



2B: Finance Commission, Black Money & 2C: subsidies, revenue expenditure

Table of Contents

23	🍋 (🧑‍⚖️ ⚖️ 🧑‍🦰 🧑‍🦳 🧑‍🦲) Taxation → Finance Commission.....	321
23.1	Introduction to Finance Commission (वित्त आयोग)	321
23.2	🧙‍♂️ (🍋 🧑‍🦰 ⚖️ 🧑‍🦳) Fifteenth FC Composition (setup in 2017-Nov)	322
23.2.1	📝 15th FC Terms of Reference (TOR: विचारार्थ विषय) ?	322
23.3	🍋 [🧑‍🦰 ⚖️ (🧑‍🦰 🧑‍🦳 🧑‍🦲)] FC: Vertical Tax Devolution from Union to States	323
23.4	🍋 [🧑‍🦰 ⚖️ 🧑‍🦳 ⚖️] Horizontal Tax Devolution among States	323
23.4.1	🍋 [🧑‍🦰 ⚖️ 🧑‍🦳 🧑‍🦲 ⚖️] 15th FC: Horizontal devolution: States' share.....	325
23.4.2	🧙‍♂️ Finance Commissions & the fate of UTs of J&K & Ladakh.....	325
23.4.3	🧑‍🦰 → 💸 हात (🧑‍🦰 🧑‍🦳) Grants from Union to States : 14 th FC	325
23.4.4	🧑‍🦰 → 💸 हात (🧑‍🦰 🧑‍🦳) Grants from Union to States : 15 th FC	326
23.4.5	₹ हात ₹ पैसा Post-Devolution Revenue Deficit Grants (अंतरण-पश्च राजस्व घाटा अनुदान)	327
23.4.6	₹ हात 🎉 15th FC: Special Grants: (विशेष अनुदान)	328
23.4.7	₹ हात ₹ 15th FC: Local Bodies Grants (स्थानीय निकाय अनुदान)	328
23.4.8	₹ हात ₹ बात 15th FC: Disaster Management Grants (आपदा प्रबंधन अनुदान:)	328
23.4.9	₹ हात ₹ 15th FC: Sector Specific Grants (क्षेत्र-विशिष्ट अनुदान)-Malnutrition	329
23.4.10	₹ हात ₹ 15th FC: Sector Specific Grants (क्षेत्र-विशिष्ट अनुदान)-Health	329
23.4.11	₹ हात ₹ 15th FC: Sector Specific Grants (क्षेत्र-विशिष्ट अनुदान)- Others(अन्य)	330
23.4.12	₹ बम Defence and Internal Security Fund for Union.....	330
23.5	🧙‍♂️ (🍋 🧑‍🦰 ⚖️ 🧑‍🦳) ⏱ FC: Giving Permanent Status (स्थायी दर्जा देना)	331
23.6	🧙‍♂️ FC vs PC vs NITI: What's the Difference?	331
23.7	🍋 (🧑‍🦰 ⚖️ 🧑‍🦳 🧑‍🦲) Special Category States? विशेष श्रेणी के राज्य?	332
24	🍋 🧔 🧙 Taxation → Black Money & Allied Issues	333
24.1	(🍋 🧔) 🧙 Black Money → Notable Organisations	334
24.2	🍋 🧔 Tax Evasion (Hiding Income / Transaction)	335
24.2.1	🍋 🧔 ⚖️ Prevention of Money Laundering Act (PMLA-2002)	335
24.2.2	PMLA Reporting Norms to apply on Crypto-exchanges (2023).....	336
24.2.3	🍋 🧔 ⚖️ Undisclosed Foreign Income & Assets Act (UFIA-2015).....	336
24.2.4	🍋 🧔 ⚖️ Benami Transactions Prohibition Act (BTPA- 1988, 2016)	336
24.3	(🍋 🧔) 📂 Tax Evasion → Govt Announcements	337
24.3.1	🍋 🧔 🙌 Tax (Evasion) "Surrender" schemes.....	337
24.3.2	🍋 🧔 🙌 Vivad se Vishwas Scheme for Direct Taxes (Budget-2020)	338
24.3.3	🍋 🧔 🙌 Dispute Resolution Committee (DRC) in Budget-2021	338
24.3.4	TDS on influencers / influencer tax	339



24.3.5	🟡 🚫 Tax Evasion → Other Initiatives (अन्य कदम)	339
24.4	(🟡 🤝 🤕) Tax avoidance (कर परिहार / कर टालना).....	340
24.4.1	🟡 🤝 🤕 Double Taxation Avoidance Agreement (DTAA) & Round Tripping...	340
24.4.2	🟡 🤝 🤕 Tax Avoidance through Non-Resident Status	341
24.4.3	🟡 🤝 🤕 Place of Effective Management (POEM: पीओईएम).....	341
24.4.4	🟡 🤝 🤕 Base Erosion and Profit Shifting (BEPS: बीईपीएस)	342
24.4.5	🟡 🤝 🤕 Transfer Pricing & Authority for Advance Rulings (AAR) (हस्तांतरण मूल्य) 343	
24.4.6	(🟡 🤝 🤕) 🧑 General Anti-Avoidance Rules (GAAR).....	343
24.5	(🟡 🤝 🤕 : ⏳) 🧑 Retrospective Tax: Vodafone.....	343
24.5.1	(🟡 🤝 🤕 : ⏳) 🧑 Retrospective Tax: Cairn Energy	345
24.6	🟡 🤝 🌎: 🤕 Global Minimum Tax (वैश्विक न्यूनतम कर)	346
24.6.1	🟡 🤝 🌎: 🤕 Global Minimum Tax: G7 Framework	346
24.6.2	🟡 🤝 🌎: 🤕 G7-OECD “Two” Pillar Solution for Global Minimum Tax.....	346
24.7	🟡 🍋 🍋 🍋 : 🧑 Reforms to reduce Tax Terrorism / Harassment	347
24.7.1	🟡 🍋 🍋 🍋 : 📄 Pre-filled online forms for Tax Payers.....	347
24.7.2	🟡 🍋 🍋 🍋 : 📄 Updated Return Form to correct errors- in 📦 💼 Budget-2022: 347	
24.7.3	🟡 🍋 🍋 🍋 : 📄 Faceless interaction between Tax payers and Tax official	347
24.7.4	🟡 🍋 🍋 🍋 : 📄 ⏳ Time limit on opening of past cases	348
24.7.5	🟡 🍋 🍋 🍋 : 📄 Document Identification Number (DIN: दस्तावेज़ पहचान संख्याक) ...	348
24.8	👷 🍋 📄 Taxpayers’ Charter in 📄 Budget-2020 (करदाताओं का अधिकारपत्र)	348
24.8.1	👷 🍋 📄 (Indian) Tax Payers' Charter released in 2020-Aug.....	349
24.9	🟡 🧑 : 🧑 Tax Ombudsman in Economic Survey 2021.....	349
24.9.1	🟡 🧑 : 🧑 🧑 Tax ombudsman: Indian experience	350
24.9.2	🟡 🧑 : Reducing Tax Terrorism / Harassment: online portals/Apps.....	350
24.10	🟡 🌎 🤝 Taxation → Global Treaties, Agreements & Indexes	351
24.10.1	🟡 🌎 🤝 Tax Information Exchange Agreement (TIEA: कर सूचना विनिमय समझौता) ...	351
24.10.2	🟡 🌎 🤝 USA’s Foreign Account Tax Compliance Act (FATCA-2010)	351
24.10.3	🟡 🌎 📊 Global Financial Secrecy Index (वैश्विक वित्तीय गोपनीयता सूचकांक)	351
24.11	💰 Black Money → Demonetisation (विमुद्रीकरण)	351
24.11.1	💰 Why Demonetise ₹ 500 & 1000?.....	352
24.11.2	▢ Demonetisation SC Verdict	352
24.11.3	🟡 💧 Tax: GDP – why low in India (भारत का कर:जीडीपी अनुपात खराब क्यों है?).....	353



24.11.4	🟡 🍹	Tax: GDP	██	██	ES19: "Use Behavioural Economics to improve Tax Compliance"	354
24.12		Revenue Shortfall.....				355
24.13	🟡	Taxation: Misc. Terms.....				355
24.13.1		Tax buoyancy (कर उत्पादकता):.....				356
24.13.2	🟡	Net Tax Revenue of the Govt (शुद्ध कर राजस्व)				356
24.14	🕒 📈 📈	Budget → Revenue Part → Receipts → Non-Tax Receipts				357
25	🕒 📈	Budget → Revenue Expenditure (राजस्व खर्च/ व्यय)				357
25.1	🕒 📈 (🟡 📈)	Revenue Expenditure → Subsidies				358
25.1.1	🕒 📈 (🟡 📈)	Types of subsidies with selected examples.....				359
25.1.2	👍 🤔	Impact of Subsidies (सब्सिडी का प्रभाव: सकारात्मक एवं नकारात्मक)				359
25.1.3	██	Past Economic Surveys on subsidy delivery (आर्थिक सर्वेक्षणों के उपाय)				360
25.1.4	👉 🎉 🎩	National Recruitment Agency (NRA: राष्ट्रीय भर्ती एजेंसी)				360
25.2	🕒 📈 🎉	Revenue xpdr → Salaries→ 7th Pay Commission (वेतन आयोग)				360
25.2.1	🎉	Pay Commission: Dearness Allowance (DA: महंगाई भत्ता)				360
25.2.2	🎉	Pay Commission: Misc. terms				361
25.3	👻 🎉 🕒 🙏 🎉	SALARY Reforms in Atmanirbharat 2.0 (Oct 2020)				361
25.3.1	👻 🕒 🙏 🎉	Atma-Nirbhar 2.0: Festival Advance Scheme (त्योहारों में एडवांस रकम) ...				361
25.3.2	👻 🕒 🙏 🎉	Atma-Nirbhar 2.0: LTC Cash Voucher Scheme				361
25.4	(💳 < 💳) 🕒 !	Revenue Deficit & Effective revenue deficit				361

23 💳 (⚖️ ⚖️ 🙏 🙏) TAXATION → FINANCE COMMISSION

23.1 INTRODUCTION TO FINANCE COMMISSION (वित्त आयोग)

- Fiscal Federalism refers to the division of responsibilities of i) taxation and ii) expenditure between the different levels of the government. (राजकोषीय संघवाद: केंद्र और राज्यों के बीच कराधान और खर्च की जिम्मेदारियों का आवंटन/बटवारा/विभाजन)
- While the 7th schedule assigns many responsibilities to the States but their taxation power is relatively lower than Union's. So, Finance Commission plays a key role in transferring union's revenue resources to the state.. राज्य की कराधान शक्तियां कम हैं इसलिए वित्त आयोग केंद्र के करो से हिस्सा दिलाता है
- **Article 280:** President of India forms a Finance Commission (a quasi-judicial body) every 5th Year or earlier, with 1 chairman and 4 members. Eligible for re-appointment. Recommendations are not binding on the government but usually not rejected.

Further self-study & HINDI TERMS@ M.Laxmikanth's Indian Polity ch.45.

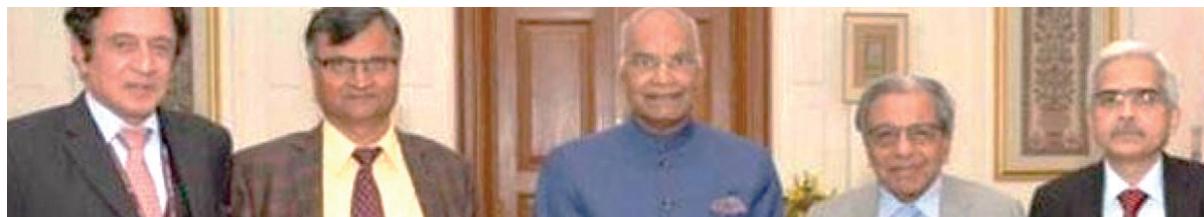
14th FC: YV Reddy

Recommendation Period: 1st April, 2015 to 31st March, 2020



15th FC: NK Singh	<p>Originally, it was meant to cover: 1st April, 2020 to 31st March, 2025 <u>But later, Modi Govt ordered it to submit two reports:</u></p> <ol style="list-style-type: none"> 1) Report#1: for 1/Apr/2020 to 31/March/2021 → submitted to President in 2019-Nov, and accepted in 2020-Jan 2) Report#2: for 1/Apr/2021 to 31/March/2026. Title of report is "Finance Commission in Covid Times". Published in 2021-February.
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23.2 ()()()() FIFTEENTH FC COMPOSITION (SETUP IN 2017-Nov)



Chairman	N.K. Singh (Retd. IAS, Ex-Member of Parliament)
Member1	Shaktikanta Das (Retd. IAS, RBI Gov)
Member2	Dr. Anoop Singh, Professor
Member3 (Part Time)	Dr. Ashok Lahiri, Bandhan Bank
Member4 (Part Time)	Prof. Ramesh Chand, member of NITI Aayog & Agri Economist.
Secretary	Arvind Mehta (IAS)

23.2.1 () 15th FC Terms of Reference (TOR: विचारार्थ विषय) ?

