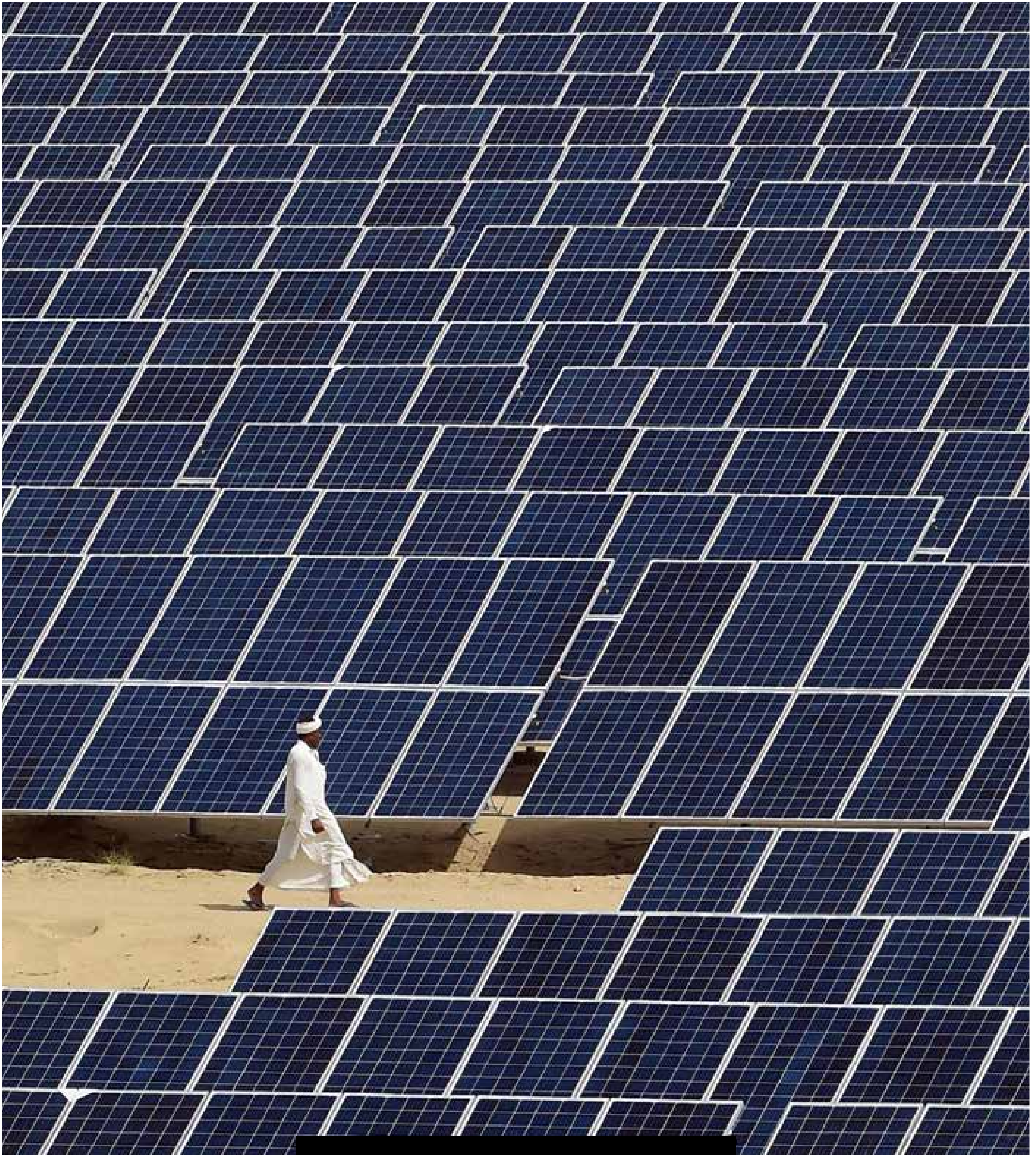
SPECIAL REPORT

No. 127



JANUARY 2021

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A POLICY AGENDA FOR INDIA'S UNION BUDGET 2021-22

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INTRODUCTION

The finance minister has already promised that India's Union Budget 2021-22 will be a Budget "like never before".[1] Indeed, this Budget bears a unique burden of expectation: to put India back on a recovery path, following a deep recession induced by the COVID-19 pandemic, while managing an unenviable fiscal deficit.

