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NIPFP Newsletter

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Research Projects Completed

1. **Public Expenditure Review and Evaluation of Child Protection in Odisha.** *(Sponsored by UNICEF)*

   - Lekha Chakraborty, Amandeep Kaur, Jitesh Yadav, Balamuraly B

   Objective: The focus of the study is broadly two-fold: (i) a public expenditure review (PER) incorporating fiscal marksmanship and PEFA (public expenditure and financial accountability) analysis; and (ii) quantitative and qualitative evaluation and econometric modelling of fiscal interventions to analyse their impact on child protection outcomes. The study also provides field level Public Expenditure Tracking, Accountability and Institutional Review of Child Care Institutions across selected districts in Odisha.

2. **PMEAC –2023 Quarterly reports on Indian Economy: Note for EAC-PM – Four quarterly reports were completed for PMEAC during the year FY 2022-23** *(Sponsored by Economic Advisory Council to the Prime Minister (EAC-PM))*

   - R Kavita Rao, Pinaki Chakraborty, Lekha Chakraborty, Manish Gupta, Rudrani Bhattacharya, Dinesh K. Nayak, Radhika Pandey.

   Objective: Quarterly assessment and growth outlook of the economy. Four quarterly reports were submitted namely (i) April-June 2022; (ii) July-September, 2022 (iii) October-December 2022 and (iv) January-March 2023.

Working Papers

1. Lekha Chakraborty, Ajay Narayan Jha, Jitesh Yadav, Amandeep Kaur and Balamuraly B **Fiscal Behaviour and Climate Change Commitments in India: Analysing the Budget Credibility** NIPFP Working Paper No. 396

   Abstract: Against the backdrop of fiscal rules – legally mandated fiscal responsibility and budget management (FRBM) Act - our paper explores the budgetary forecast errors of climate change related public spending in India. The fiscal rules stipulate that fiscal deficit to GDP ratio should be maintained at 3 per cent. However, in the post-covid fiscal strategy, a medium term fiscal consolidation path of 4.5 percent fiscal deficit GDP is envisioned by 2025-26. Within this fiscal consolidation framework, we analysed the budget credibility of fiscal commitments for climate change in India. We analysed the fiscal behavioural variables in terms of bias, variation and randomness, and captured the systemic variations in budgetary forecast related to climate change for a period 2017-18 to 2020-21 across sectors. We identified the sectors where systematic components of forecasting errors are relatively higher than random components, where minimising errors through altering the fiscal behavioural models are done by revising the assumptions and by applying better forecasting methods. A State level decomposition of the public spending revealed that disaggregated fiscal space available for developmental spending constitute around 60 per cent of total. However, identifying the specifically targeted public spending related to climate change across all States and analysing its fiscal markmanship can further the subnational inferences.

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2. Rudrani Bhattacharya, **Does Monetary Policy in India Anchor Inflation Expectation?** NIPFP Working Paper No. 395.

Abstract: India has entered into the Inflation Targeting monetary policy regime in 2015. Under this rule-based monetary policy regime, changes in the policy rate transmits to the economic activities and current inflation rate by altering the inflation expectation of the rational economic agents. This study empirically investigates whether monetary policy can anchor inflation expectation of economic agents in India. In our analysis, the survey based measure of households' inflation expectation published by the Reserve Bank of India captures inflation expectation of private agents. Using a co-integrated Vector Auto Regression (VAR) model, we find moderate but significant monetary policy transmission in India via interest rate channel. However, inflation expectation seems to be unanchored by monetary policy conduct in the country. Our finding is found to be robust under alternative modeling frameworks.

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3. Supriyo De, **Direct Taxes Litigation Management and Alternate Dispute Resolution,** NIPFP Working Paper No. 394

Abstract: India's tax system has moved towards a simple and moderate rate structure, with a wider base and better enforcement that enhances equity and strives towards developing an internationally competitive and dynamic economy. However, the prevailing system of direct taxes is beset with problems of increasing arrears of collections and pendency of appeals. CIT (Appeals) cases due for disposal has increased from 3.53 lakh in 2015-16 to 5.57 lakhs in 2019-20. The caseload pendency has increased year after year from 73.3% in 2015-16 to 82.2% in 2019-2020. The normal tax assessment and litigation system sets up an adversarial legal relationship between the tax department and the taxpayer. Litigation procedure of the normal assessment-related dispute resolution system in India takes approximately 15 years on average. To reduce tax disputes, India's tax system provides only limited special mechanisms to resolve disputes. In India, alternate dispute resolution methods prevail largely in the civil family dispute realm. It is therefore recommended that India put in place a comprehensive systematic dispute mitigation and alternative dispute resolution structure for taxation. The suggested policy remedies are policy remedies: (a) pre-return filing administrative clarifications and guidance, (b) communication of draft orders and mid-assessment objections, (c) post-assessment non-litigation administrative remedies, (d) panel-based dispute resolution thorough mediation, arbitration or negotiation, (e) time-bound case disposal and adequate staffing of appellate structures.

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4. Supriyo De, **Recent Reforms in India's Corporate Income Tax Regime: Rationale, Impacts and Improvements,** NIPFP Working Paper No. 393.

Abstract: In a recent innovative policy reform, India's corporate income tax system was overhauled with optional lower rates in lieu of giving up complex deductions. However, official data reveals a puzzle wherein larger companies have opted more for the lower optional rates while smaller ones appear reticent in switching to the optional regime. This paper explores this issue using empirical methods. The evolution of tax rates is tracked through reforms simplifying the tax system in the 1990s, the subsequent conundrum of zero tax companies leading to introduction of minimum alternate tax, and the persistence of lower effective tax rates for larger companies. This provides the rationale for a simpler tax regime with lower rates but fewer deductions. The user cost of capital approach is used to examine the economically relevant tax impact across various sectors and ownership types. The results indicate that in terms of user cost, the various lower tax options are not attractive, and under certain situations may be worse for younger and smaller companies. In light of the analysis, policy options are suggested to improve the scheme so as to achieve the laudable objective of implementing a simple tax regime with lower rates and minimal deductions. .

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5. Sacchidananda, Mukherjee, **Revenue Performance Assessment of Indian GST**, NIPFP Working Paper No. 392.

Abstract : By comparing comparable revenue streams of pre- and post-GST periods, in this paper we assess the revenue performance of GST in India for the period 2012-13 to 2022-

23. Sustaining revenue streams of the Union and State governments (in terms of percentage share in nominal Gross Domestic Product or GDP) between the pre- and a post-GST period is important for sustainable Public Finance Management. We observe that post-GST tax buoyancy in the GST regime has improved for the Union, state and general governments. The GST-to-GDP ratio of the Union as well as state governments has not yet improved during the post-GST period as compared to the equivalent share of respective revenue streams in GDP during the pre-GST period. Based on available information, we estimate C-efficiency ratio (or collection efficiency), Effective Tax Rates, Compliance Gap and Policy Gap of GST for the period Q2:2017-18 to Q3:2022-23. We find that average C-efficiency of GST is 0.54 (or 54%) which is in line with available evidence from developing Asian countries. Average ETR has gone up from 10.91 per cent in 2020-21 to 12.21 per cent in 2021-22 and 12.56 per cent up to Q3:2022-23 of 2022-23. The share of policy gap in C-efficiency is higher than compliance gap which is in line with available evidence from EU and OECD countries

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Events

NIPFP celebrated its 47th Foundation Day on 5th April 2023

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