President of India has ordered them to study and recommend following:

1. Union Taxes' vertical devolution to the states, and its horizontal distribution among the states. (except cess, surcharge and IGST).
 2. Union's grant-in-aids to the states. (केंद्र द्वारा राज्यों को अनुदान)
 3. How to augment State Govts' Consolidated funds to help their PRI/ULBs
 4. Any other matters referred by the President of India such as:
 5. Use Census-2011 for your calculation. (जनगणना) –
 - ✓ () however, Southern States were apprehensive that they'd get less ₹ compared to Northern States because Southern states controlled their population.
- ⇒ While allotting money, FC should keep in mind Union's responsibilities for New India 2022 vision e.g. Swatchh Bharat, Digital India, PM-Jan Arogya etc. so FC should give more money for that purpose. () Non-BJP states didn't like this.
6. Recommend measures for Fiscal Discipline/Consolidation for the Union and State governments. (राजकोषीय अनुशासन/समेकन) e.g. asking State governments to stop populist schemes like Free TV/Mixer Grinder etc.
 7. Shd union continue to provide revenue deficit grants to States? (राजस्व घाटे की भरपाई के लिए अनुदान)
 8. How to finance the disaster management initiatives? (आपदा प्रबंधन)
 9. Performance based incentives to the state governments. (प्रदर्शन आधारित प्रोत्साहन) e.g. reducing population, stopping electricity theft, stopping populist schemes like free mixer-grinders etc.



10. (2019-Jul) suggest ways for allocation of non-lapsable funds for defence and internal security.
(रक्षा और आंतरिक सुरक्षा विनव्यपगत निधि)
11. (2019-Oct) Award for the UT of J&K. (This terms of reference required under Jammu and Kashmir Reorganisation Act, 2019. जम्मू कश्मीर पुनर्गठन अधिनियम)

23.3 [📊 ⚖️] FC: VERTICAL TAX DEVOLUTION FROM UNION TO STATES

Finance Commission recommends the vertical devolution (ऊर्ध्वाधर कर अंतरण) from the ‘divisible pool’ of union taxes. (Here IGST, Cess, Surcharge not counted.)

FC → वित्त आयोग	12th (2005-10)	13th (2010-15)	14th (2015-20)	15th (2020-21) & 21-26
Chairman? (अध्यक्ष)	C.Rangarajan	Vijay Kelkar	VY Reddy	NK Singh
States Share	30.5%	32%	42%	41%*

- * 15th FC’s justification: Compared to 14th FC, 1% extra Union should keep for UTs of J&K & Ladakh’s security & other needs.
- Sometimes finance minister says “*States, along with Ladakh, J&K be given 42% share from Union tax for 2021-2025*” Although UT of J&K & Ladakh= to get 1%, so in reality other states getting 42-1=41%.”

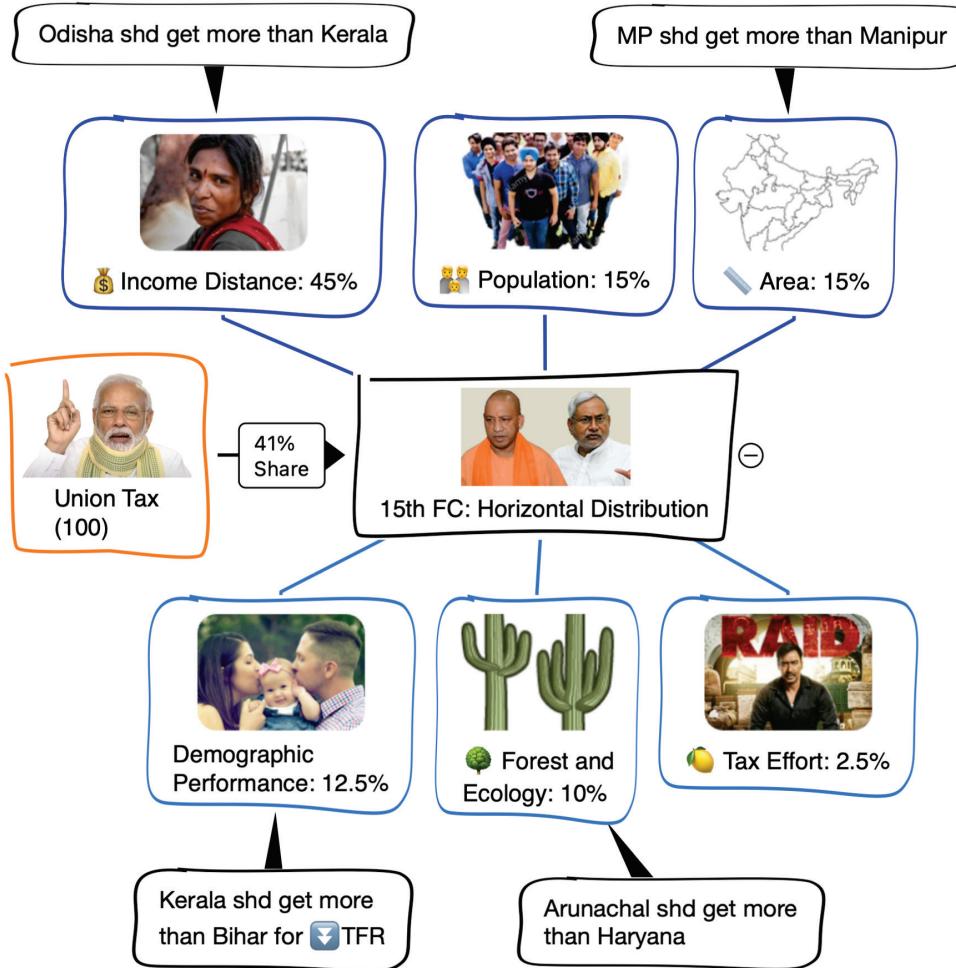
23.4 [📊 ⚖️] HORIZONTAL TAX DEVOLUTION AMONG STATES

राज्यों के बीच समस्तरीय/क्षैतिज करअंतरण

Finance Commission also gives formula for How to distribute that share horizontally with individual States (Guj | Bihar | MH | TN...). 14th FC (YV Reddy)’s formula was...

14th FC horizontal distribution formula components		Weight %
👤 आबादी	Population: as per Census 1971	17%
👤 जनसांख्यिकीय बदलाव	Demographic Change as per Census 2011 (To consider the migration angle.)	10%
💼 आय-दूरी	Income-Distance: Based on per capita income of a state ($GSDP \div$ its population). Accordingly, poorer states get more weight	50%
📏 क्षेत्र	Area: more area more weight	15%
♣️ वन-आवरण	Forest-Cover: more forest cover more weight because of Opportunity cost (State can’t allow industries there, else it could have obtained some taxes)	8%

Based on above formula, Highest to Lowest: Uttar Pradesh > Bihar > MP > WB > MH > Raj> > Mizoram > Goa > Sikkim.



15th FC horizontal distribution formula components (घटक) → (भारांक%) (both in Report#1 and Report#2)	Weight%
Income Distance (आय में अंतर): ⇒ State GSDP divided by its Population = per capita GSDP. ⇒ For most states, Haryana's per capita GSDP is taken as benchmark. How poorer is your state compared to Haryana= more ₹₹ you'll get. **	45%
↖ Area (क्षेत्रफल) More area = more ₹₹	15%
↗ Population (as per Census-2011: आबादी): More population = more ₹₹	15%
Demographic Performance (जनसांस्थिकीय निष्पादन): States that have ↓ Total Fertility Rate (TFR: कुल प्रजनन दर), will get ↑ ₹₹. More in Pill#6	12.5%
♣ Forest and Ecology (वन एवं पारिस्थिकी): More forest= more ₹₹	10%
⌚ Tax Effort (कर प्रयास) : States who've improved their per capita (State) tax collection in the last 3 years = get more ₹₹	2.5%
Total (कुल)	100%

** Note: computing income distance: the Highest per capita GSDP: 1) Goa 2) Sikkim 3) Haryana 4) Himachal.

But since Goa, Sikkim are very small states with a unique economic situation, so it'll distort statistical formula. So, there are some internal fine tunings done in formula. Long story cut short: Haryana taken as benchmark for most states. If you've more intellectual



curiosity about how above indicators are calculated in real life, you may spend waste time in PHD-reading of the original report@
<https://fincomindia.nic.in/>

23.4.1 [📈] 15th FC: Horizontal devolution: States' share

Table 1: Try to remember 3-5 names in top & bottom each, & your home state for UPSC Interview.

1) Uttar Pradesh (17.931%)	11) Chhattisgarh (3.418%)	21) Himachal (0.799%)
2) Bihar (10.061%)	12) Gujarat (3.398%)	22) Meghalaya (0.765%)
3) MP (7.886%)	13) Jharkhand (3.313%)	23) Manipur (0.718%)
4) W. Bengal (7.519%)	14) Assam (3.131%)	24) Tripura (0.709%)
5) Maharashtra (6.135%)	15) Telangana (2.133%)	25) Nagaland (0.573%)
6) Rajasthan (5.979%)	16) Kerala (1.943%)	26) Mizoram (0.506%)
7) Odisha (4.629%)	17) Punjab (1.788%)	27) Sikkim (0.388%)
8) Tamil Nadu (4.189%)	18) Arunachal (1.76%)	28) Goa (0.386%)
9) Andhra (4.111%)	19) Uttarakhand (1.104%)	
10) Karnataka (3.646%)	20) Haryana (1.082%)	ANY type of UT = 0% here

23.4.2 [⚖️] Finance Commissions & the fate of UTs of J&K & Ladakh

Until 10th Finance Commission, the FC would also prescribe the revenue sharing formula between the Union Government and Union Territories.

- But this practice stopped since 11th finance commission i.e. Finance ministry itself decides how much revenue will be shared with Union Territories based on its own discretion (केंद्रशासित प्रदेशों को कितने पैसा देना है= केंद्र सरकार अपने विवेक से तय करता है. वित्त आयोग इस में 'चूँ' नहीं कर सकता).
- Finance Commission no longer prescribed formula in this regard. But,
- **31st October 2019:** The state of Jammu Kashmir was officially split into the union territories of Jammu Kashmir and union territory of Ladakh.
- Jammu and Kashmir Reorganization Act, 2019 mandates that:
 - Whatever amount the former state of J&K was supposed to receive between 31/10/2019 to 31/3/2020 (as per 14th FC formula) ...It will be distributed between these two new union territories on the basis of population ratio and other parameters.
 - President of India shall require 15th FC to make award for UT of J&K.
 - But, 15th FC report, no separate share is given in verticle / horizontal tax devolutions. Simply 1% extra kept with Union to look after J&K & Ladakh, compared to 14th FC.

23.4.3 [🏛️ → 💰] Grants from Union to States : 14th FC

Apart from the tax devolution, FC would also suggest Union to give grant to the states (grant= NOT loan, so need not return with interest). (अनुदान= मतलब राज्य सरकार ने वो पैसा केंद्र को वापस नहीं करना)

14th FC suggested following types of grants→

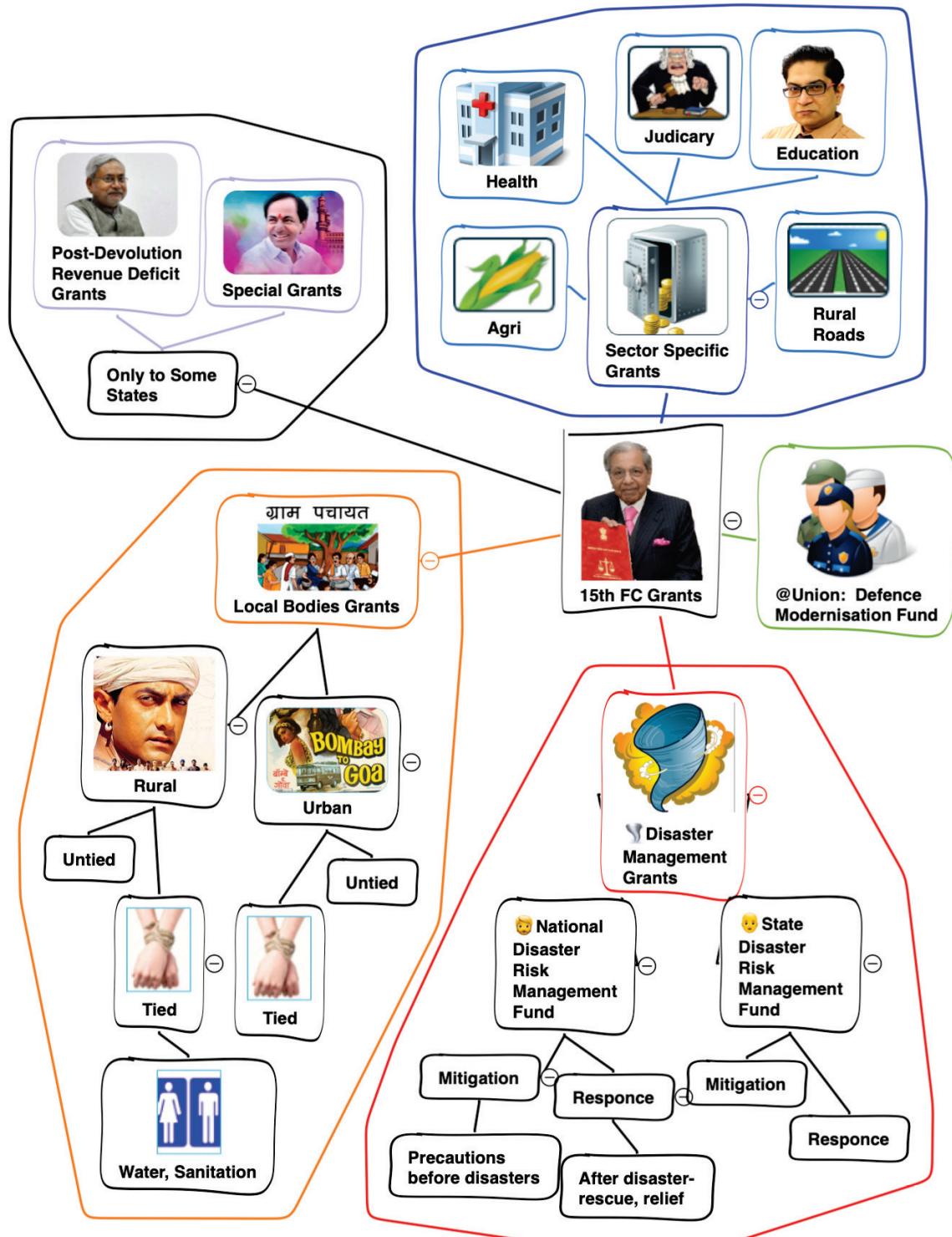
1. **For All States:** Grants for Panchayati Raj Institutions (PRI) and Urban Local Bodies (ULB) are subdivided into two parts (पंचायती राज व शहरी स्थानीय निकायों के लिए अनुदान दो हिस्सों में विभाजित)
 - a. basic grant (प्राथमिक) and
 - b. (10-20%) performance based grants.(प्रदर्शन आधारित)
2. **For All States:** Disaster Management Grants. (आपदा प्रबंधन अनुदान)