In order to jumpstart the country's post-pandemic economic revival, this budget will need to have precise and immediate actionable measures that will help promote growth in a fair, equitable and timely manner. It also needs to spearhead and follow-through on the three essential themes highlighted in the previous year's budget:[2] *Aspirational India*, which promises a better standard of living for all sections of society; *Economic*

Attribution: Sangeet Jain, Soumya Bhowmick, and Suyash Das, "A Policy Agenda for India's Union Budget 2021-22," *ORF Special Report No. 127*, January 2021, Observer Research Foundation.

Cover image: This year's budget should prioritise green recovery. Photo: Getty Images / Money Sharma

Development for all; and finally, a *Caring Society*, with a focus on humane and compassionate social reforms.

Over the past year, amidst the massive economic fallout of the pandemic, there has been a spate of useful literature from academic, policy and industrial circles on how the world can rebuild and re-order development priorities. This report is inspired by a review of such literature in India. ORF undertook this project to unearth a set of development priorities for the 2021 Budget. On the basis of this project, a team of ORF analysts made a presentation before Finance Minister Nirmala Sitharaman on 11 January 2021, outlining specific recommendations for this year's budget priorities.

This report comprises four chapters. The first consists of a set of recommendations for improving demand and consumption, which in ORF's view must be India's foremost priority in 2021-22. To ameliorate the immediate fiscal burden on the government, the fiscal deficit must be managed prudently by raising finances through methods such as asset monetisation and the floatation of bonds and other debt instruments. The second chapter offers suggestions for pushing trade and competitiveness up, for the purpose of promoting innovation-led growth in India. India's economic planners have tended to focus overwhelmingly on 'ease of doing business' indicators over the last few years, and in this chapter, ORF broadens the horizon by focusing on the need for capacity building, infrastructure, and regional partnerships, among other key parameters.

The pandemic has rendered the world even more alive to the very real threat of climate change. The third chapter underlines the need to build back better and promote a green, sustainable economic revival in India. The chapter outlines policy measures that can reinvigorate the economy and help India move closer to its ambitious climate goals. The final chapter contains a proposal for the establishment of an independent statutory authority for the administration and collection of taxes in the country, to reduce political and bureaucratic interference in the revenue administration process while enhancing accountability. The corporatisation of the tax collection system in India would also assure tax regime stability and make tax administration more user-friendly by subsuming the Income Tax Department, the CBDT and other associated agencies.

It is lamentable that Indian industry and academia seldom speak to each other in matters of public interest. Through this report, ORF aims to present a selection of views from across the spectrum. All the views and recommendations presented in this report have been selected after careful consideration of their potential effects and benefits, as well as how they could be incorporated into the existing policy framework. It is ORF's endeavour to identify and clarify the priorities for Indian economic development over the next year, and echo some of the most influential ideas floating in the broader Indian ecosystem. These must find a place in India's policy imagination.

REVIVING DEMAND AND CONSUMPTION

India's Union Budget 2021 must prioritise the immediate revival of demand and consumption. This chapter offers specific policy recommendations that can help improve demand in the economy in the short and medium-term. These recommendations work under the assumption that a relaxation of the fiscal deficit limit will be of the essence.

SOCIAL SECURITY

1. To ensure inclusive development, the government must work towards the provision of a minimum nation-wide social protection floor, to be guaranteed to every worker and decoupled from place of origin.[3]

2. Budget 2021 should provide for the universalisation of the Public Distribution System (PDS), under the National Food Security Act. [4]

3. The need for direct fiscal action and support continues, even as the Indian economy starts taking the slow path to recovery from Covid-19. The budgetary allocations should pay more attention to the provision of direct cash transfers to the poor. While mending the technical and exclusion errors of the cash-transfer infrastructure JAM,[5] state governments can be encouraged to use cash-in-hand methods for relief payments for the FY 2021-22.[6]

4. To raise rural incomes, PM-KISAN should be expanded to include tenants, sharecroppers and landless farmers, who make up 55 percent of the agricultural workforce. The capital outlay for the programme must be increased.[7] A lack of adequate alternative social security nets is among the reasons for the tremendous anxiety concerning the new farm laws.

