

UPSCprep Free Daily Answer Writing Initiative

Subject: GS 3

Syllabus: Indian Economy and Agriculture

Questions

Q1. At the time of introduction, Goods and Services Tax (GST) was hailed as the biggest indirect tax reform since independence. Has the GST lived up to this expectation? Examine.

(250 words)

15

Q2. Poverty alleviation is a big challenge but the service sector can help make this challenge easy to tackle. Discuss. (250 words)

15

Model Structures

Q1. At the time of introduction, Goods and Services Tax (GST) was hailed as the biggest indirect tax reform since independence. Has the GST lived up to this expectation? Examine. (15 marks)

Introduction:

- GST is an umbrella, multistage, destination based indirect tax, which subsumes taxes like central excise, service tax, additional duties of excise & customs, VAT etc.(definition) *or*
- It was hailed as the biggest indirect tax reform of independent India due to its composition and envisaged impact.

Main Body:

Achievements of GST:

- **Increase in Taxpayers-** Number of taxpayers registered under GST rose to 1.3 crore by 2021.
- **Increased Compliance-**High tax rates of the pre-GST era acted as a disincentive to paying tax, the lower rates under GST helped to increase tax compliance.

- More than 66 crore GST returns have been filed in the past four years.
- **Ease of doing business-** GST brought in a conducive environment for businesses by easing tax norms and giving tax concessions to corporates.
- **One nation One tax-** The multiple markets across India, with each state charging a different rate of tax, led to great inefficiencies and costs of compliance.
- **Fiscal Federalism-** The GST Council, that brings together the Central and State governments to improve the working of the mega tax reform.

Problems that persist in the current GST regime:

- **Federal issues:** Centre has failed to fulfil its promise on compensating the states in case of revenue shortfall. This was seen during COVID times.
- **Inverted tax structure:** ex- Paper, Leather etc.
- **Taxing medical equipment:** Items like vaccines, drugs, PPE kits, masks, ventilators, concentrators etc. remained under the taxed category.
- **GST Collections-** The expected growth in revenue has not happened and there seems to be stagnation in revenue growth.
- **Problem of tax slabs-** Despite best efforts the GST could not be imposed in 1-2 tax slabs.
 - The concept of sin tax and exclusion of several products like alcohol, petroleum products have created problems.
- **Gaps in GSTN-** CAG had highlighted poor backend management by GSTN in its audit report on GST.

Way Forward for reforms in GST:

- **Revenue Guarantee-** The income of states has seen a decline in the past 5 years, compounded by the expenditure due to Covid-19.
 - Assurance to states regarding Revenue Guarantee till 2026 is a welcome step.
- **Reforms in GST Council-** Reforms such as more weightage to the states, clarity on suggestions of council for borrowing etc.is required.
- **FRBM ACT 2003-** suitable relaxations in FRBM Act 2003 be made to account for larger fiscal deficit years in case of contingencies like Covid-19.

Conclusion:

- Therefore, the GST has been a mixed bag, it requires modifications before it produces the kind of benefits that were talked about prior to its roll out.
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Q2. Poverty alleviation is a big challenge but the service sector can help make this challenge easy to tackle. Discuss. (15 marks)

Model Structure

Introduction

- The services Sector is the highest contributing sector in India in terms of GDP and the growth of this sector occurred without following traditional models of economic growth. Normally, primary sector growth is followed by the secondary/manufacturing sector, but in the case of India, the services sector grew and took the lion's share of GDP contribution at around 60%.

Main Body

- Poverty alleviation is a big challenge because of factors like-
 - Poverty has become multidimensional and tackling it requires a multi pronged strategy which is difficult to implement.
 - Extreme poverty is much higher in rural areas than urban and less effectiveness of schemes in rural areas make poverty alleviation a challenge.
 - Inclusion and exclusion errors of targeted beneficiaries and functioning of poverty alleviation programmes in silos is a big issue.
 - High fiscal deficit makes budgetary allocation less than the required amount which makes the schemes ineffective. Like in Mahatma Gandhi National Rural Employment Guarantee Scheme does not provide guaranteed 100 days work.
- Service sector includes areas like trade, transport, construction, communication, hotels, restaurants, public administration, defense, real estate and professional services. Growth in these areas can help in poverty alleviation by-
 - Gig economy has seen huge growth in recent times and this semi-skilled area has capability to absorb a lot of workforce. Some of them are cab services, food delivery etc.

- Tourism potential of India is very high due to still untapped areas. It can provide better income and employment which can result in poverty alleviation.
- Liberalized telecom sector caused more competition and lesser tariffs which meant it became more viable for the businesses to set up call centers which also provide huge employment avenues for semi-skilled workforce.
- The MSME sector is spread along the length and breadth of the country and its labor intensive feature makes it important in providing employment.
- Startups in the education sector and health sector have improved accessibility which has further improved tackling of poverty alleviation.

Conclusion

- Services sector is significant in eradicating poverty but there are issues like less skilled workforce, vocational education and periodic training, and infrastructure issues which need to be addressed at the earliest.

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