3. For 14 States: Post-Devolution Revenue Deficit Grants. (अंतरण-पश्च राजस्व घाटा अनुदान)

23.4.4 🏛️ → 💰 ₹ (₹ ₹) Grants from Union to States : 15th FC

15th FC suggested following types of grants → Numbers NOT GREATLY IMPORTANT



Type	Report#2 (2021-26)
1) 💰 ₹ ₹ Local Bodies Grants (स्थानीय निकाय अनुदान	A) 2.##Lcr Rural B) 1.##Lcr Urban



	Type	Report#2 (2021-26)
		=total 4.36Lcr
2)	₹ ₹ ₹ Post-Devolution Revenue Deficit Grants	2.94 Lcr
3)	₹ ₹ ₹ Disaster Management Grants (आपदा प्रबंधन अनुदान)	A) 68 kcr in Union ke Disaster funds B) 1.22 Lcr in State ke Disaster funds
4)	₹ ₹ ₹ Sector Specific Grants: (क्षेत्र-विशिष्ट अनुदान) with ₹ ₹ ₹ Performance-based incentives (निष्पादन-आधारित प्रोत्साहन)	>1 lakh crore for (Sectoral grants Health, Education, agricultural reforms, rural roads, Judiciary, Statistics, Aspirational districts)
6)	₹ ₹ ₹ State specific grants for tourism, historical monuments, infrastructure, water etc.	49599 cr.
7)	₹ ₹ ₹ Special Grants: (विशेष अनुदान)	N/A
8)	Union Govt ke liye Defense and Internal Security Fund	2.38 Lcr
	Total	>10 lakh Cr

23.4.5 ₹ ₹ ₹ Post-Devolution Revenue Deficit Grants (अंतरण-पश्च राजस्व घाटा अनुदान)



Figure 1: हमको और ऐसा दो, हमारे राजस्व घाटे की भरपाई के लिए!

Suppose (amt in ₹cr)	2020-21
Andhra's own State Budget:	(-) 41 kcr
Revenue Expenditure -minus Revenue Income = Revenue Deficit (राजस्व घाटा)	
Andhra's share from Union's taxes based on horizontal devolution	(+) 35 kcr
Andhra's Post-Devolution Revenue Deficit =	41-35=6 kcr.

So 15th FC will give Andhra extra 6 kcr as Post-Devolution Revenue Deficit Grant (अंतरण-पश्च राजस्व घाटा अनुदान). Only 14 states eligible: Assam, Himachal Pradesh, Manipur, Meghalaya, etc eligible. (Full list of all 14 States Not important)

► ₹ ₹ ₹ FAQ: Give me full list of all 14 States ? Ans. I'd not loose sleep over it. Satisfy your PHD curiosity with Page 297 here

https://fincomindia.nic.in/writereaddata/html_en_files/fincom15/Reports/XVFC%20VOL%20I%20Main%20Report.pdf

► ₹ ₹ ₹ FAQ: On above logic/formula, wouldn't a careless state govt spend truckload of money by borrowing from market? Ans. REF: Pillar2D: FRBM Act.



23.4.6 📈 15th FC: Special Grants: (विशेष अनुदान)

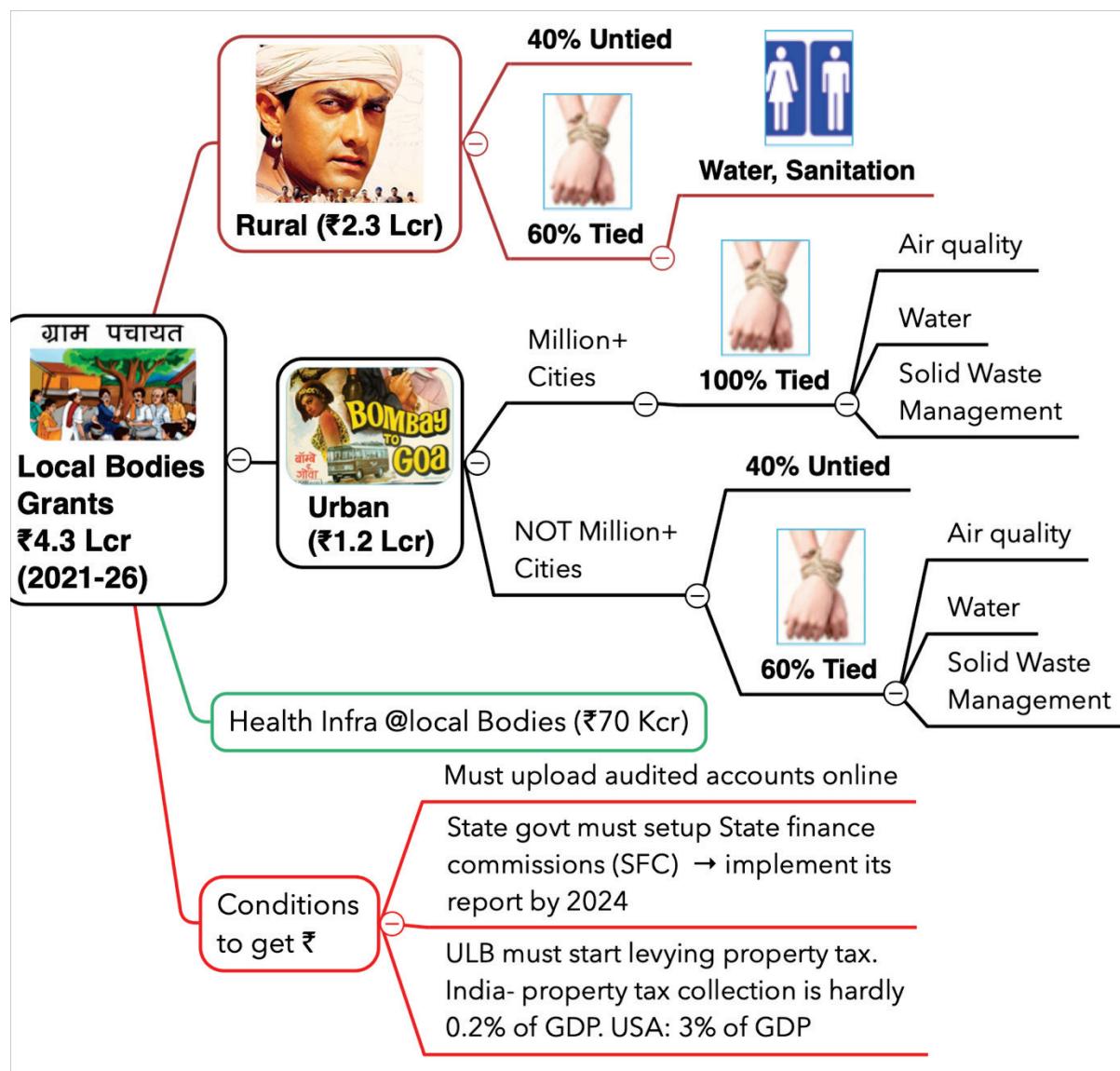
Report#1 (2020-21)

- ⇒ If a state receives less ₹₹ in (15th FC's devolution + post revenue deficit grants) in 2020-21 compared to 2019-20 (when 14th FC Rangarajan's formula was in effect),
 - ⇒ Then such State will get Special Grants just to prevent any 'feeling of injustice / bias' (आगर 14वें वित्त आयोग की अपेक्षा 15में कम मिल रहा हो तो अन्याय / पक्षपात के आरोप से बचने के लिए उन राज्यों को विशेष अनुदान)
 - ⇒ Only 3 states eligible: Karnataka, Telangana and Mizoram. Total ₹6,764 cr for 2020-21

Report#2 (2021-26)

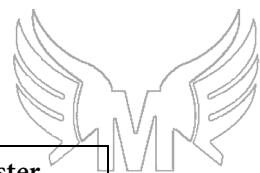
- No such grant announced. (ऐसा कोई विशेष अनुदान नहीं दिया गया)

23.4.7 15th FC: Local Bodies Grants (स्थानीय निकाय अनुदान)



23.4.8 15th FC: Disaster Management Grants (आपदा प्रबंधन अनुदानः)

Disaster Management Act, 2005 → Ministry of Home Affairs (गृह मंत्रालय) looks after the subject.



15 th FC: recommend सिफारिशे	● National Disaster Risk Management Fund (NDRMF: एनडीआरएफ/राष्ट्रीय आपदा जोखिम प्रबंधन कोष)	● State Disaster Risk Management Fund (SDRMF)
Internal distribution अंतरिक वितरण	⇒ 80% amt for National Disaster Response Fund (NDRF: एनडीआरएफ/राष्ट्रीय आपदा सहायता कोष) ⇒ 20% amt for National Disaster Mitigation Funds (NDMF: एनडीएमएफ/राष्ट्रीय आपदा प्रशमन कोष)	Same pattern, change word from National to 'State'

* * Notes on SDRMF:

- 1) How much will an individual state get? Ans= depends on its past disasters, risk exposure (area & population wise) etc. आपके राज्य में आपदा का जोखिम कितना है उस हिसाब से कम / ज्यादा पैसा मिले
- 2) Respective State Govt is also required to contribute some money in SDRMF.

23.4.9 ● ॐ 15th FC: Sector Specific Grants (क्षेत्र-विशिष्ट अनुदान)-Malnutrition

- Report#1 (2020-21): 15th FC only recommended health → Nutrition grant (₹7700+ cr पोषण अनुदान) to combat malnutrition (कृपोषण). Ministry of Women and Child Development (MoWCD: महिला बाल विकास मंत्रालय) will oversee its utilization.
- Report#2 (2020-21): no special mention of Malnutrition grants. But, related to health are given below in the following table:

23.4.10 ● ॐ 15th FC: Sector Specific Grants (क्षेत्र-विशिष्ट अनुदान)-Health

Type	Report#2: (2021-26)	Amount
Sectoral Grant → Healthcare @Local Bodies पंचायती राज/नगरपालिकाओं को प्राथमिक स्वास्थ्य केंद्र को स्वास्थ्य और कल्याण केंद्र में परिवर्तित करने के लिए ट्रक भर के पैसा	(Rural and urban) Local Bodies given ₹ to convert Primary Health centres (PHC) into health and wellness centres (HWCs)	70kcr
Sectoral Grant → Health नाजुक देखभाल के अस्पतालों को बनाने के लिए पैसा	Critical Care hospitals i.e. facilities with Intensive Care Unit (ICU) ventilator, kidney dialysis etc.	15kcr
Sectoral Grant → Health चिकित्सा संलग्न मानव बल की तालीम के लिए पैसे	Training of Allied Healthcare workforce (lab technicians, radiographers, dieticians, Physiotherapist, ASHA Worker etc)	13kcr
Sectoral Grant → Health जिले के अस्पतालों में डॉक्टरी तालीम के कोर्स करवाने के लिए पैसा	State government to run Doctor training courses in district hospital	2kcr
कुल मिलाकर	Total: 70kcr to local bodies + 30kcr as Sectoral Grants = 1.06 Lakh cr.	1.06 Lcr.

* * Healthcare sector Grants are unconditional i.e. not based on performance of a State Govt.