EMPLOYMENT

1. The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) is a demand-driven, tried-and-tested scheme and requires a lift in Budget 2021. Industry and academia analysts agree that the government must at least maintain MGNREGA allocations at the increased level of INR 1 lakh crore for 2021-22.[8]

   It is also time for the introduction of an urban employment guarantee programme through Budget 2021, to address the crisis in urban livelihoods. It could help alleviate the livelihoods crisis and improve demand, and also attract much-needed public investment into urban infrastructure. Lessons can be learned from Kerala's Ayyankali Urban Employment Guarantee Scheme, which has been running since 2012.[9] Other useful prototypes are the Azim Premji University's proposed scheme for a National Urban Employment Guarantee,[10] and Jean Dreze's DUET scheme.[11]

2. In order to revive demand in the organised sector, employees' contributions towards the Employee Provident Fund (EPF) could be made voluntary for FY 2021-22.[12] Contributions towards the Employee State Insurance (ESI) could also be reduced to a nominal sum for the financial year, and the shortfall can be funded by the ESI corporation's liquid deposits.[13] This would allow for a higher net salary, in turn incentivising employees to accelerate consumption.

3. Secure employment is a requisite for increasing demand, and enables consumers to spend with a degree of confidence. Increasing contractualisation has created tremendous precariousness in the employment market. Fixed-term contracts provided for by the new labour codes are unlikely to solve the problem, as fixed-term employees are entitled to the same statutory benefits as permanent workers; there is little incentive to hire them, therefore. In fact, fixed-term contracts could exacerbate the problem, as employees doing "core" work can now be converted to "fixed-term workers". The category of "fixed-term worker" therefore requires some amending. Economist Raghuram Rajan has suggested the provision of an "intermediate contract worker" category, which can be designed to provide workers with some rights (to be increased over time) without making them permanent employees. Existing permanent workers may be grandfathered.[14]

4. Increased scrutiny on compliance with respect to social security and wage legislations help protect workers' interests. The Code on Social Security 2020 and the Wage Code 2019 both need to reinstate the powers of erstwhile Inspectors, as the newly created Inspector-cum-Facilitators have less monitoring powers.[15]

5. Apprenticeships are a key pathway to alleviating the skills-mismatch that plagues the Indian economy. The Budget could kickstart some crucial reforms in this sector—such as the removal of the minimum hiring limit for apprentices (through an amendment to the Apprentices Act), the introduction of the "university: as a third party under Section 8(2) of the Apprentices Act,[16] and an increase in apprentice wage subsidies.[17] A simplified framework is required, with a single overseeing ministry[18] that will merge the various governing bodies[19] entrusted to implement the apprenticeship laws. Issuing guidelines to enable third-party aggregators to execute apprenticeship programmes end-to-end would also allow apprenticeships to grow. The suggested changes can be carried out by expanding the scope of the existing law and consolidation of schemes like the National Employability Enhancement Scheme (NEEM) into the Apprentices Act.[20]

SOCIAL SPENDING TO RAISE PRODUCTIVITY

1. Every second child in India is malnourished, according to the NFHS-4, and the COVID-19 pandemic has only exacerbated that trend.[21] The country requires a renewed focus on raising productivity through women and child nutrition, education and healthcare spending, and these areas must be key domains to consider in the Union Budget 2021. This could be achieved by increasing budgetary allocations towards the National Food Security Act—[22] to revive Mid-Day meals (MDM), reinvigorate anganwadis under the Integrated Child Development Services (ICDS), and promote the POSHAN Abhiyaan.

2. To strengthen online education, industry leaders suggest that the government take measures to permit all accredited universities to launch online courses and provide them the autonomy and flexibility to design and deliver these courses through revised UGC guidelines.[23]

TAXES

1. The Swacch Bharat cess and Krishi Kalyan cess need to be reviewed and rationalised, to improve demand.[24]

2. The government must take steps to increase the scope of Sec 80D of the Income Tax Act: Section 80D allows taxpayers to claim a tax break on the medical insurance premium paid for themselves and their family. This must be expanded to include medical expenditure incurred by taxpayers on COVID-19 or any other ailment, with the requisite conditionalities like age limits (in order to retain more favourable terms for senior citizens). Additionally, the prescribed limits should be increased to reflect inflation and the increased healthcare burden.[25,26]

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INCREASE CAPITAL EXPENDITURE

1. Increased capital expenditure[27] on infrastructure. A focus on spending on critical infrastructure under the National Infrastructure Pipeline (NIP) will have cascading effects[28] on demand revival, employment generation, economic growth, and other priority sectors like renewable energy. A key priority for the Budget must be to allocate funds towards reviving stalled infrastructure projects (this recommendation is discussed further in the next chapter on competitiveness).

2. State governments require looser purse strings; the recent cuts in states' capital outlays must be reversed through the Budget.[29]

3. The Budget could also help facilitate the growth of rural economies by funding rural road construction, and by raising budgetary allocations under the Pradhan Mantri Gram Sadak Yojana.

