

10th October 2020

SUMMACHAR

BUSINESS NEWSLETTER

#14

IN THIS NEWSLETTER

SUMMACHAR

www.summachar.in

WHAT'S ALL THE FUSS ABOUT GST & CESS?



@summachar_in

KNOW MORE

SUMMACHAR

www.summachar.in

CENTRE AND STATES FIGHT OVER GST



@summachar_in

KNOW MORE

(Click Tile to Read Full Story)

SUMMACHAR

www.summachar.in

CRYPTOCURRENCY IN NUMBERS



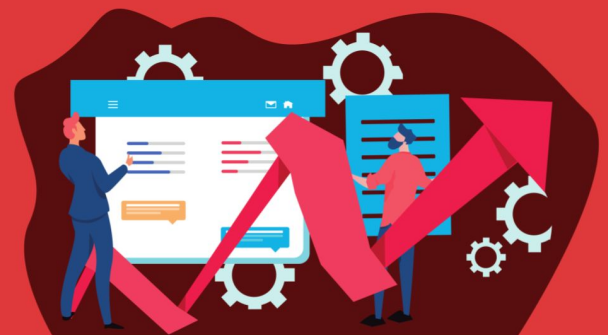
@summachar_in

KNOW MORE

SUMMACHAR

www.summachar.in

WHAT IS OPERATION TWIST?



@summachar_in

KNOW MORE

1 What Is GST & Cess?

Indian government implemented a single indirect taxation system in the country by introducing GST in 2017. Before we delve into the issue of what caused a row between centre and states, let's understand their **financial relationship** regarding GST and Cess.

What Is GST?

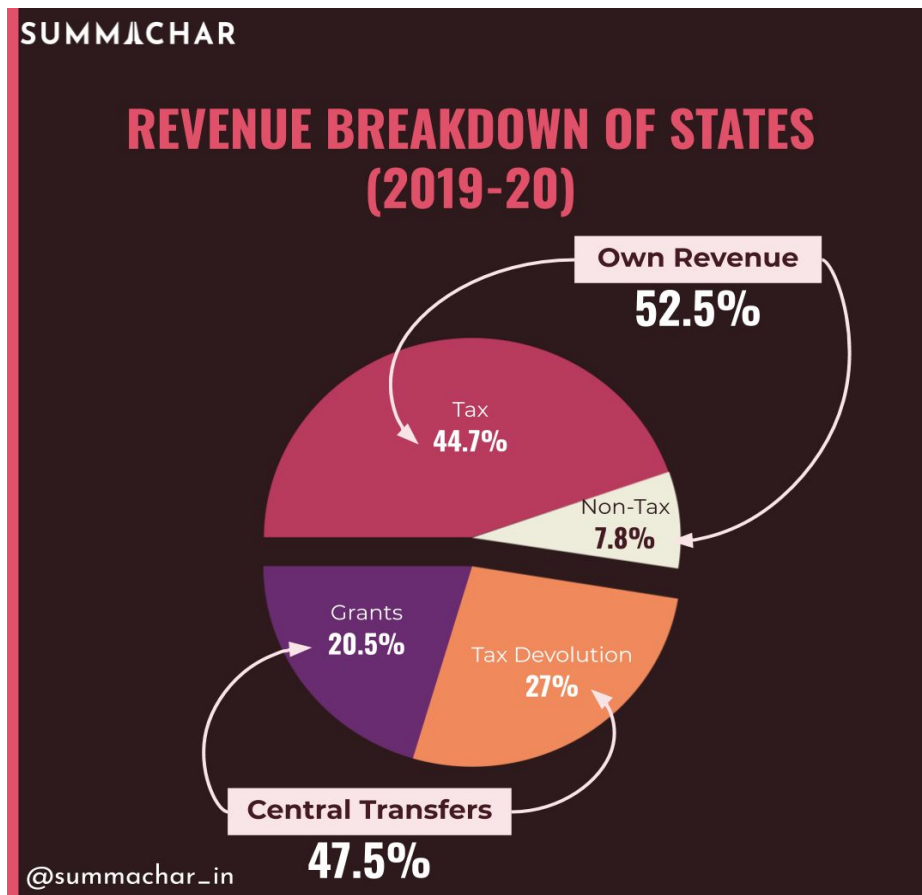
- After consolidating indirect taxes like VAT, Entertainment Tax, Sales Tax, etc, Goods and Services Tax (GST) came into effect in India on **1st July 2017**.
- It is applicable on the supply of goods and services. Rates in India are 5%, 12%, 18%, and 28%.

What Is Cess?

- In simple terms, a cess is a form of **non-permanent additional levy** (tax). It is generally introduced to meet specific purposes and is scrapped when it is fulfilled.
- Central cess is **not shared** with the states as done with GST.