Additional Recommendations by 15th FC on Healthcare



- ⇒ Union and State Government together should spend 2.5% of GDP on Healthcare sector by 2025.
(केंद्र और राज्य सरकार ने मिलकर स्वास्थ्य क्षेत्र में सार्वजनिक खर्च को बढ़ाकर जीडीपी के ढाई प्रतिशत तक करना चाहिए)
- ⇒ All-India Services Act, 1951: (presently we've IAS, IPS, Indian Forest Service) → make 4th All India service: "All India Medical and Health Service" → UPSC to conduct recruitment. This will help addressing the shortage of doctor in backward states. आईएस/आईपीएस की तर्ज पर एक और अखिल भारतीय सेवा बनाई जाए "अखिल भारतीय चिकित्सा एवं स्वास्थ्य सेवा" ताकि पिछड़े राज्यों में डॉक्टरों की कमी को पूरा किया जा सके
- ⇒ Most of the medical colleges and super-speciality hospitals (e.g. Cancer) are concentrated in the Western and Southern parts of India. Union and State government should make efforts to address this. (पश्चिमी/दक्षिणी राज्यों के अलावा वाले विस्तार में भी अच्छी मेडिकल कॉलेज/अस्पताल बनाने पर जोर दिया जाए)

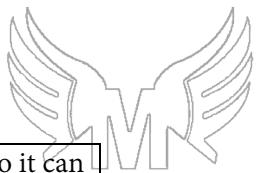
23.4.11 ₹ ₹ ₹ 15th FC: Sector Specific Grants (क्षेत्र-विशिष्ट अनुदान)- Others(अन्य)

	Report#2: (2021-26)	Amount
कृषि क्षेत्र में सुधारों के लिए -नीति आयोग द्वारा प्रस्तावित कानूनों को पारित करना, भूजल संवर्धन, तिलहन दाल लकड़ी उत्पादों को प्रोत्साहन, कृषि निर्यात को बढ़ातरी	Implementation of agricultural reforms e.g. Passing the agricultural formula suggested by Niti Aayog, Groundwater conservation, Improving Oilseed pulses wood products, agricultural export, (₹ Ref: HDT-Pillar#4A)	45kcr
ग्रामीण सड़कों की मरम्मत	Maintenance of PMGSY roads (Pradhanmantri Gram Sadak Yojana) (₹ Ref: HDT-Pillar#5- Transport Infrastructure)	27 kcr
न्यायिक सुधार -अतिरिक्त न्यायालय और जजों की नियुक्ति के लिए पैसा- जिसे 5 साल या उससे अधिक विलंबित संपत्तियों के मामलों का निपटारा, बच्चों के यौन शोषण, गंभीर अपराध के मामलों का जल्दी निपटारा	Judiciary: ₹ for Setting of extra courts and judges to finish the the property cases which are pending for 5 years or older, Civil cases of marginalized people, POSCO cases (child sex abuse) & heinous crimes	10 kcr
उच्च शिक्षा में ऑनलाइन पढ़ाई की व्यवस्था तथा चिकित्सा और इंजीनियरिंग के कोर्स को प्रादेशिक भाषा में अनुवादित करने के लिए	Higher Education-For 1) developing online learning 2) translating medical engineering courses in regional languages	6 kcr
स्कूली शिक्षा	School Education	4.8 kcr
सांस्कृतिकी/डेटा संग्रह	Statistics/Data collection	>1000 cr

These grants also include internal quota for performance based incentives i.e. Better performing States will be given additional money. (इन सभी अनुदान में कुछ अंदरूनी/आंतरिक कोटा होता है, जिसमें अधिक अच्छा प्रदर्शन करने वाले राज्यों को अधिक रकम मिल सके)

23.4.12 ₹ ₹ ₹ Defence and Internal Security Fund for Union

For whom?	Union Government (केंद्र सरकार के लिए)
Where?	Public Account of India → Modernisation Fund for Defence and Internal Security (MFDIS: लोक लेखा निधि के अंतर्गत रक्षा तथा आंतरिक सुरक्षा के नवीनीकरण/आधुनिकीकरण के लिए कोष या निधि).



Type	Non-lapsable Fund (The money in such fund will not lapse on 31st March, so it can be used in future without getting another approval from parliament.) विनव्यपगत निधि
Amount	₹ 2.38 Lcr (total for 2021-26)

23.5 FC: GIVING PERMANENT STATUS (स्थायी दर्जा देना)

Shifted to Mains Handout.

23.6 FC vs PC vs NITI: WHAT'S THE DIFFERENCE?



Finance Commission (FC)	Planning Commission (PC) योजना आयोग	NITI Aayog National Institution for Transforming India
Constitutional body	Created by executive resolution, so neither constitutional nor statutory. Both headed by Prime Minister as the chairman.	
1951: 1st FC setup under KC Neogy	<ul style="list-style-type: none"> - 1951: PC set up and over the years designed 12 Five Year plans (12th FYP: 2012-2017) - 2014: Dissolved by Modi Government. 	<ul style="list-style-type: none"> - 2015: Formed. - Three Year Action Agenda (2017-20). - Seven Year Strategy Document. - Fifteen Year Vision Document(2017-32).
<ul style="list-style-type: none"> - Taxes' Vertical Devolution and horizontal distribution among states. - + any other matters referred by the President in TOR - Each Finance Commission arrived at its own methodology. E.g. 14th FC: 42% vertical, and 5 factor formula for horizontal distribution. 	<ol style="list-style-type: none"> 1. How much money should union give to each state for implementation of Union's centrally sponsored schemes (CSS)? 2. How much money should union government give to the five year plans of the state governments? <p>To answer these Qs, PC would use Gadgil Mukherjee formula (designed in 8TH FYP)- based on population, per capita income, special problems etc. of a state.</p>	<p>It is not in its scope of work to decide how much money should be given to each state. That component is decided by the Finance Ministry.</p> <ul style="list-style-type: none"> - NITI's primary objective is to serve as the think tank of the Government of India, - Helps in policy design. - Helps in monitoring schemes' through its dashboard e.g. 'School Education Quality Index', 'SDG India Index', 'Digital Transformation Index'

< More about Planning Commission and NITI Aayog in Pillar#4>



**AB
CD** ? MCQ. In India, which of the following review(s) the independent regulators in sectors like telecommunications, insurance, electricity etc. ? (UPSC Prelims-2019)

Answer Codes: (a) 1 and 2 (b) 1, 3 and 4 (c) 3, 4 and 5 (d) 2 and 3

23.7 (   ) SPECIAL CATEGORY STATES? विशेष श्रेणी के राज्य?



Gopinath Bordoloi
15 Aug.1947 to 05 Aug.1950



Bishnuram medhi
05 Aug.1950 to 28 Dec.1957



Bimalaprasad Solih
28 Dec.1957 to 30 Oct. 1976



Mohendramohan Chowdhury
30 Oct.1970 to 17 Mar.1972



Sarat Chandra Sinha
17 Mar.1972 to 12 Mar.197



Golap Borbora
12 Mar.1978 to 4 sep. 1979

Figure 2: हमारा राज्य गरीब है, इसलिए हमें विकास के लिए केंद्र सरकार ने अलग से देर सारा पैसा देना चाहिए.

- 1952: The National Development Council (NDC: राष्ट्रीय विकास परिषद) was set up, with PM, CMs and other representatives to approve FYP prepared by the Planning Commission.
 - Although NDC became obsolete with establishment of NITI Aayog.(फूटा हुआ कारतूस बन चुका है)
 - 1969: 5th FC recommended giving extra ₹₹+ tax-relief to certain disadvantaged states. Over the years, NDC added more states into the Special Category List based on
 - ✓ (i) hilly and difficult terrain (पहाड़ी और कठिन भूभाग)
 - ✓ (ii) low population density and / or sizeable share of tribal population (कम जनसंख्या घनत्व और / या जनजातीय जनसंख्या का बड़ा हिस्सा)
 - ✓ (iii) strategic location along borders with neighbouring countries (पड़ोसी देशों के साथ सीमाओं के साथ रणनीतिक स्थान)
 - ✓ (iv) economic/infrastructural backwardness (आर्थिक/अवसंरचनात्मक पिछड़ेपन)
 - ✓ (v) non-viable nature of state finances. (राज्य वित्त की गैर-निहित प्रकृति।)
 - Examples: 8 North Eastern states and 3 Himalayan States (JK, Uttarakhand, HP). Although, Post-370 removal, J&K is no longer in this list.

-   Benefits of Sp.Cat. States? (विशेष श्रेणी के राज्यों को क्या रियायते / लाभ मिलते हैं?)

- ✓ Industrialists will be given benefits in Union-taxes for setting up factories in these states.
(उद्योगपति को फैक्ट्री लगाने पर कर में छूट/ रियायत- ताकि वह पिछड़े राज्य में जाने के लिए आकर्षित हो)
 - ✓ Union bears higher burden in Centrally Sponsored Schemes (CSS) e.g 90:10 ratio: (केंद्र प्रयोजित योजनाएं में केंद्र सरकार अपनी जेब से ज्यादा अनुपात में पैसा देता)
 - ✓ FC & PC would assign more weightage in their formulas to give them more funds.

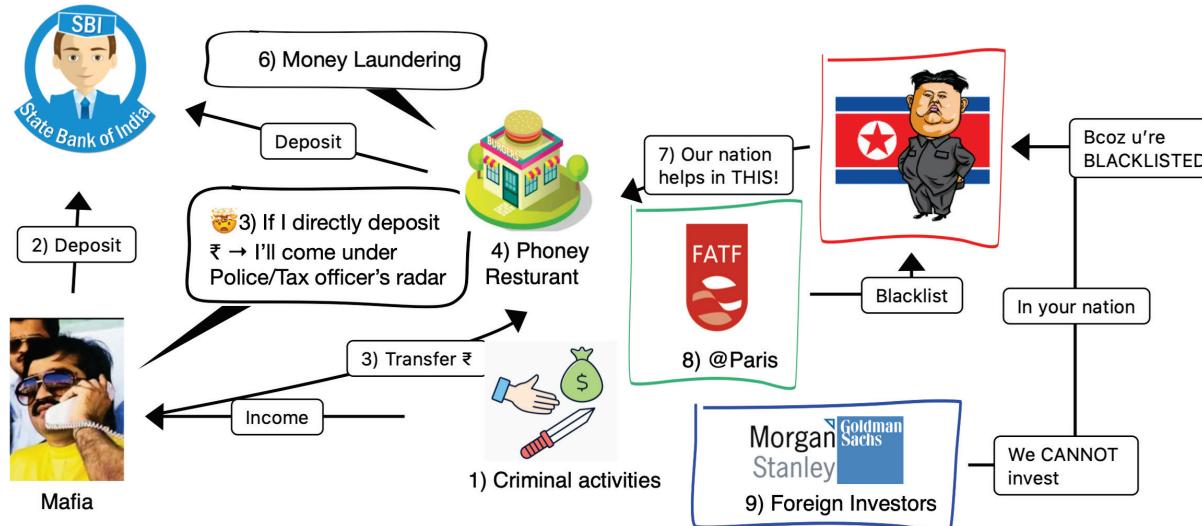
- **14th FC:** Previous FC assigned extra weightage & funds to Sp.Cat states, but 14th FC stopped

- But, whenever elections are near, W.Bengal, Bihar and Andhra CMs would demand Sp.Cat. status & blame Union for ‘injustice’. (चनाव करीब हो- उस वक्त कछ राज्य नाइंसाफी की बात करते हैं)



- 15th FC: Some States have requested special category status. But it's not part of our mandate/Terms of Reference. (वित्त आयोग के विचारार्थ विषयों में ये हैं ही नहीं !)
- So, at present, Sp.Cat states don't get additional revenue/grants in FC's formula. Although, Union upon its own discretion continues to give them certain benefits in CSS. (वर्तमान वित्त आयोग, इन राज्यों को अलग से कोई पैसा नहीं देते। किंतु केंद्र सरकार स्वयं के विवेक से योजनाओं में ज्यादा पैसा दे सकती है।)

24 ⚖️ 🏛️ 🕵️ TAXATION → BLACK MONEY & ALLIED ISSUES



Tax Planning / Tax Mitigation (कर-नियोजन)	When person invests money in LIC/PPF/Pension funds etc.in such manner that he can claim various deductions legally available in the Income Tax Act. It's neither illegal nor unethical. (न ही अवैध और न ही अनैतिक)
Black Money (काला धन)	It is an income or transaction that is taxable yet NOT reported to the tax authorities concealed from the tax authority. कालाधन ऐसी आय/लेनदेन है जो की कर-पात्र है, किन्तु कर-अधिकारियों से छिपाई गई.
Parallel Economy	The economy that runs on black money. (समानांतर अर्थव्यवस्था जो काले धन पर चलती है)
-tax Evasion (कर अपवंचन कर-चोरी)	When person hides income or transaction from tax authorities, and thereby evades paying taxes. It's illegal. (कराधान योग्य आय या लेन देन को सरकार से छिपाना)
-tax Avoidance (कर परिहार कर-टालना)	When person discloses his income and transactions to tax authorities but uses legal loopholes to avoid paying taxes. E.g. Bollywood stars who register digital media companies in Tax Havens. It may not be illegal in every case, but still unethical. (कराधान योग्य आमदानी या लेनदेन को सरकार से छिपाना नहि, लेकिन क्रान्तू में छिड़ों के इस्तेमाल द्वारा कर को टालना जाना।)
tax Haven (कर स्वर्ग)	Is a country that demands little taxes from foreigners and offers legal loopholes for Tax Avoidance & opportunities for Tax Evasion. E.g. Liechtenstein, Mauritius, Marshall Islands, Cayman Islands, Panama, Nauru, Vanuatu etc. These countries are geographically small, & without viable economy. So they offer such mechanism to attract foreign investors and



एसा देश जहां कर टालने / छिपाने के लिए बहुत अवसर मिलते हैं	foreign tourists.
₹ → 📈 Money laundering (गैरकानूनी तरीके से प्राप्त धन को वैध बनाना)	<p>⇒ When drug trafficking, ransom, corruption and other criminal activity generates substantial profits, the criminal tries to spend / invest / hide the money without attracting attention.</p> <p>⇒ Money laundering (धनशोधन) is the process of disguising the source of money, as if it came from a legitimate activity, & then channelize it into banks, share market and other financial intermediaries.</p>
Hawala गैर कानूनी रूप से एक जगह से दूसरी जगह पैसा भेजना	<p>⇒ Hawala is an illegal money transfer / remittance system. Money is paid to an agent who instructs an associate in the relevant country or area to pay the final recipient.</p> <p>Although used by Indian workers in middle east because lower commission than post-office/bank transfers, + better network in remote villages</p>
Shell firms, Post-box/ Letter-box companies	They do not have any active business operations. Created with sole objective of money laundering/tax evasion/avoidance E.g. Mishail Packers and Printers Pvt Ltd. allegedly setup by Misa Bharti Yadav to launder ₹1.2 crores (as per Enforcement Directorate). माल कर चोरी के लिए बनाई गई कंपनियां
Panama Papers (2016) Paradise Papers (2017) Mauritius papers (2018) Pandora Papers (2021)	<p>International Consortium of Investigative Journalists is a USA based nonprofit organization: released these incriminating documents from certain law firms in tax havens & showed how big politicians, businessmen, sportsmen, filmstars have setup shell companies for tax evasion/avoidance across the world.</p> <p>Putin, Sachin, Ambani, Amitabh Bachchan & Aishwarya Rai also named in these papers. (पतकारों का एक वैश्विक संगठन जिन्होंने अलग अलग दस्तावेज़ जारी कर साबित किया- कैसे दुनिया के रसूखदार लोग फ़र्ज़ी कंपनियां बनाकर कर चोरी करते हैं)</p>
Tax Terrorism (कर आतंकवाद) 	<ul style="list-style-type: none"> - Happens when tax authorities put undue pressure on an honest taxpayer to pay more taxes. (ईमानदार करदाता पर टैक्स अधिकारी अनावश्यक दबाव / उत्पीड़न करे) - Critiques have used this word in context of Vodafone & Cairn cases.
TDS/TCS	<p>Tax Deduction at Source (TDS) स्रोत पर कर कटौती</p> <p>Tax Collection at Source (TCS) स्रोत पर कर संग्रह</p> <p>These are the mechanism to discourage tax evasion. Ref:2A: IT Handout</p>
PAN Card स्थाई खाता संख्याक	10 letters alphanumeric numbered assigned to all taxpayers in India by Income Tax Dept. Ref: 2A: GST Handout for more.