4. The India Investment Grid requires greater detail and clarity, to spark interest among private stakeholders.[30]

IMPROVING TRADE AND COMPETITIVENESS

INFRASTRUCTURE

Infrastructure spending must be one of the key levers to pull the economy back on to a robust growth trajectory.

1. Infrastructure spending is mainly done by the states and therefore greater fiscal devolution must be a key theme of the Budget. Fiscal devolution is crucial: empowering local governments financially and politically so that infrastructure projects are implemented successfully.

2. The infrastructure space requires long-term financing. The Centre could look at exploring the potential of channelling insurance and pension funds for this purpose,[31] and guidelines could be framed for the insurance sector to expand their scope to invest in A-grade companies as well. A key suggestion floated by industry has been the need for a Development Finance Institution (DFI) dedicated to infrastructure—an off-budget financing vehicle to address the need for long-term finance. The proposed DFI could also act as an advisory authority and not just a funding agency (Australia's IPFA is an example of

such a body[32]). This is an idea worth exploring; after all, DFIs have traditionally been used as a financing vehicle for high-risk projects that commercial banks were not willing to fund. According to YD Murthy of the NCC, the current lack of availability of bank guarantees has become a key worry for the construction industry due to fears of repayment risks.[33] A DFI may help alleviate that concern. However, the global financial environment is far different today from that in the past when India floated its DFIs. A new DFI would have to be designed to avoid the governance challenges that afflicted similar institutions in the past.[34]

3. The Budget must continue its focus on increasing transparency in governance and the use of auctions to allocate resources for infrastructure projects.[35]

4. Industrialists have pushed for new alternative and sustainable models for PPPs, based on India's experience over the past decade. One suggestion that has emerged is to build infrastructure projects using public investment, and once they become cash flow-yielding assets, they can be handed over to the private sector for operation and maintenance.[36] The Mumbai and New Delhi airports are key examples of such a model—they have found it easier to attract international capital and have generated significant revenue flow for the government.[37]

5. The National Infrastructure Pipeline is a long-term project—there is a need to create a short-to medium-term plan for the NIP for the financial year 2021-22, with a focus on reviving stalled high-quality infrastructure projects.

FISCAL DEFICIT MANAGEMENT

As the government relaxes the fiscal deficit limit in light of the COVID-19-induced recession, it will require a plan for fiscal consolidation and transparency. This would inject confidence in the economy's ability to bounce back in a sustainable way.

1. Among the priorities for the Budget must be a commitment to clear the Centre's books and pay all of its pending bills in an accelerated manner.

2. Fiscal deficit management requires an aggressive disinvestment strategy, and the Budget must bring out a strategic one. KPMG India suggests that some provisions and incentives for state-level asset monetisation may also go a long way, if introduced.[38] This suggestion has been echoed by the Chairman of PwC India, who suggests that structures along the lines of the Real Estate Investment Trust (REIT) and Infrastructure Investment Trust (InvIT) be considered for state-owned assets, to quickly raise the needed cash. [39] KPMG has also suggested the creation of an "autonomous asset management trust" for the purpose of large-scale disinvestment, with the Trust having a controlling stake in all earmarked assets for disinvestment.[40]

3. Another imperative is to work towards shrinking the share of PSBs. A number of PSBs must be privatised, with credible plans formulated for the rest. ORF concurs with Dr Latha Venkatesh's suggestion of moving the others to a holding company, following the recommendation of the Vinayak Committee, as well as abolishing the Banking Companies Act and moving PSBs to the Companies Act. [41]

4. The government can raise money through the issuance of bonds or debt instruments[42] that organisations or individuals can purchase as long-term investments, with a guaranteed repayment along with interest. With projection for the debt-to-GDP ratio[43] being as high as 87.6 percent in FY 20-21 compared to 72.2 percent in the last fiscal year, SBI Research has suggested the use of COVID bonds for direct monetisation. It could turn out to be a strong policy option to help the government through cheaper borrowing as well as cushioning the short-term inflation risks in the domestic economy. To enable the central government to issue such tax-exempt bonds during national emergencies, a new legislative framework[44] needs to be introduced with proper checks and balances.

5. The Budget must also provide an indication of a credible plan for fiscal consolidation over the next five years. Former RBI Governor D. Subbarao has suggested setting a specific target—a resurrection of the "revenue deficit" and a commitment to eliminate it over five years—rather than making plans to reduce the fiscal deficit.[45]

POWER SECTOR RECOVERY AND REFORM

Power sector reforms require state buy-in and are therefore a complicated subject. However, an agenda for the recovery and reform of the sector is critical and must be addressed through the Budget.