Examples Of Cess

- **Education Cess** was introduced to improve quality and finance education for poor.
- **Swachh Bharat Cess** was 0.5% cess to keep roads, infrastructure, and surrounding clean.



Clash Between Centre And States

- The dispute is around how will the Centre compensate states in light of Covid-19.

Did you know? France was the first country to implement GST in 1954.

INFOGRAPHIC STORY

DEEP DIVE STORY

2 Centre And States Fight Over GST

After introducing the GST in 2017, according to government's analysis, states would be short of revenue from taxes because of its implementation. To which, the Central government **promised** to compensate for the shortfall for 5 years (2017-22). But the government **stopped** paying it due to Covid-19, leading to a row between Centre and some states over GST compensation.

Centre's Stand

- Revenue Secretary estimates **~₹3 lakh crores** of compensation to states for this year.
- Of this, ₹65,000 crores would be met by cess collection, remaining **₹2.35 lakh crores** of shortfall.
- Centre **stopped** paying GST compensation to states after Covid-19; promised to resume it as soon as the tax collection improves.

Centre's Proposal

1) Borrow **₹97,000** crores (shortfall attributed to implementation of GST) from RBI to meet

SUMMARY

immediate expenses. States **will not have to repay** any interest or even the principal amount if they borrow under this option.

2) Borrow **₹2.35 lakh crores** under a special borrowing window. States will have to repay the amount, while **also incurring interest costs** under this option.

State's Stand

- 5 States & 2 UTs **rejected** the proposals and threatened to take Centre to court.
- States include West Bengal, Punjab, Chhattisgarh, Telangana, and Kerala. UTs include Delhi and Puducherry.
- These states say that **Central govt should borrow** money to pay states.

Did you know? After implementation of GST, in India, the Finance Commission, constituted by the President, defines Centre and States' financial relations.

Nationwide GST resulted in a reduction in states' tax collection.

INFOGRAPHIC STORY

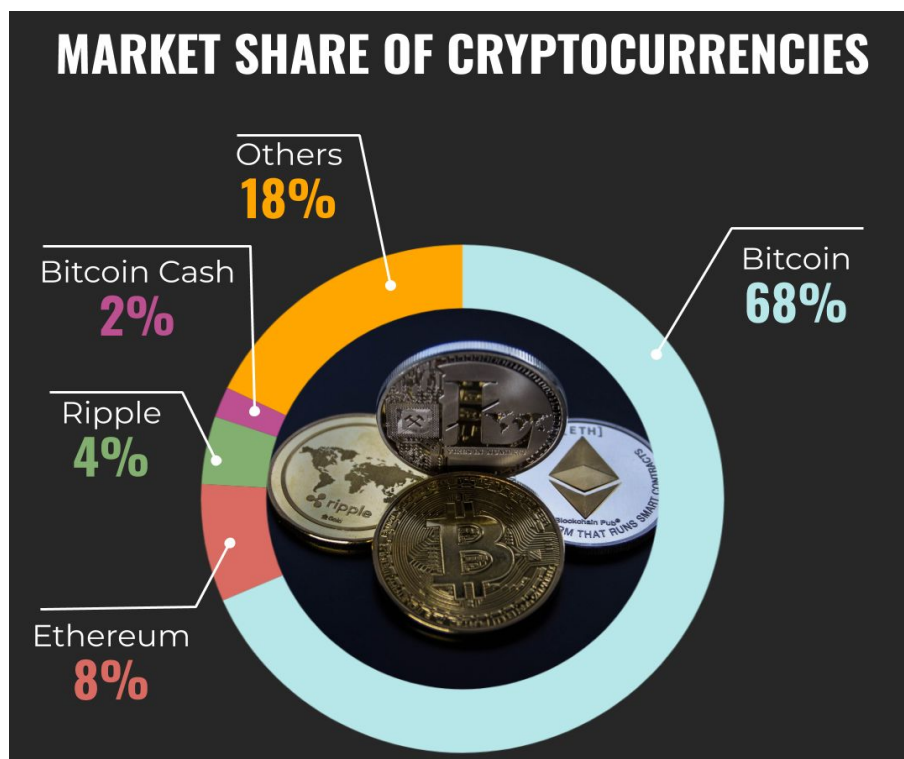
DEEP DIVE STORY

3 Cryptocurrency In Numbers

Let's look at some interesting numbers around cryptocurrency from India and the world.