24.1 (₹ ₹) ₹ BLACK MONEY → NOTABLE ORGANISATIONS

रॉबर्ट वाडा से सवालों का आज तीसरा राउंड



Enforcement Directorate (ED: प्रवर्तन निदेशालय)	FinMin → Department of Revenue → ED is a Specialized financial investigation agency to enforce following laws 1. Foreign Exchange Management Act,1999 (FEMA) 2. Prevention of Money Laundering Act, 2002 (PMLA)
Directorate of Revenue Intelligence	FinMin → Department of Revenue → CBIC → DRI is an agency to investigate Customs/Narcotics/Wildlife/Arms related smuggling & illegal activities. (DRI: राजस्व आसूचना निदेशालय)
Financial Intelligence unit (FIU-2004: वित्तीय आसूचना एकक)	It analyses the suspected financial transactions in domestic and crossborder levels & reports directly to the Economic Intelligence Council (EIC: आर्थिक आसूचना परिषद) headed by the FM
Financial Action Task Force (FATF-1989: HQ@Paris वित्तीय कार्रवाई कार्यदल: ऐसे बदमाश गैर ज़िम्मेदार देशों की सूची बनाता है जहाँ धनशोधन और आतंकी वित्तपोषण के स्किलाफ सङ्खी नहीं हैं)	- is a brainchild of G7, Combating Money laundering and terror finance. India became member in 2010. HQ@Paris - Greylist: nations that safe haven for terror financing and money laundering. E.g. Syria, Yemen, etc are on the grey list. (Update 2022: Mauritius & Pakistan REMOVED from this list) - Blacklist: nations that are not cooperating in the global fight against money laundering, terrorist financing. Iran and N.Korea
OECD (1961: HQ@Paris. आर्थिक सहयोग तथा विकास संगठन)	✓ Organisation for Economic Co-operation and Development ✓ Works for International cooperation in the matters of economy and taxation. Known for Base erosion and profit shifting (BEPS) Norms. ✓ India is not a member of OECD, yet. HQ@Paris.

24.2 TAX EVASION (HIDING INCOME / TRANSACTION)

24.2.1 Prevention of Money Laundering Act (PMLA-2002)

ED files chargesheet in PMLA case involving Misa Bharti, names 35 accused



धनशोधन निवारण अधिनियम

- 1998: UN General Assembly (UNGA) declaration on Money Laundering → 2002: India enacts this law to combat money laundering with search-seizure-arrest-penalty. **Main agency?** Enforcement Directorate. (संयुक्त राष्ट्र सामान्य परिषद की घोषणा के बाद भारत ने कानून बनाया था)
- Cases heard @ PMLA Adjudicating Authority (न्यायनिर्णयन प्राधिकारी) → PMLA Appellate Tribunal (अपीलीय प्राधिकरण) → High Court
- RBI, SEBI, IRDAI and other regulators to make norms for Banks/NBFCs.
- E.g. RBI's Know Your Customer (KYC) norms and Anti-Money Laundering (AML) standards. 2013: Online Magazine Cobrapost's sting operation proved ICICI, HDFC and Axis Bank were flouting norms so RBI imposed a heavy penalties.



24.2.2 PMLA Reporting Norms to apply on Crypto-exchanges (2023)

- cryptoexchange is a platform where buying and selling of bitcoin and other crypto currency, NFTs takes place. e.g. Unocoin, Coinswitch etc.
- 2023: cryptoexchanges will have to perform the know your customer (KYC) guidelines i.e. collect ID proof, PAN/Aadhar, verified the residential address etc. (अपने ग्राहक को पहचाने नियमावली का पालन करना होगा)
- cryptoexchanges will have to notify any suspicious transactions to authorities. (संदिग्ध लेनदेन के बारे में सरकार को सूचित करना होगा)
- Govt issued these directives using Prevention of Money Laundering Act (PMLA-2002)

24.2.3 📊 സ്ഥാപനം Undisclosed Foreign Income & Assets Act (UFIA-2015)

ED requests foreign agencies for details about UK assets linked to Vadra, summons NRI



अज्ञात विदेशी आय तथा परिसंपत्ति अधिनियम

- It requires Indian residents to disclose their foreign assets (e.g. bungalow in Dubai, Bank account in Switzerland), and income coming from foreign sources (e.g. shell company in Cayman Island) in their income tax forms. (विदेशी आमदनी और विदेशी निवेश की जानकारी अपने आयकर फॉर्म में देनी होगी)
- Such foreign income will be subjected to 30% income tax. No deduction, exemption or rebate
- **Violation** = Penalty + upto 10 years jail time.
- If a company is found violating the Act, then every person responsible to the company shall also be liable for punishment unless he proves that it was done without his knowledge.
- Empowers Union to enter into agreements with other countries for the tax info exchange.

24.2.4 📊 സ്ഥാപനം Benami Transactions Prohibition Act (BTPA- 1988, 2016)

Crackdown on benami properties! I-T attaches Misa Bharti's Rs 15-crore farmhouse in Sainik Farms



By: FE Online | Published: October 25, 2018 4:07 PM

- 1988's original act did not achieve much results → amended in 2016. **Main Agency?** Income Tax Department. (बेनामी लेनदेन (निषेध) अधिनियमः)
- Benami refers to properties that buyer registers in the name of his relative, personal staff (Driver, Gardner) or a non-existent/ fictitious persons (काल्पनिक व्यक्ति) to avoid tax authorities' attention.
- E.g. 2018: Misa Bharti Yadav (allegedly) bought farmhouse in the name of her brother-in-law Nilesh Kumar.
- Cases heard @ PMLA-wali bodies. **Violation** = Confiscation of property + penalty + Jail



**AB
CD** ? MCQ. 'Prohibition of Benami Transactions Act': find correct statement(s):(Pre-2017)

1. A property transaction is not treated as a benami transaction if the owner of the property is not aware of the transaction. (यदि संपत्ति का मालिक कहे कि “मुझे लेनदेन के बारे में नहीं पता था” तो उसकी संपत्ति को बेनामी नहीं माना जाएगा)
 2. Properties held benami are liable for confiscation by the Govt. (बेनामी संपत्ति को सरकार जप्त/कब्ज़े में लेगी)
 3. The Act provides for 3 authorities for investigations but does not provide for any appellate mechanism.

24.3 (Q) TAX EVASION → GOVT ANNOUNCEMENTS

24.3.1 Tax (Evasion) “Surrender” schemes

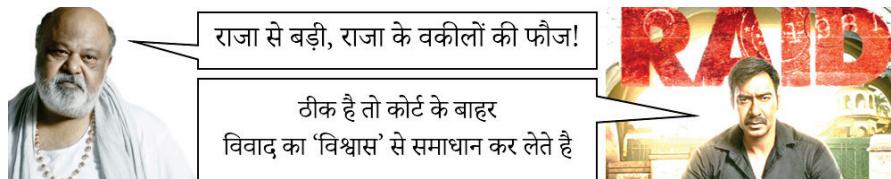
गुनाह कबूल करो / आत्म-समर्पण करो तो कम जुर्माना भरना होगा / जेल नहीं जाना होगा

Under such schemes, a tax-evader can declare his undisclosed income, pay the taxes and penalty. Then, Income Tax Department will not pursue case against him. (Although Police may still pursue case if income is from narcotics, kidnapping, extortion etc.)

Income Declaration Scheme (IDS)	<p>Offer? 45% of the undisclosed income shall be taken away by govt as (tax 30%+ surcharge + penalty).</p> <p>Validity? 2016 June to Sept. ~67,000 cr black money was declared.</p>
Pradhan Mantri Garib Kalyan Yojana (PMGKY) <i>Launched after Demonetization</i> Validity? <i>2016-Dec: To 2017-April</i>	<ul style="list-style-type: none"> - ~50% of the undisclosed income shall be taken away by Govt. as Tax + Penalty + Pradhan Mantri Garib Kalyan Cess. - Further, 25% of the undisclosed income shall be deposited in RBI's '<i>Pradhan Mantri Garib Kalyan Deposit Scheme, 2016</i>'. It'll be a fixed deposit for 4 years @ ZERO % Interest rate. - The PM Garib Kalyan cess, and deposit will be used for schemes related to irrigation, housing, toilets, infrastructure, edu, health etc. - The scheme was not very successful, hardly ~ ₹ 5000 cr. declared.
 Sabka Vishwas L.D.S Scheme 2019 <i>In budget-2019</i>	<ul style="list-style-type: none"> - Businessman accepts his fault, Tax officials gives a 'discount/relief/waiver' in the penalty/late-fees, and the matter is settled, instead of litigating in courts for years & years. - For pending cases in Service Tax & Excise Duty



24.3.2 ⚖️ 📈 Vivad se Vishwas Scheme for Direct Taxes (₹ Budget-2020)



Presently, >₹9 lakh cr worth direct tax cases pending before Appellate Forums (अपीलीय मंचों के समक्ष लंबित मामले) viz. IT Commissioner (Appeals) → Income Tax Appellate Tribunals (ITAT: आयकर अपीलीय न्यायाधिकरण) → HC → SC. So, ₹ Budget-2020 → “**Direct Tax Vivad se Vishwas Bill/Act, 2020**”.

- ⇒ Scope: Appeal related to Income tax or Corporation Tax, pending before a forum as of 31/Jan/2020. Then,
- ⇒ Taxpayers can settle with IT dept by paying 50-100% of the disputed tax amount- depending on the case-matter.
- ⇒ he'll get a complete waiver/relief from interest+penalty (ब्याज और जुर्माना से माफी).
- ⇒ Above scheme is valid upto 31/March/2020, then Atma-Nirbhar Bharat extended it further.
- ⇒ This scheme is not applicable if:
 - person is under prosecution for criminal activities. (अपराधिक मामले चल रहे हो)
 - If black money is hidden in foreign countries. (विदेश में काला धन छिपाया हो)

24.3.3 ⚖️ 📈 Dispute Resolution Committee (DRC) in ₹ Budget-2021

- ⇒ ₹ Budget-2021 Announced to setup this committee under the Income Tax Act (आयकर कानून के अंतर्गत विवाद निपटान समिति)
- ⇒ Anyone with a taxable income up to `50 lakh and disputed income up to `10 lakh shall be eligible to approach the Committee. Committee can reduce, waive any penalty or give immunity from any offence. (गुनाह कबूल कर लो /समझौता करवालो तो कम जुर्माना भरना होगा / जेल नहीं जाना होगा इत्यादि)
- ⇒ It will help the small taxpayers to settle tax matters without going through legal expenses & time wastage in the regular appellate process. (i.e. viz. IT Commissioner (Appeals) → Income Tax Appellate Tribunals (ITAT: आयकर अपीलीय न्यायाधिकरण) → HC → SC) छोटे करदाता का कोर्ट कचहरी में मुकदमें बाजी मैं समय और पैसे बच जाएगा
- ⇒ It will be a faceless / online Committee to ensure efficiency, transparency and accountability.