1. The power sector has been hit hard by COVID-19. The need of the hour is conditional and formula-driven transfers to States for the recovery of the sector. However, any Central stimulus to DISCOMs needs to be based on the total amounts the respective states can guarantee towards their DISCOMs' total dues, and deliver the amount to generating companies on behalf of distribution licensees.[46]

2. The poor financial health of DISCOMs is a contentious issue, affecting Indian industrial competitiveness and the transition towards renewable energy as well. To revive DISCOMs, the tariffs charged for agricultural and domestic consumers need to be closely examined and rationalised. Central and state governments should work towards eliminating the Cross Subsidy Surcharge (CSS), Additional Surcharge (AS) as well as other non-tariff hurdles impeding open access to electricity.

3. Distribution is a key bottleneck. India must work towards achieving 100-percent metering and modernising the distribution infrastructure.[47]

4. The Budget must set an agenda for accelerating the privatisation of some DISCOMs in this financial year.[48]

5. There is a need for greater regulatory clarity in the proposed Electricity (Amendment) Bill 2020: especially in various aspects such as drawing a distinction between Distribution Franchisee and distribution sub licensee, mandating payment security and jurisdictional clarity between Regulatory commissions and Contract enforcement authority. [49]

COMPETITIVENESS

1. India needs to begin the process of steadily reducing tariffs and joining free trade agreements judiciously. The country's import basket is largely composed of intermediate goods, and increasing import tariffs makes them more expensive and hurts competitiveness. For instance, high import tariffs on key inputs, such as synthetic fibres, have hurt the competitiveness of the garments industry, which is one of India's most labour-intensive.[50]

2. The growing concentration of economic power in India could stifle competitiveness and innovation and narrow any room available to continue the present accommodative monetary policy stance. A key structural reform would be to revive the draft National Competition Policy, which is required to fully leverage the Competition Commission of India. An OECD 2014 report suggests that a competition policy could boost growth by 2-3 percent.[51] One sector where competition is getting stifled and is in urgent need of attention is telecoms.

3. Reduce taxation on transport fuel, to help reduce logistics costs for firms. High diesel prices are hurting the competitiveness of the manufacturing sector.[52] Petroleum must be included in the GST to enhance competitiveness and rationalise the tax structure.

4. The PLI scheme is a promising one. However, these incentives must not be linked only to the volumes of additional production. India needs to strategically think about moving up in global production networks and therefore tie incentives to progressive increases in value addition taking place within the country.[53]

5. India's FDI policy must be geared towards being increasingly selective and inviting MNCs with GVC linkages to the country.[54] Backward linkages are extremely important for developing competitiveness and policies must therefore look to preserve and lift domestic supply networks.[55]

6. Productive capabilities are a critical input for industrial success. Skilling, R&D and human capital expenditure must therefore be viewed as a capital investment. The development of productive capabilities requires industrial policy which supports technological upgradation.

7. A suggestion floated by industrialist Alok Kirloskar is that the government could consider schemes like the UK's patent box programme to incentivise IP registration in India.[56] The British Patent Box programme worked in tandem with its R&D policy and was set up to incentivise companies to retain and commercialise UK/European patents.[57]

8. India needs a unified transport policy and forward-looking norms on "Intelligent Transportation Systems", as part of the draft National Logistics Policy.[58]

LIBERALISATION AND REGIONAL PARTNERSHIPS

1. As far as possible, India should avoid a focus on raising tariffs further through this Budget. The encouragement of an open trade environment is sorely needed to boost Indian industrial competitiveness. Subsidies are less distortionary and should be preferred over tariffs for sectors which the government deems to be in need of being promoted.

2. Regional cooperation and regional value chains are a useful way to increase the capabilities of domestic industry to integrate into global production networks. India must work towards addressing regional bottlenecks and entering free trade agreements astutely. The utilisation rate of India's current FTAs is just around 5-15 percent.[59] India must work towards fully leveraging doing business in goods that are eligible for free-trade benefits.

3. Liberalise services: Working towards Mutual Recognition Agreements (MRAs) in legal, accounting and financial services in free trade agreements can provide opportunities for professionals in India to provide their services internationally and leverage global production networks for this purpose.[60]

FACTOR MARKET REFORMS

It is widely acknowledged in policy and industry circles that India is in dire need of structural reforms that will strengthen industrial competitiveness. The next generation of factor market reforms for the country are expected to be politically contentious and thorny. There is considerable political momentum on this front, and even if FY 2021-22 leaves little fiscal or political space to enact massive reforms in this space, a few reforms on the margins are possible even without enacting substantive structural adjustments.

