

Digging deeper: On GST compensation

With GST collections set to shrink, the Centre must find new ways to compensate States

Four months into FY2020-21, the Centre has finally managed to pay States the compensation due to them for the previous year under the GST regime. This may come as a breather for States seeking to finance efforts to ramp up public health-care capacity and contain COVID-19's detrimental effects on vulnerable sections. The last instalment of ₹13,806 crore for March 2020 was paid out recently, taking the total payments for the year to ₹1,65,302 crore. To refresh, States were guaranteed compensation from the Centre for the first five years of the new indirect tax regime introduced in July 2017, for the revenues they lost after the shift from the earlier system where States had the power to levy some indirect taxes on economic activity. This compensation assumed a 14% annual growth rate in a State's revenue, with 2015-16 as the base year, and was to be paid out from a compensation cess levied on top of the specified GST rate on luxury and sin goods. With growth down over the previous fiscal year even before the pandemic waylaid the economy, the assumptions of the not-too-distant past are beginning to hurt. Compensation cess under GST last year was almost ₹70,000 crore less than the payments due to States.

This gap is likely to enlarge further this year with expected economic contraction denting GST collections as well. Compensation cess inflows could shrink even more with people curbing discretionary spending on luxury goods in order to conserve capital or stay afloat in the pandemic-hit economy. A little over half of the shortfall in last year's cess kitty has been plugged by tapping cess balances from the first two years of GST implementation. The rest has been conjured up from the Consolidated Fund of India by debiting Integrated GST (IGST) funds that were lying with the Centre. IGST is levied on inter-State supply of goods and services and some of this levy collected in 2017-18 — the first year of GST when systems were still a tad ad-hoc — had not yet been allocated to States. Having thus drawn on these unintended contingent reserves, paying compensation to States this year is going to be even more daunting for the Centre. At the last GST Council meeting in June, Finance Minister Nirmala Sitharaman had said the Council would convene again in July just to discuss the possible alternatives to deal with this particular conundrum. The chief solution officials have been fleshing out is for the Centre to raise special loans against future GST cess accruals in order to help meet its compensation promise to States. There is no sign of that meeting being scheduled yet. That the pandemic's economic havoc has thrown up multiple challenges for North Block mandarins is understandable. But with a third of the fiscal year almost over, it would help the Centre and the States to battle the virus more effectively if they had more certainty and clarity on the cash at their disposal.

Meanings of Difficult Words:

- ❖ **dig deep** (phrase) – to make a lot of effort with one's (physical, mental or financial) resources.
- ❖ **compensation** (noun) – payment, repayment, settlement (for loss/damage).
- ❖ **GST compensation** (noun) – Under the GST law (In India), state governments are guaranteed full compensation for any revenue loss for the first five years after the introduction of the goods and services tax (GST) in July 2017. The compensation is a gap between actual revenue collected and projected revenue.
- ❖ **set to** (phrasal verb) – start doing something aggressively.
- ❖ **shrink** (verb) – lessen, reduce, decrease.
- ❖ **due** (adjective) – outstanding, overdue, unpaid, unsettled.
- ❖ **regime** (noun) – system, arrangement, scheme.
- ❖ **breather** (noun) – break, pause, comfort, respite.
- ❖ **seek** (verb) – try, attempt, work towards.
- ❖ **finance** (verb) – fund, pay for, invest in.
- ❖ **ramp up** (phrasal verb) – increase (in amount or number).