24.3.4 TDS on influencers / influencer tax

Company need to pay 10% TDS (6000) with PAN# of Influencer

some newspapers call this TDS as "Influencer Tax"

RAID

pay Income Tax on ₹60,000 ki gifts/freebies

Freebie	Price
Phone	₹30,000
Airplane & Hotel	₹30,000
Total	₹60,000

24.3.5 📈 Tax Evasion → Other Initiatives (अन्य कदम)

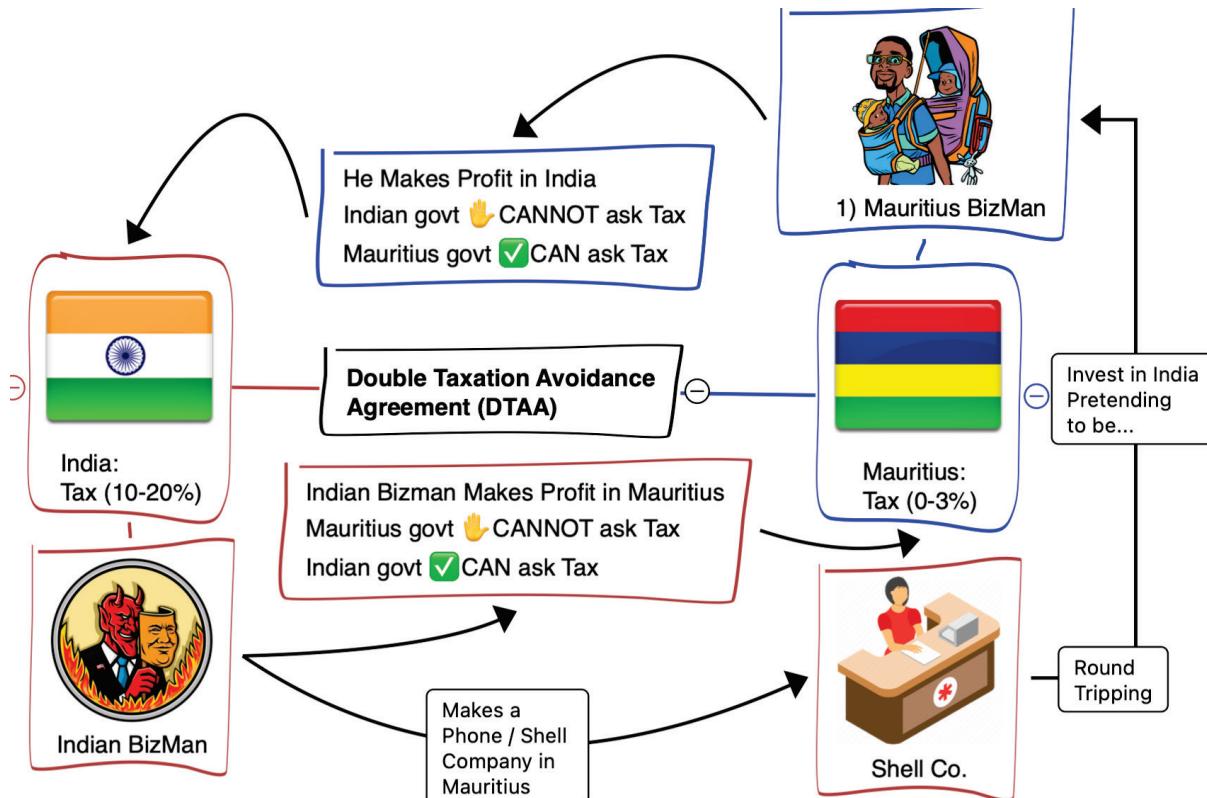
Banking Cash Transaction Tax (BCTT: 2005-09)	A 0.1% direct tax levied on cash withdrawals from banks. Started by Chidambaram but later withdrawn (2005-09). Objective was to encourage less-cash economy and data mining of transactions.
(Suggested) Banking Transaction Tax (BTT) बैंकिंग लेनदेन पर कर	A proposal by a Pune based think-tank to Baba Ramdev that all the direct and indirect taxes of the Union and states should be abolished and replaced with 2% tax on banking transactions. Impracticable because such experiments were tried and failed in Australia and other countries as people shifted to using barter system, diamonds and gold for transaction. 2017: Govt clarified they are not considering any such proposal. So NOTIMP
SC's special investigation team (SIT) on Black Money 2014	Chairman: Retd. SC Justice MB Shah, and senior tax officials. They recommended various measures against Black Money hidden in India, in overseas banks, P-Notes etc. SC ordered Govt to implement its recommendations.
Operation Clean Money	2017: IT Dept. verified large bank deposits made Post-demonetization.
Project Insight 2017	Income Tax Dept. hired L&T Infotech ltd to develop an integrated platform for data mining & tracking tax evaders. (Related) Project Saksham 2016: CBEC/CBIC's project for digital re-engineering related to GST. It's not a 'drive against black money' but for 'Ease of Paying Taxes'. (Related) Aaykar Setu: CBDT's mobile app to pay Income Tax.
Restrictions on Cash Transactions, 2017	Budget 2017 → Finance Act, 2017 → if anyone accepts ₹ 2 lakh /> CASH in a day / in multiple transactions related to one 'event', then Income Tax Dept penalty = 100% of the cash received. Banks, post office, government organisations are exempted.



24.4 (₹ ⌂ 🙅) TAX AVOIDANCE (कर परिहार / कर टालना)

Here, people will not hide the transaction, they'll blatantly declare transactions in their official records, but will use legal loopholes (कानूनी-खामिया) to avoid paying taxes.

24.4.1 ₹ ⌂ 🙅 Double Taxation Avoidance Agreement (DTAA) & Round Tripping



- **DTAA:** It is a tax treaty signed between two or more countries.
- **Objective?** A taxpayer resides in one country and earns income in another, then he need not pay (direct) tax twice in two countries for the same income.
- e.g. India Mauritius DTAA (1982): If a Mauritius person / company buy shares in India and sells them at profit, then he need not pay Capital Gains Tax (CGT) in India. Only the Mauritius government can ask CGT from him. And vice-versa. (दोहरा कराधान परिहार समजौता)
- **Loophole?** India has ~10-20% CGT whereas Mauritius has ~0-3% CGT (depending on nature of asset, how long the buyer kept asset before selling etc). So many Indian Politicians, Businessmen and Bollywood actors would transfer the money using *Hawala* to their shell companies in Mauritius → make those Mauritius Cos to invest back in Indian assets → avoid Indian CGT.
- This process is called **Round Tripping** (राउंड-ट्रिपिंग) i.e. money that leaves the country through various channels and makes its way back into the country as foreign investment.
- Similar loophole in India Singapore DTAA. **2016:** Modi government amended the treaties = even Mauritius and Singapore investments in India will be subjected to Indian taxes.



24.4.2 📊👉👤 Tax Avoidance through Non-Resident Status

Alia Bhatt reveals the one reason why she can't vote in Lok Sabha Elections 2019



If a person is	👉 Has to pay his IT on income coming from India?	👉 Has to pay IT on global income e.g. income coming from the USA/China?
Ordinarily resident of India	Yes	Yes
Non-residents	Yes	No

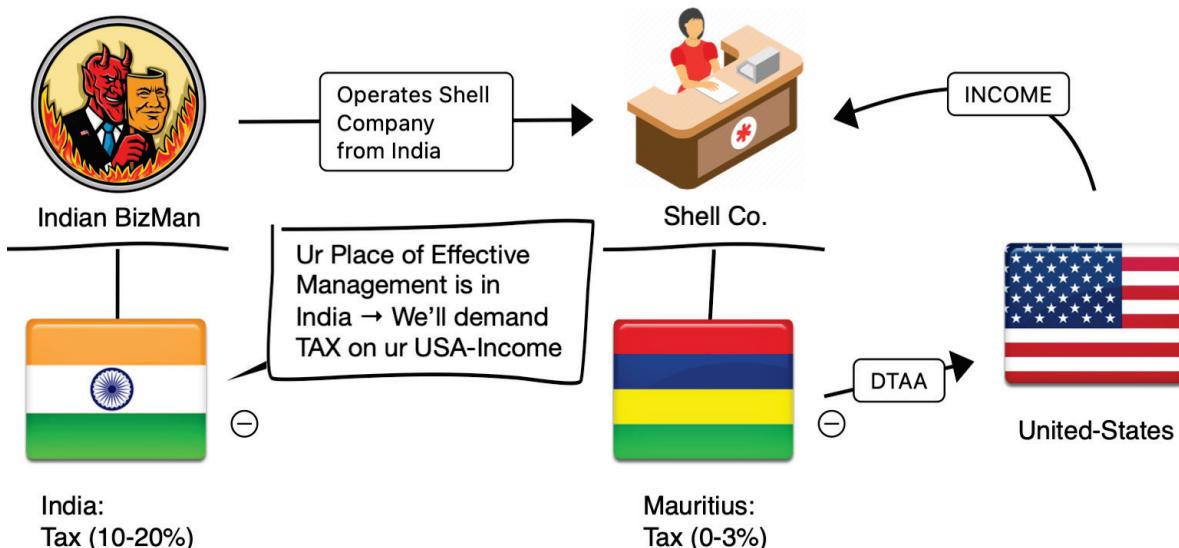
If India has a double taxation avoidance agreement (DTAA) with other nation, then above things may differ (e.g. recall erstwhile Mauritius CGT-roundtripping-walla example)

Table 2: 📈 Budget-2020 changed these definitions

Definition in Indian Tax laws	Before Budget-2020 →	예산-2020
Ordinarily Indian Resident (साधारणतया भारतीय निवासी) = person who stays in India for →	182 days/> in a year	120 days/>
Non resident (गैर निवासी)= person who stays outside India for →	182 days/> in a year	246 days/>

⇒ **Implications?** Person will have to stay out of India for a longer period if he want to be treated as “Non-Resident” to avoid taxes on his global income.

24.4.3 📊👉👤 Place of Effective Management (POEM: पीओईएम)

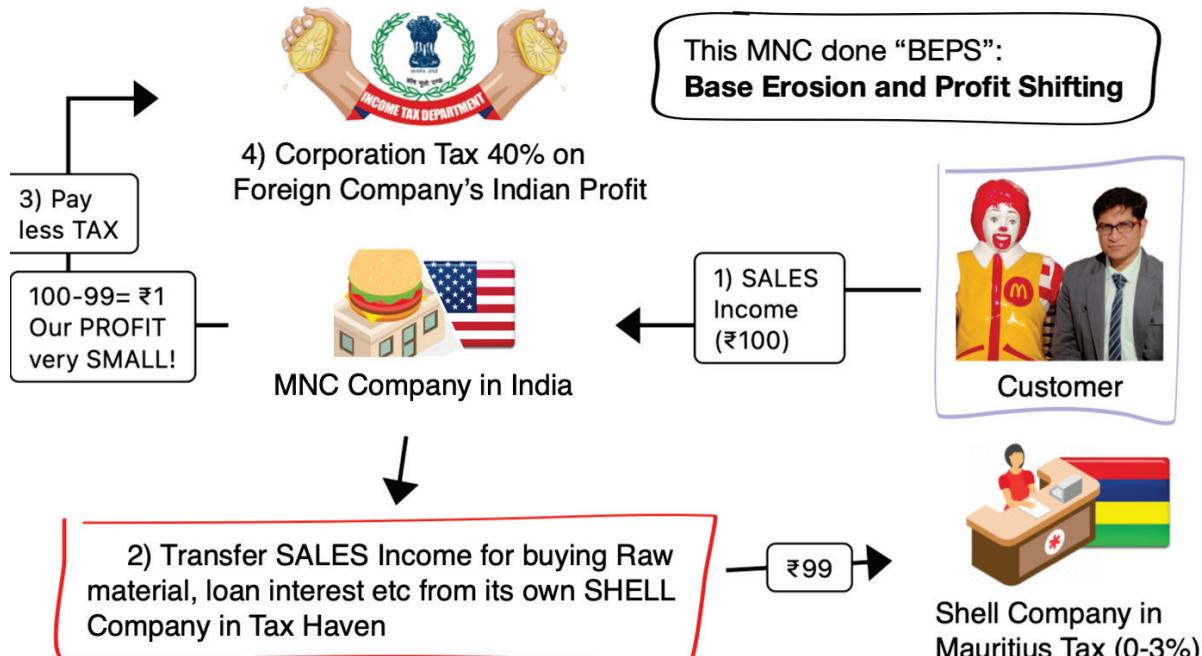


➤ (विदेश में बनी फर्जी कंपनी के प्रबंधन का वास्तविक स्थान भारत में स्थित है तो भारत सरकार उसके मुनाफे पे टेक्षा मांगेगी।)



24.4.4 Base Erosion and Profit Shifting (BEPS: बीईपीएस)

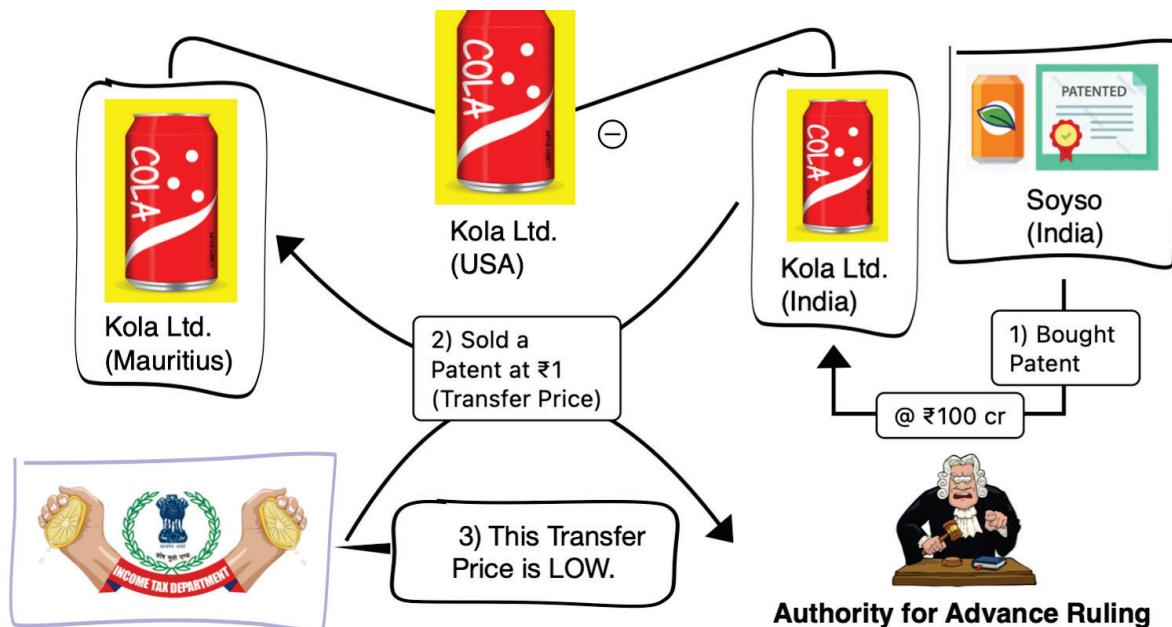
MCDONALD'S ACCUSED OF RE-ROUTING ROYALTY PAYMENTS TO AVOID BILLIONS IN EUROPEAN TAXES



- When MNCs shift profit from its source country to a tax-haven to avoid / reduce paying taxes, its known as “BEPS”. (बहुराष्ट्रीय निगम द्वारा मुनाफे को स्थानांतरित करना ताकि भारत में उसे टेक्शा कम भरना पड़े)
- India signed the OECD's joint Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (commonly referred to as MLI) ओईसीडी के बहुपक्षीय समझौते पर हस्ताक्षर किए हैं



24.4.5 (O, ⚡, 🏛️) Transfer Pricing & Authority for Advance Rulings (AAR) (हस्तांतरण मूल्य)



⌚ Not really important! What above thing means? = explained in video lecture.