Working towards land reform must be the biggest priority of all factor market reforms for the government this year.

1. The Digital India Land Records Modernisation Programme has provided for the digitisation of existing land records, but the process has been sluggish.[61] This financial year, the Budget would do well to allocate funds towards accelerating the process, and commissioning land surveys to ensure that digitisation is accurate. The country needs an integrated and standardised repository of national land records that are reliable.[62] State capacity is a formidable problem, and to circumvent it, academics KP Krishnan and Venkatesh Panchapagesan suggest a way to clean up land records quickly. They estimate that around 30-40 percent of monetisable land is already collateralised in the formal financial system today, for which banks and other financial institutions have conducted due diligence. These institutions could be incentivised to create land registers, which could catalyse the process for states.[63]

2. Accelerate the auction of unused land owned by various public-sector entities. NITI Aayog and DIPAM have conducted the background work in terms of land records and land monetisation. The MSTC Limited could now accelerate auctions. The inter-ministerial group for this already exists as well.[64]

3. A particularly promising suggestion has emerged from the Centre for Policy Research, which ORF would like to echo. There is a need for a separate Ministry for Land, to act as a nodal agency for policy coordination. Land reform is currently hamstrung as the subject is under the Department of Land Resources under the Ministry of Rural Development.[65]

4. For the purpose of "conclusive titling", a policy framework already exists, and NITI Aayog's draft model Land Title Act, 2019 must be facilitated and promoted with all possible speed."[66] The activation of the Inter-State Council could help building political capital with regard to such deliberations.

A GREEN ECONOMIC REVIVAL

A green transition has the potential to boost growth and employment, and could provide an impetus to the country's considerable progress towards its climate goals. ORF outlines a number of key focus areas for the Budget:

RENEWABLE ENERGY

1. There is a need to maintain momentum in the promotion of decentralised models of renewable energy—such as rooftop solar installations (currently installations are only at 4.6 GW)—to universalise energy access, through budgetary allocations towards the PM KUSUM Scheme in 2021-22. IndiaSpend estimates that the decentralised renewable energy sector could double its workforce, from 95,000 jobs in 2017-18 to 190,000 jobs by 2022-23, if the sector's expansion continues at its present rate.[67]

2. The existing energy subsidies must be increasingly re-oriented towards renewable energy. Additionally, renewable energy subsidies must be adapted to target emerging technologies and grid balancing.[68]

3. To leverage India's leadership in the solar power sector and in turn boost growth, a number of policy adjustments are required. First, there is a need to clarify GST regulation in the sector and improve clarity on "basic customs duty" and import duty on solar equipment. A GST exemption for solar and wind energy equipment and installations would go a long way (GST introduction has led to an increase in the cost of generation of solar power by almost 6 percent, while reducing the cost of coal-based thermal power by nearly 2 percent for existing plants[69]).

4. India must promote the manufacture of solar equipment. There is tremendous domestic demand for the sector and it is currently overwhelmingly reliant on imports. Industry has suggested an increase in export incentives for the sector from 2 percent to 8 percent under the Remission of Duties or Taxes on Export Product (RoDTEP)."[70] Estimates by TERI suggest that manufacturing of solar equipment can generate a value of 2,94,000 crores by 2030 through import substitution.[71]

5. Industry is recommending that the duty on completed solar lanterns be increased, as the duty structure for the product is currently inverted, bringing disadvantages to manufacturers. [72]

REVAMPING FOSSIL-FUEL-BASED SECTORS

1. Budget 2020 had articulated the need to close down old and inefficient thermal power plants. The agenda was not carried out, however, partly due to the problem of employee rehabilitation.[73] Budget 2021 could push consumption up and also make progress towards the agenda of retiring old thermal power plants, by providing budgetary allocation for employee compensation and rehabilitation, and a just transition.

2. An increase in subsidies on biogas plants for cooking purposes through the National Biofuel Policy has been widely recommended by academia, as a way to transition to cleaner energy use.

3. India needs to work towards eliminating fossil-fuel subsidies. Any economic revival plan for India's energy sector must at least avoid new fossil fuel subsidies, in order to avoid locking-in polluting technologies.[74] Moreover, these subsidies are inefficiently targeted and encourage waste, while putting severe strain on government budgets.[75]

4. The oil and gas sectors in India could be asked to move towards voluntary carbon disclosure in FY 2021.[76] Industry could be directed to build on existing guidelines such as the PAT scheme reporting requirements or through the self-declaration approaches followed within the Annual Survey of Industries (ASI).