- ❖ **detrimental** (adjective) – inimical, undesirable, unfavourable, unfortunate.
- ❖ **vulnerable** (adjective) – relating to a weak/neglected person who is in need of special care/support; at risk, unsafe, unprotected.
- ❖ **levy** (verb) – impose, charge (a tax, fee, fine).
- ❖ **on top of** (phrase) – in addition to.
- ❖ **luxury/upmarket goods** (noun) – goods which are deemed/considered as expensive (& non-essential) and are associated with wealthy or affluent people, for example luxury jewellery, watches, designer apparel and footwear and luxury travel goods, etc.
- ❖ **sin/demerit goods** (noun) – goods which are deemed/considered as harmful to society and individuals, for example alcohol and tobacco, etc.
- ❖ **fiscal** (adjective) – financial.
- ❖ **waylay** (verb) – intercept, stop, interrupt.
- ❖ **assumption** (noun) – belief, expectation, speculation, conjecture.
- ❖ **not-too-distant past** (phrase) – a time that is not very long ago in the past. (“not-too-distant future” means a time that is not very long from now).
- ❖ **contraction** (noun) – decline, decrease, reduction.
- ❖ **dent** (verb) – diminish, reduce, undermine.
- ❖ **inflow** (noun) – a flow of a large amount of something to a particular place.
- ❖ **curb** (verb) – stop, control, contain, restrict, limit.
- ❖ **discretionary** (adjective) – optional, voluntary, non-mandatory, up to the individual.
- ❖ **conserve** (verb) – safeguard, protect, save, maintain.
- ❖ **stay afloat** (phrase) – stay out of debt; stay out of problem or difficulty.
- ❖ **pandemic-hit** (adjective) – affected by pandemic.
- ❖ **shortfall** (noun) – deficit, inadequacy/deficiency.
- ❖ **kitty** (noun) – a sum of something (money/things) made up of small of contributions.
- ❖ **plug** (verb) – stop, block, seal/close.
- ❖ **tap** (verb) – make use of, put to use, use, utilize.
- ❖ **conjure up** (phrasal verb) – produce, materialize, generate (by magic).
- ❖ **Consolidated Fund of India** (noun) – All revenues received by the Government by way of taxes like Income Tax, Central Excise, Customs and other receipts flowing to the Government in connection with the conduct of Government business i.e. Non-Tax Revenues are credited into the Consolidated Fund constituted under Article 266 (1) of the Constitution of India. Similarly, all loans raised by the Government by issue of Public notifications, treasury bills (internal debt) and loans obtained from foreign governments and international institutions (external debt) are credited into this fund. All expenditure of the government is incurred from this fund and no amount can be withdrawn from the Fund without authorization from the Parliament. (Courtesy: cca.ind.nic.in)
- ❖ **Integrated GST** (noun) – Integrated GST is levied by the Central Government on all inter-State transactions of taxable goods or services.
- ❖ **inter-** (prefix) – between.
- ❖ **a tad** (adverb) – somewhat, a little, rather, fairly.
- ❖ **ad hoc** (adjective) – relating to something needed/necessary to be done after an unpleasant/bad thing happened; emergency, makeshift, improvised, impromptu, unprepared.
- ❖ **South & North Block** (noun) – South Block is a **metonym** of the Prime Minister’s Office. North Block is a **metonym** of the Ministry of Finance, India. (The Secretariat Building (consists North & South Block) or Central Secretariat is where the Cabinet Secretariat is housed, which administers the Government of India. The South Block houses the Prime Minister’s Office, Ministry of Defence and the Ministry of External Affairs). The North Block primarily houses the Ministry of Finance and the Home Ministry). (Metonym is used as an alternative for something else with which it is closely related/associated).
- ❖ **draw on** (phrasal verb) – make use of, exploit, use/utilize.
- ❖ **unintended** (adjective) – unplanned, unexpected, accidental.

- ❖ **contingent resources** (noun) – resources in known accumulations (reserves) that are estimated to be potentially recoverable, but not yet commercially recoverable due to some contingencies (emergencies).
- ❖ **daunting** (adjective) – intimidating, challenging, disconcerting/unsettling.
- ❖ **conundrum** (noun) – problem, difficulty, quandary/dilemma.
- ❖ **flesh out** (phrasal verb) – expand, add detail to, augment/refine.
- ❖ **accrual** (noun) – growth, increase, accumulation/ collection.
- ❖ **havoc** (noun) – disorder, chaos, destruction.
- ❖ **throw up** (phrasal verb) – produce something.
- ❖ **mandarin** (noun) – a powerful officer, civil servant, functionary/bureaucrat.
- ❖ **certainty** (noun) – confidence, sureness, positiveness, conviction.
- ❖ **at one's disposal** (phrase) – for use by, in reserve for, in the hands of, in the possession of.

The cost of haste: On drugs, vaccines and regulators

Regulators of drugs and vaccines should not have to sign off on low-pass filters

So far-reaching are the effects of COVID-19 that it has harried drug regulatory authorities, usually the most risk-averse within the bureaucracy. 'Do no harm' is the driving principle of drug regulation and this is reflected in the thicket of documents and permissions that stand before the average novel drug or vaccine, for a chance at making it to the market. However, SARS-CoV-2, while mostly non-lethal, kills across demography and age-groups to confound sophisticated care systems. This has sent a signal to drug companies, biomedical firms and governments to scramble for anything with even the slightest chance of success. It is in this context that regulators, used to long timelines of testing new vaccines or drugs, are now under pressure to facilitate a solution rather than stick to weighing and dwelling on evidence of efficacy and safety. India's drug regulatory authority as well as the Department of Biotechnology, which also funds vaccine development and drug research, now collaborate on fast-tracking. For instance, if an Indian company has partnered with a foreign one in developing a vaccine, then any trials already conducted by the foreign unit would be considered in allowing Indian companies to avoid repeating them in India. For drugs, those that have been proven to be safe for treating one disease may skip a fresh, large human trial, or a phase-3 trial. Potential vaccines too are now allowed to combine stages of trials — normally, regulators must approve results of each stage — to permit those testing the drug to move to the next stage. The rush to compress timelines, in itself, is no guarantee that a workable vaccine or reliable drug will emerge any faster. Drugs and vaccine-development have historically been expensive because immunology is a complex, eternal struggle with disease, and with high failures.