24.4.6 (O, ⚡, 🏛️) General Anti-Avoidance Rules (GAAR)

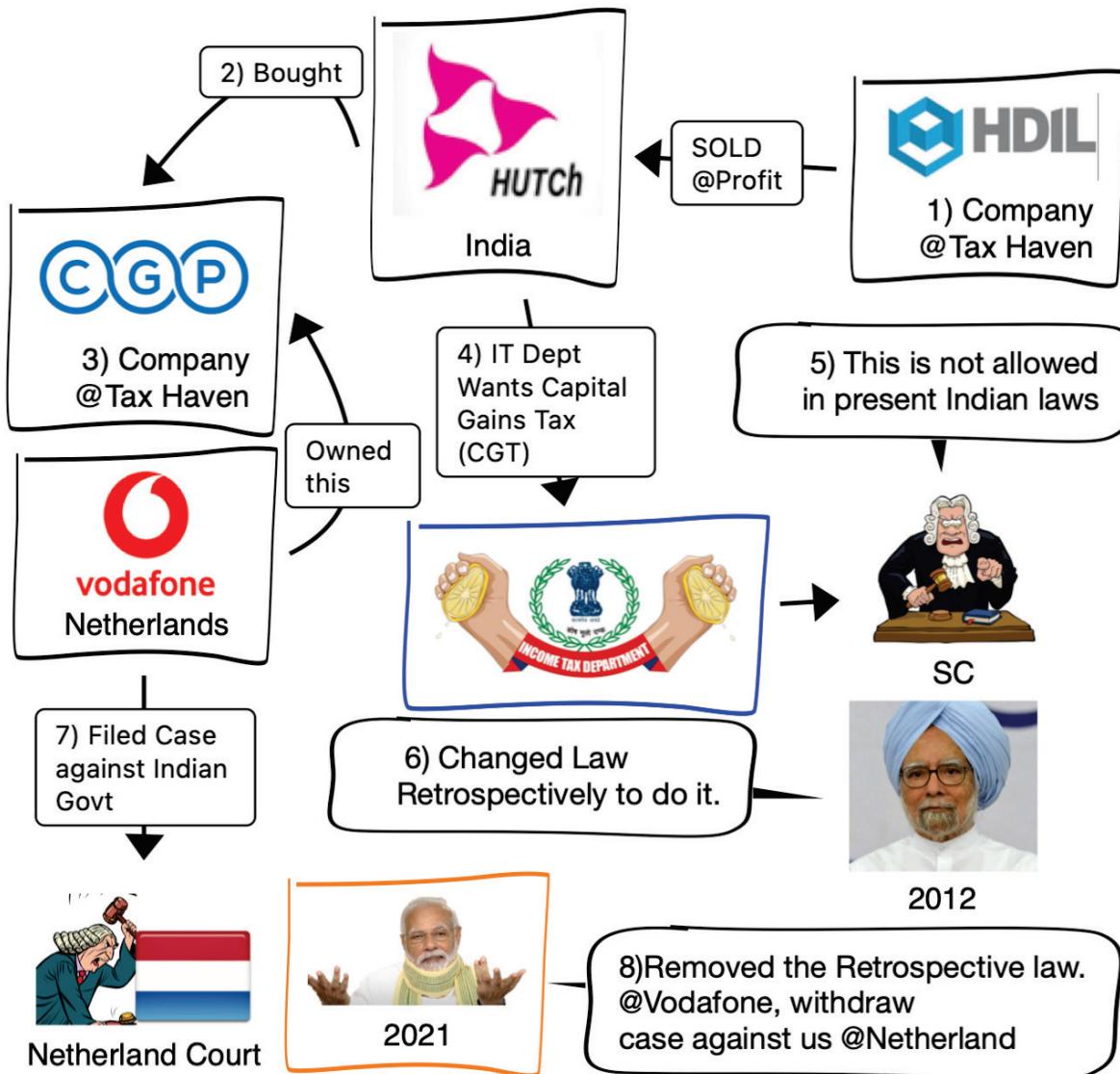
Till now we learned how Indians and foreigners avoid tax payment in India through loopholes like DTAA, POEM, BEPS, Transfer Pricing etc.

- So, UPA/Congress Govt setup economist **Partha Sarathi Shome** panel who suggested General Anti Avoidance Rules (GAAR: कर परिवर्जन रोधी व्यापक नियम) → they were added Income Tax Act
- GAAR empowers Income Tax officials to send notices to both Indians and foreigners for suspected Tax Avoidance. (For Tax evasion, we've separate laws- PMLA, UFIA, BTPA)
- But critics alleged GAAR will result in tax terrorism, harassment, no ease of doing biz. So successive Budgets kept delaying the GAAR- implementation. Finally done on 1/4/2017.

24.5 (O, ⚡, 🏛️ : ⏳) RETROSPECTIVE TAX: VODAFONE

- ⇒ (Intro: Origin) To avoid paying capital gains tax in India, the foreign companies usually create shell companies to indirectly transfer Indian assets. (भारत में पूँजीगत लाभ कर से बचने के लिए विदेशी कंपनियों द्वारा शेल कंपनी बनाकर भारतीय सम्पत्तियों की परोक्ष रूप से खरीद बिक्री की जाती है)
- ⇒ e.g. 2007: Vodafone (Its Netherland subsidiary company) bought shares of CGP company (Cayman Island based shell company) from HTIL Company (based in Hong Kong). Thus, Vodafone became (indirect) owner of Hutch (India) because CGP company owned Hutch India. (वोडाफोन ने इसी तरह से परोक्ष रूप से भारतीय कंपनी 'हच' को खरीदा था)
- ⇒ Income tax dept demanded capital gains tax → Vodafone went to Supreme Court.
- ⇒ 2012: Vodafone won the case. Indian Supreme Court ruled that presently Indian tax laws do not allow taxation on non-Indian assets traded outside India. (सर्वोच्च न्यायालय ने पाया कि इन स्थितियों में कर माँगना भारतीय कराधान कानूनों के अधिकार क्षेत्र से बाहर हैं।)

⇒ 2012-May: UPA/Congress government amended the Income Tax Act 1961 with retrospective / Ex post facto effect that “even if non-Indian assets (e.g. Shares of Cayman Company) traded among Non-Indians (Netherlands and Hongkong walli companies), but IF the underlying value is derived from Indian asset (Hutch) then then we can tax it.” (2012 में सरकार ने कानून में संशोधन किया है ताकि 2007 की लेनदेन पर पूर्व प्रभावी/भूतलक्षि रूप से कर/टेक्स माँग सके)



- ⇒ **(Definition)** Respective taxation= It is an act of demanding tax on a transaction that occurred in the past, when such transaction was not taxable. e.g. in 2012- demanding tax on 2007's event, even though in 2007 it was not taxable as per law in 2007. (पूर्वप्रभावी/भूतलक्षि कराधान यानी की कोई ऐसी भूतकाल की लेनदेन पर कर माँगना, जिसपर उस भूतकाल में कानून रूपसे कर नहीं लगता था)
- ⇒ Then Govt issued fresh notices against Vodafone “now any transactions that occurred after 1962 are also taxable. So you pay tax + penalties“
- ⇒ Separately, India had signed an investment treaty with Netherlands. Such investment treaties allow the aggrieved investor to complain in the specialised international tribunals at Singapore, Netherlands, etc So, Vodafone (its Netherlands subsidiary company) filed case against Indian Government in Netherlands. (द्विपक्षीय निवेश समझौतों के अंतर्गत यदि विदेशी निवेशक भारत ने नाराज़ है तो वो निवेशक



विदेश में उसके बारे में केस कर सकता है। वोडाफोन कंपनी ने भारत के स्थिलाफ़ नीदरलैंड में केस दायर किया।)

⇒ The then Gujarat chief Minister had Modi called it “Congress/UPA’s Tax Terrorism on Companies” (उस समय के गुजरात मुख्यमंत्री मोदी ने इसे कांग्रेस सरकार का कर-आतंकवाद बताया था)

24.5.1 (Q : ज़िसमें विदेशी कंपनी को भारतीय सरकार द्वारा दायर किया गया है) Retrospective Tax: Cairn Energy

Cairn Energy Company’s case is also similar to Vodafone Hutch case. Income tax dept was demanding Capital Gains Tax. Cairn complained to Netherland Arbitration Court under the provisions of India Britain bilateral investment Treaty. (Such treaties allow the aggrieved investor to complain in the specialised international tribunals at Singapore, Netherland, etc.)

- ⇒ 2020-21: Netherland Arbitration Court had ordered Indian govt to pay \$1.2 billion to Cairn Energy for tax harassment. (नीदरलैंड की कोर्ट ने भारत सरकार पर एक बिलियन डॉलर से ज़्यादा का जुर्माना डाला)
- ⇒ To recover this \$1.2 billion compensation, Cairn company was trying to seize Indian Govt's assets in foreign countries e.g. Air India planes parked on USA Airport, Indian Govt's embassy office/properties in Paris etc. (कंपनी मुआवजे की वसूली के लिए भारत सरकार की विदेशों में स्थित संपत्तियों पर कब्ज़ा/नीलामी चाहती है)
- 2021-Aug: FinMin introduced a Taxation Laws (Amendment) Bill, 2021 to end retrospective tax rule-(वित्त मंत्रालय का कराधान कानून संशोधन अधिनियम २०२१- जिसमें पूर्वप्रभावी/भूतलक्षी कराधान को रद्द किया)
 - “If indirect transfer of Indian assets occurred before May 28, 2012, then Indian government will not demand taxes on it. (2012 से पहले हुए इस प्रकार के लेन देन पर कोई भूतलक्षी कराधान नहीं माँगा जाएगा।)
 - however it requires that company need to drop the cases against Indian tax authorities, filed in the Indian and foreign courts. (हालाँकि इस रियायत में शर्त ये है, कि कंपनी ने भारतीय सरकार के स्थिलाफ़ जो जो मुकदमे भारतीय और विदेशी अदालतों में दायर किए हैं, उन्हें वापस लेना होगा।)
- ⇒ 2021-Sept: Cairn agrees to drop cases filed against India in France, Netherland, USA etc. And government of India agreed to drop the (retrospective) tax demand against Cairn. Vodafone also planning to do similar. (उन विदेशी कंपनीयों ने भारत सरकार के स्थिलाफ़ विदेशी अदालतों में दर्ज किए केसों को वापस लिया)

Q ? Which one of the following situations best reflects “Indirect Transfers” often talked about in media recently with reference to India ? (Prelims-2022)

- (a) An Indian company investing in a foreign enterprise and paying taxes to the foreign country on the profits arising out of its investment
- (b) A foreign company investing in India and paying taxes to the country of its base on the profits arising out of its investment
- (c) An Indian company purchases tangible assets in a foreign country and sells such assets after their value increases and transfers the proceeds to India
- (d) A foreign company transfers shares and such shares derive their substantial value from assets located in India



24.6 🌐 🤝 🌎 : 🕵️ GLOBAL MINIMUM TAX (वैश्विक न्यूनतम कर)



- ⇒ (Introduction: Origin) Tax Haven/Low Tax nations such as Luxembourg (Corporation Tax: 1.39%), British Virgin Island 0.07%, Cayman Islands 0.2 %. These countries are geographically small, & without a viable economy. So they offer such a mechanism to attract foreign investors and foreign tourists. (कर स्वर्ग ऐसे देश हैं जहां पर प्रत्यक्ष करों की दर बहुत कम होती है ताकि विदेशी निवेश और विदेशी पर्यटकों को आकर्षित किया जा सके)
- ⇒ Multinational corporations register their company here to transfer their profits/avoid paying taxes to normal countries where they are operating. India is losing annually \$100 cr, while USA is loosing annually \$500 cr by this. (बहुराष्ट्रीय कंपनियां ऐसे कर स्वर्ग की मदद से कर-परिहार/करों को टालती हैं.)
- ⇒ USA: Former President Donald Trump 📉 decreased corporation tax from 35% to 21%. New President Joe Biden aims to 🚀 taxes for Corona-welfare schemes for Americans. Biden also urged G20 group of countries to keep minimum level of Corporation taxes. (Given in next topic)

24.6.1 🌐 🤝 🌎 : 🕵️ Global Minimum Tax: G7 Framework

G7 Summit-2021: The theme is ‘Build Back Better’. **Venue:** Cornwall, England. **Members:** US, UK, France, Germany, Italy, Canada and Japan- with following outcomes:

- ⇒ Companies need to pay in the countries where they do business. (कंपनी जिस देश में धंधा व्यापार कर रही है वहां उसने कर देने होंगे)
- ⇒ G7 framework/agreement for global minimum tax framework of 15%. (बहुराष्ट्रीय कंपनियों पर न्यूनतम 15 प्रतिशत कर/टेक्स)
- ⇒ In the past, countries engaged in a tax-reduction race, to attract FDI investments. This needs to be discouraged. (विदेशी निवेश को आकर्षित करने के चक्कर में अलग अलग देश अपने करों की दरें कम किये जा रहे थे. इस स्पर्धा को रोकना होगा)
- ⇒ Later such treaty may be used for imposing sanction / international lawsuits / armtwist tax havens to increase their taxes. Then it'll become difficult for companies to avoid paying taxes. (भविष्य में इस प्रकार की संधि द्वारा छूट-भैये कर-स्वर्ग देशों पर प्रतिबंध /दंड/अंतरराष्ट्रीय मुकदमे चलाए जाएंगे। ताकि वे भी अपने करों की दरें बढ़ा दें. अंततः बहुराष्ट्रीय कंपनियों के लिए कर-परिहार मुश्किल होगा।)
- ⇒ 2021-Jul: India supported the idea.