MOBILITY

1. State governments could be provided a hefty capital subsidy to promote electric buses in public transportation, under the Faster Adoption and Manufacture of Electric Vehicles in India Scheme.[77]

2. The government needs to push to enact the draft policy on old automobiles and provide tax incentives for scrapping older automobiles and buying more fuel-efficient newer vehicles. This would also push up demand for the industry.[78]

3. A single agency should be created to coordinate and finance India's public transport network, along the lines of Transport for London or the Land Transport Authority in Singapore. This will promote multi-modal integration and promote public transport.[79]

GREEN INFRASTRUCTURE

1. Building a smart grid infrastructure for interstate power transmission and storage requires urgent attention and is an issue the Budget should pay attention to. This could ideally figure among the priority issues for the National Infrastructure Pipeline and the proposed DFI for infrastructure.

2. All new construction for commercial buildings should be directed to comply with the Energy Conservation Building Code. The ECBC must be integrated into the National Building Code; at present, building regulation does not address sustainability. [80]

3. The Budget could provide financial incentives for green rated-infrastructure in the form of tax breaks. The Maharashtra government's "green building policy" is an initiative in this regard.[81]

MSME SUPPORT

1. The MSME sector's economic recovery must be a key theme of Budget 2021-22. The recovery could be made a sustainable and clean one by incentivising the adoption of certifications like ZED (Zero Effect, Zero Defect).

2. Budgetary allocations for the Credit Linked Capital Subsidy for Technology Upgradation scheme and the Technology and Quality Upgradation Support to MSMEs scheme could simultaneously promote industrial competitiveness while encouraging the use of energy-efficient technologies in these units.[82]

GLOBAL PUBLIC GOODS: CLEAN AIR AS BUDGET PRIORITY FOR 2021-22

1. To give the NCAP teeth, it should be supplemented by a realistic medium-to long-term roadmap. The Budget could provide an agenda for this urgent initiative.[83]The plan needs to be multi-faceted and focus separately on different aspects of the problem (e.g., waste-burning, transport emissions, and others.[84])

   The plan must also be one that is regional in focus, and treat pollution at an air-shed level. The proposed Commission for Air Quality Management in the National Capital Region and Adjoining Areas is a promising example of a region-based institution.85 There is a need for more such inter-state coordination mechanisms that have cross-state jurisdiction and robust regulatory authority.

2 The Budget could indicate an amendment to the Air Act, 1981 to make SPCBs responsible for developing attainment plans for the state and cities in a legally time-bound manner. This would ensure enforcement. [86]

3. Any financial allocation must also clearly delineate specific targets, such as the need to focus on taking action against known sources of pollution in violation of environmental standards.[87]

4. Supporting enforcement: There is a need for budgetary support for capacity building of SPCBs. According to a 2010 estimate by the CPCB, INR 1145.4892 crores would be required for laboratories, computerisation and infrastructure upgrade in the SPCBs.[88] SPCBs are key enforcement nodes, and the regular inspection drives they carry out ensure NCAP compliance. [89]

FINANCING A GREEN TRANSITION

ORF has proposed the creation of a "National Green Investment Bank" to play a role in closing the green investment gap by spurring public and private investment and mitigating investment risk. ORF recommends that the bank be set up as a public company, and an independent entity with an autonomous investment board and distinguished management committee. The Bank could take a cue from institutions such as the Australian SuperFund and the Norwegian sovereign wealth fund. The proposed bank would have two core funds—the National Green Fund and State Green Fund—which could be established as Alternative Investment Funds with the SEBI. An audit committee and risk management committee could be established to ensure good governance and transparency. The Bank could be set up using seed funding from the Budget, and a sunset provision could be considered for such budgetary support.[90]

CREATING AN INDIAN STATUTORY REVENUE AUTHORITY

The Indian Government should contemplate creating an independent Statutory Revenue Authority that will carry out all tax collection and administration functions henceforth. Execution of tax policies and ensuring compliance with tax laws would be the remit of the Statutory Revenue Authority while the Ministry of Finance (and the GST Council) would continue to frame the tax policy for the country. This setup would insulate tax planning from tax administration.

Revenue authorities are known to enjoy a higher degree of autonomy than any normal department in a ministry. These authorities are vested with the task of direct and indirect tax administration at the national level as well as customs administration, and thus cannot stray further than a "semi-autonomous"[91] position (this is to say that the functioning of such a body will always fall under the purview and accountability of the elected Government). However, the degree of semi-autonomy varies across different economies.