Cryptocurrency Market

- The size of Global cryptocurrency market is at **\$1 billion** with a CAGR of **6%**.
- India's share in the Crypto exchange is at **1%**

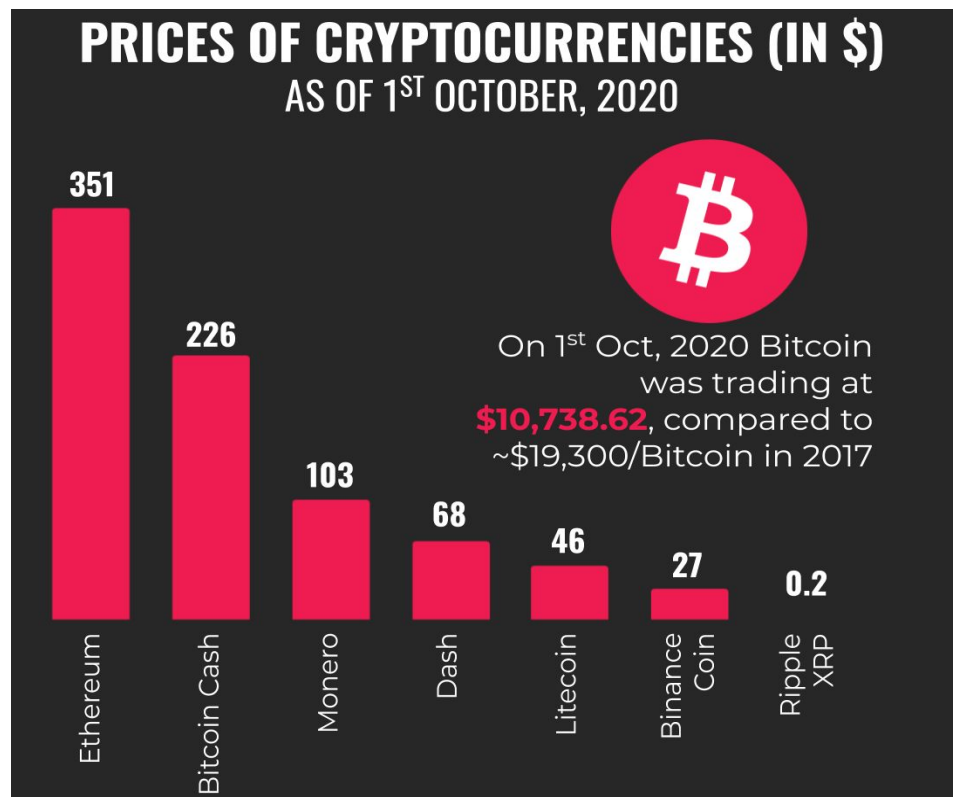


As per Bitcoin Magazine, only **21 million** Bitcoins can be mined, and till date nearly **18-18.5 million** Bitcoins have already been mined, leaving behind **~2.5-3 million**.

Recent News In India

- A draft on **Banning of Cryptocurrency and Regulation of Official Digital Currency Bill, 2019** is being headed.
- Bill proposes a complete ban on cryptocurrencies issued by private parties and criminalises dealing in cryptos with **10-years of imprisonment** and fine upto **₹25 crores**.

15 to 20 times growth in user base at Indian crypto exchanges since March 2020



Did you know? David Lee Chaum, a computer scientist and cryptographer, is widely recognized as the inventor of digital cash.

INFOGRAPHIC STORY

DEEP DIVE STORY

4 What Is Operation Twist?

RBI announced Operation Twist as a part of its monetary policy measures to support the Covid-19 hit economy. Did you know that the concept of Operation Twist was introduced in the US in 1961? Let's demystify what it is and what are its aims.

Operation Twist

- It is implemented with an aim to **bring down long-term interest rates** by a simultaneous purchase and sale of government securities.
- The RBI has so far carried out three rounds of simultaneous buying and selling of bonds via open market operations (OMOs).

Step Taken By RBI

- RBI launched the first phase of Operation Twist on 19th December 2019. In September 2020, RBI announced that it would conduct **another phase** of Operation Twist.

Alternate Use

- Operation Twist can also be used to **bring down long-term bond yields**. In simple terms bond yield is the total return (including appreciation in bond price and interest) on a bond. In simple terms, the demand for short-term bonds increases and for long term bonds decreases, resulting in a decrease in yields of longer-term bonds.

Link With US

- In 1961, the US government introduced **Operation Twist** to revive the weak economy. Then US govt lowered longer-term interest rates and kept short-term interest rates unchanged. In late 2011 and 2012, the Federal government had also implemented it to revive the economy hit by the global financial crisis.

Did you know? The **twist** is a dance that was inspired by rock and roll music. When US' Operation Twist began in 1961, the dance style was at its peak and hence the operation was named after it.

INFOGRAPHIC STORY

DEEP DIVE STORY

Hope you enjoyed reading!

For feedback, suggestions, or just to have a quick chat, reach out to us at communications@summachar.in.