There have been instances when disease mortality is so high that not offering even a half-baked drug or a vaccine would be unethical. That is a call regulators have to constantly take. But not all emergencies are the same. There is now a situation, as in the case of itolizumab, a psoriasis drug repurposed for COVID-19, where the drug regulator has approved it for emergency use but the COVID-19 task force has expressed its reservations. Such dissonance among experts is unacceptable especially when they all have access to the same evidence. There is a tendency to view COVID-19 vaccine development or a new drug as a 'race' in which only the first vaccine to be out matters. Historically, vaccines, even those targeting the same disease, only get better over time. Will COVID-19 continuously linger as an endemic disease or will it mutate into oblivion? If it is the former, scientists can continue to work on better drugs or improved vaccines. Haste does not aid science.

Meanings of Difficult Words:

- ❖ **cost** (noun) – penalty, sacrifice, loss (needed to achieve/get something).
- ❖ **haste** (noun) – hurry, speed, rush, quickness.
- ❖ **vaccine** (noun) – a biological preparation that improves immunity to a particular disease.

- ❖ **sign off** (phrasal verb) – to approve, to acknowledge something.
- ❖ **low-pass filter (LPF)** (noun) – a device which provides a smoother form of something, removing the short-term fluctuations and leaving the longer-term trend.
- ❖ **far-reaching** (adjective) – widespread, profound, important, significant.
- ❖ **harry** (verb) – pressurize, put pressure on, bother, disturb.
- ❖ **risk-averse** (adjective) – relating to someone who does not want to take risks.
- ❖ **bureaucracy** (noun) – officials (in the administration, government, the establishment) as a group.
- ❖ **primum non nocere** (phrase) – a Latin phrase that means “first, do no harm”. (It is the Latin translation from the original Greek. It is attributed to the ancient Greek physician Hippocrates).
- ❖ **guiding/driving principles** (noun) – a set of moral values/beliefs that helps you to make decisions in a difficult situation.
- ❖ **reflect** (verb) – indicate, show, reveal, exhibit.
- ❖ **thicket** (noun) – dense growth of something (particularly small trees/bushes close together).
- ❖ **novel** (adjective) – new, unusual, different, unfamiliar.
- ❖ **non-lethal** (adjective) – not causing death.
- ❖ **demography** (noun) – the structure of populations, especially human beings.
- ❖ **confound** (verb) – confuse, mystify, perplex, bewilder, frustrate.
- ❖ **sophisticated** (adjective) – highly developed.
- ❖ **biomedical** (adjective) – relating to the application of the natural sciences, especially the biological and physiological sciences, to clinical medicine.
- ❖ **scramble** (verb) – struggle, hurry/hasten, rush (to do something to achieve a goal/result).
- ❖ **slightest** superlative adjective of **slight** (adjective) – small, modest, little.
- ❖ **context** (noun) – circumstances, conditions, situation.
- ❖ **facilitate** (verb) – make easy, make possible; assist, help/aid.
- ❖ **rather than** (phrase) – instead of.
- ❖ **stick to** (verb) – abide by, hold to, comply with.
- ❖ **weigh** (verb) – consider, think about, contemplate, reflect on.
- ❖ **dwell on** (phrasal verb) – linger over, think about, mull over.
- ❖ **efficacy** (noun) – In medicine, the ability of an intervention (for example, a drug or surgery) to produce the desired beneficial effect; effectiveness, efficiency, power.
- ❖ **collaborate** (verb) – join, cooperate, team up.
- ❖ **fast-track** (noun) – a method which provides for more rapid results.
- ❖ **human trial** (noun) – a type of research that studies new tests and treatments and evaluates their effects on human health outcomes; clinical trial.
- ❖ **potential** (adjective) – possible, likely, probable.
- ❖ **rush** (noun) – (strong & sudden) demand, call, run.
- ❖ **compress** (verb) – shorten, cut, contract, reduce, lessen, decrease.
- ❖ **immunology** (noun) – the branch of medicine and biology relate to immunity.
- ❖ **eternal** (adjective) – everlasting, endless, permanent.
- ❖ **mortality** (noun) – (in a particular time/for a cause) the rate/number of death.
- ❖ **half-baked** (adjective) – undeveloped.
- ❖ **unethical** (adjective) – immoral, dishonest, unprincipled.
- ❖ **call** (noun) – decision.
- ❖ **psoriasis** (noun) – a skin disease.
- ❖ **task force** (noun) – unit, crew, outfit, section (mainly arranged for a task).
- ❖ **reservation** (noun) – doubt, qualm, misgivings, hesitation.
- ❖ **dissonance** (noun) – difference, dissimilarity; disparity/discord.
- ❖ **race** (noun) – competition.
- ❖ **matter** (verb) – be important, be of significance.
- ❖ **linger** (verb) – stay, remain, continue/persist.
- ❖ **endemic** (adjective) – widespread, usual, common, general, ordinary.
- ❖ **mutate** (verb) – change, evolve, convert.
- ❖ **oblivion** (noun) – non-existence, extinction; insignificance, unimportance.
- ❖ **aid** (verb) – help, assist, support.