Coupled with the new 'no contact' policy in India, corporatisation of tax administration would bring about efficiency, ensure transparency, and end bureaucratic intervention in tax administration. This Statutory Revenue Authority would also be empowered to decide on litigation and time limits. The private sector would likely welcome this move as it will delink bureaucracy from tax administration, assure tax regime stability, and make tax administration more taxpayer-friendly. The Authority, after deducting administrative expenses, could transfer the residual amount to the Government. Union Budget 2021 should announce the end of the Income Tax Department, the CBDT and other associated agencies, and in parallel, the creation of the Statutory Revenue Authority.

A closer look at the existing revenue authorities in different parts of the world[92] would help frame a clearer picture on how such an administrative setup could function in India. The structure of revenue bodies that exist in the Asia-Pacific can be broadly classified under three categories according to their relationship with the Finance Ministry - as a directorate in the ministry, affiliated with the ministry or independent[93] - as seen in the table below:

Table 1: Classification of Revenue Bodies

Directorate in MOF	Affiliated with MOF	Independent from MOF
Brunei Darussalam	Australia	People's Republic of China
Cambodia	Hong Kong	Kyrgyz Republic
India	Japan	Maldives
Indonesia	Republic of Korea	New Zealand
Loa's People Democratic Republic	Malaysia	Papua New Guinea
Myanmar	Mongolia	Tajikistan
Taipei	Philippines	
Thailand	Singapore	

Source: Asian Development Bank[94]

The People's Republic of China has the State Authority of Taxation which is independent of the State Council and performs the dual functions of tax policy framing and administration and reports to the Ministry of Finance. Maldives' and New Zealand's Inland Revenue Authorities are completely autonomous and not affiliated to the Ministry of Finance. As opposed to complete independence from the MOF, Malaysia has two revenue bodies—the Inland Revenue Board of Malaysia (IRBM) responsible for direct tax collection is an autonomous agency of the MOF, whereas the Royal Malaysian Customs Department (RMCD) is tasked with the administration of custom duties, while indirect taxes come under the purview of a Government department. Japan's National Tax Agency and the Australian Taxation Office are both statutory agencies that carry out the administrative functions in accordance with the policies framed by the MOF.

Some countries have switched over to an autonomous model, including Bangladesh, and the experience has been positive so far. The National Board of Revenue (NBR) in Bangladesh had proposed some path-breaking tax reforms in the latter part of 2020: setting up of a separate Commissionerate[95] for mobilising tax at source, partnerships with the chamber bodies, modernisation of tax administration, and holding tax fairs in potential districts.

The United States has the Internal Revenue Service (IRS) responsible for administering the federal tax laws that are enacted by the Congress.[96] The IRS comes under the US Department of the Treasury (USDT) which is the national treasury of the Federal Government. The IRS carries out the duties of the Secretary of the Treasury[97] and the Secretary has complete authority to administer and implement internal revenue laws or create an agency for the same purpose. The United Kingdom has Her Majesty's Revenue and Customs Department (HRMC) as the tax authority responsible for collecting taxes, paying, of child benefits and enforcement of

minimum wage laws.[98] It is a non-ministerial department and Her Majesty's Treasury only acts as a strategic oversight thus granting the HRMC enough autonomy and insulating it from any political influence.

According to the World Bank, both semi-autonomous and integrated revenue administration models have their own merits and challenges;[99] but, granting of autonomy will also help the government in dealing with organisational inefficiencies[100] and expand its management capacity, in terms of budgeting decisions and human resource policies. For example, in the 1990s, around 15 countries in Latin America shifted towards more autonomous revenue authorities—it led to greater efficiency in raising revenues. Econometric analyses based on survey data from corporate taxpayers and tax professionals in Bolivia, Mexico, Peru, and Venezuela support the hypothesis that there is indeed a positive correlation between perceptions of credibility, actual performance, and agency autonomy of tax authorities.[101] In the Indian context too, the establishment of semi-autonomous revenue departments will, foremost, reduce any political interference in the revenue administration process and could also go a long way in improving accountability.

In the same vein, it needs to be acknowledged that these Revenue Authorities do not always enjoy autonomy as promised, since the Finance Ministry often continues to exercise its influence.[102] The creation of autonomous revenue authorities implies increased revenues and an improved tax administration only when there is strong political commitment to introduce organisational reforms, and simultaneously increase ICT investment that complements the digitisation of taxation processes.[103]

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