24.6.2 🌐 🤝 🌎 : 🕵️ G7-OECD “Two” Pillar Solution for Global Minimum Tax

For implementation of above G7 15% Global Minimum Tax Framework → OECD has given “Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy.”

- Pillar1- Applies to ~100 biggest and most profitable multinational enterprises (MNEs).
 - They need to re-allocates “X%” of their profit to the countries where they sell their goods/services. (So, such govt can count that profit & demand Corporation Tax on it.)



- All member-nations to remove all Digital Services Taxes. (e.g. India will have to remove equalisation levy/google tax. REF: Handout Pillar#2A1- Direct Taxes.)
- Pillar2: Applies to any company with over 750 million EURO annual revenue. They would be subject to an minimum 15% tax (on their profit).

24.7 REFORMS TO REDUCE TAX TERRORISM / HARASSMENT



We learned about the reforms to fight “Tax evasion” → ban on cash transaction of ₹ 2 lakh / >, Operation Clean Money etc. So, on one hand, Income Tax Department has to become strict / coercive to fight against Tax evasion. At the same time, IT dept. also needs to become more friendly towards honest taxpayers, So, following measures taken→ (कर आतंकवाद उत्पीड़न)

24.7.1 Pre-filled online forms for Tax Payers

Income Tax dept extract your financial data from Banks, NBFCs , Stock exchanges, Mutual Funds, EPFO, Employers’ TDS submissions etc. → provides you with a Pre-filled tax returns containing your salary income, capital gains from share/bond, bank interests, etc. (पहले से भरा हुआ फॉर्म आपको दे देगे)

- 1) Income tax payers’ time and energy saved. He’ll not have to consult Chartered Accountant for every small matter on how to fill form.
- 2) Accuracy of reporting income and paying taxes.

24.7.2 Updated Return Form to correct errors- in Budget-2022:

- Sometimes, after filling up the Income tax form, the taxpayers may realize he committed mistakes in reporting his income. So, Budget-2022 announced a new ‘Updated Return Form’ to provide an opportunity to correct such errors, within two years of filling the original details. (कभी कभी करदाता फॉर्म में अपनी आय लिखने में गलतियां करता है। तो दो साल के भीतर वो उसे सुधार कर सके, एसा नया फ़ार्म जारी किया जाएगा)

24.7.3 Faceless interaction between Tax payers and Tax official

Personal interaction between the assessee and Income Tax official = more chances of harassment / bribery. So, Government launched following reforms:

- 1) Cases will be allotted in random **computerized lottery** basis to IT officials without disclosing the name, designation or location of the Officer.

Table 3: कर अधिकारी और करदाता के रूबरु मुलाकात/संपर्क बिना आकलन और अपील कार्रवाई

Year	Scheme	meaning
2019	Faceless Assessment	- Example, taxpayer/assessee received a notice about discrepancy in his reported income vs TDS submitted by his banker, then at initial

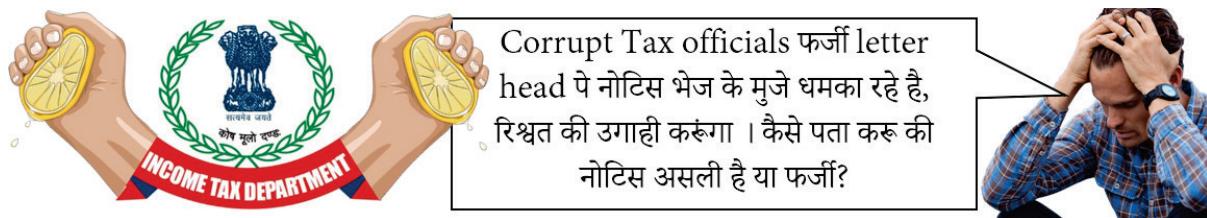


		stage assessee need not visit IT-office, simply give clarification in web-portal. (फेसलेस: बिना प्रत्यक्ष/रूबरु मुलाकात के निर्धारण)
2020	Faceless Appeals Scheme	<ul style="list-style-type: none"> - So, even in appeal stage, assessee need not physically visit IT commissioner / tribunal. It'll be done online. - all Income Tax appeals will be finalised in a faceless manner. Except those related to serious frauds, major tax evasion, sensitive matters, International tax etc. केवल बड़े और संगीन मामलों में ही रूबरु सुनवाई होगी

24.7.4 Time limit on opening of past cases

Outdated for 2023 so deleting.

24.7.5 Document Identification Number (DIN: दस्तावेज पहचान संख्याक)



Whenever Tax official sends letters to taxpayers regarding search authorisation, summons, arrest memo, inspection notices etc. All such documents will have computer generated 'Document Identification Number' (DIN).

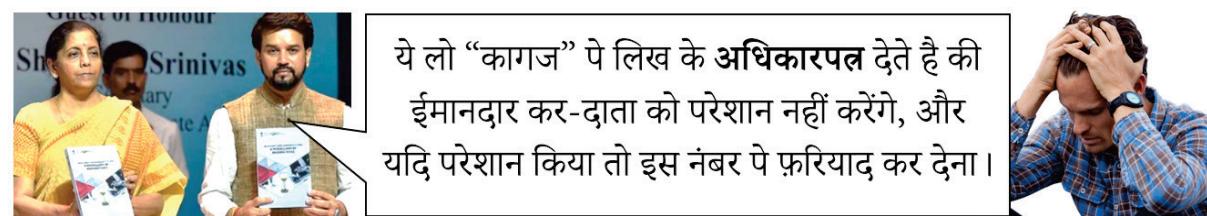
- ✓ 2019: Both Central Board of Direct Taxes (CBDT) and Central Board of Indirect Taxes and Custom (CBIC) started this practice.

DIN system benefits?

- ✓ It'll create a digital directory of communication between tax authorities and taxpayers. Transparency, accountability, efficient and faster clearance of cases, because all the information available at the click of a mouse. (पारदर्शिता, जवाब देही, कार्य दक्षता, केसों का त्वरित निपटान)
- ✓ If a document doesn't have DIN number, it'll be **treated invalid**. Thus, DIN system will prevent the corrupt tax officials from sending **fake notices** to harass/blackmail taxpayers for bribes.

Sidenote: Director Identification Number (DIN): Director of every company is required to obtain this number from the **Ministry of Corporate Affairs** under the provisions of Companies Act. It helps monitoring the company act provisions related to “*1 person can't be director in more than 'x' number of companies*” etc.

24.8 TAXPAYERS' CHARTER IN BUDGET-2020 (करदाताओं का अधिकारपत्र)



A citizens' charter (नागरिक अधिकारपत्र) is a document of commitments made by a government agency to the citizens in respect of the services being provided to them.



- ⇒ e.g Dept of Post's citizen charter reads, "we'll deliver speed post anywhere in India by 4-5 days → ELSE complain online to this website & we'll solve it → if not solved in 90 days then complain to Postmaster General → then to Chief Postmaster General."
- ⇒ Traditionally tax administrations paid limited attention to taxpayer service. पुराने जमाने में/पारंपरिक रूप से कर-अधिकारी "करदाता को अच्छी सेवा देना" अपनी जिम्मेदारी नहीं समझते थे. घमंड और बेस्ट्री से काम करते थे
- ⇒ However, Modern times → demand for better services to the taxpayers → Govts across the world, started framing charters and bill of rights for the taxpayers. हालांकि आधुनिक विश्व में इस प्रकार के अधिकार पत्र और कानून बनाए गए हैं

1986	UK charters for taxpayers (करदाताओं का अधिकार पत्र) → more updated 2009
1991	- 1991: citizen charter system started in UK by PM John Major - 1997: citizen charter introduced in Indian union ministries/departments. (नागरिकों का अधिकार पत्र)
1988	USA Taxpayers' Bill of Rights (करदाताओं के अधिकारों का विधेयक/कानून)
2007	Canadian taxpayers' Bill of Rights
2020	Indian Budget-2020: CBDT will declare a Taxpayers' Charter. So, Tax payer will easily know what services / complaint redressal mechanisms (शिकायत निवारणतंत्र) are available to him= taxpayer's harassment (करदाता का उत्पीड़न)

24.8.1 (Indian) Tax Payers' Charter released in 2020-Aug

It promises following things to taxpayers: करदाताओं को वादा करता है

1. You'll be treated in an impartial, courteous, professional manner. निष्पक्ष, विनम्र और पेशेवर तरीके से व्यवहार
2. You'll be treated/ presumed to be honest, unless there is a reason to believe otherwise. आपको ईमानदार माना जाएगा।
3. We will provide complete and accurate information about rules & complaint mechanism etc a timely fashion. नियम/शिकायत दर्ज कराने सम्बन्धी जानकारी
4. We will collect only correct amount of tax. (केवल सही राशि ली जाएगी। ज़बरन ज्यादा राशि नहीं ली जाएगी।)
5. We will respect your privacy and confidentiality निजता व् गौपनीयता का सम्मान
6. We will hold our officers accountable for their wrongful actions. अधिकारिओं को गलत कार्यों की सजा देंगे
7. You can appoint a representative / tax lawyer to file replies/complaints//cases on your behalf. मामले दर्ज करने के लिए एक प्रतिनिधि / कर वकील नियुक्त कर सकते हैं।
8. We'll reduce cost of compliance (e.g. number of forms to be filled, photocopies to be submitted etc) अनुपालन की लागत कम करेंगे- फ़ालतू में दस्तावेज़ों की दर्जनों कॉपी निकालके फॉर्म के साथ जोड़ने पड़े- ऐसे तमाशे बंद करेंगे.
9. +many other points but we have sufficient content for 250 words

It expects following things from taxpayers: Be honest, Pay taxes in time, Keep accurate records, be informed, respond to notices in time when notices are given. (करदाताओं से निम्न अपेक्षा करता है की वे ईमानदार रहें, समय में करों का भुगतान करें, सटीक रिकॉर्ड रखें, सूचित रहें, समयसर नोटिस का जवाब दें)

24.9 : TAX OMBUDSMAN IN ECONOMIC SURVEY 2021

'Ombud' is a Swedish term and refers to a person who acts as the representative or spokesman of another person. 1809: The institution of Ombudsman was first created in Sweden- to look into citizens grievances (लोकपाल/लोक प्रहरी- नागरिकों की शिकायतों के निवारण के लिए)



Homework: READ about Lokpal and Lokayukta in Polity Book

24.9.1 और Tax ombudsman: Indian experience

2003	Direct Tax Ombudsman In India Started (प्रत्यक्ष करों के लिए कर-लोकप्रहरी/शिकायत निवारण अधिकारी)
2011	Indirect Tax Ombudsman In India Started (अप्रत्यक्ष करों के लिए)
2019	Above posts were abolished (दोनों पदों को समाप्त कर दिया)
2021	Eco Survey recommends to setup tax ombudsman with statutory powers. More in the Mains Handout.

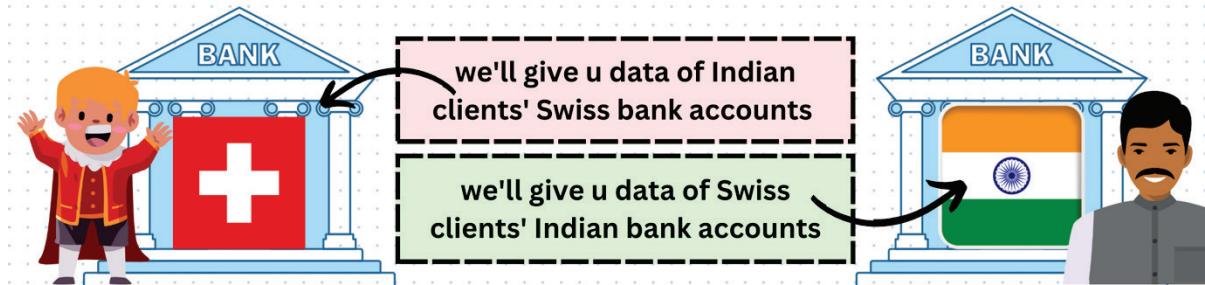
24.9.2 और Reducing Tax Terrorism / Harassment: online portals/Apps

Aaykar Setu	- 2017: CBDT's mobile app for Income Tax, TDS refunds etc.
Ease in paying Customs Duty : Portals/Apps by CBIC	<ol style="list-style-type: none"> 1. Indian Customs Electronic Gateway (ICEGATE) webportal for e-services related to the Customs duty. 2. ICEDASH webportal: public can view daily data on customs clearance at seaports and airports. (launched 2019-Nov) 3. ATITHI mobile app: for international travelers to file the customs declaration in advance (e.g. 'we are leaving or coming with "x" gms of gold/diamonds/electronics etc on which y% customs duty is applicable/exempted'). So, they don't have to waste time at airport queues in filing such declarations. (launched 2019-Nov)
Transparent Taxation - Honouring the Honest पारदर्शी कराधान- ईमानदार का सम्मान करना	<p>2020-Aug: PM Modi launched this webportal/online platform with following components:</p> <ul style="list-style-type: none"> ⇒ Taxpayers' Charter. ⇒ Automated Random/lottery allocation of investigation cases. ⇒ Faceless assessment & Faceless appeal. No requirement of physical interface between taxpayers and the Income Tax department.
Turant Customs	<ul style="list-style-type: none"> ⇒ By Central Board of Indirect Taxes and Customs (CBIC) ⇒ Turant Customs initiatives= Faceless, Paperless, and Contactless Processes / Application Forms, Assessment, Appeal etc for importers and exporters ⇒ It is to be implemented phase wise across India by 2021.



24.10 📈 🌎 💵 TAXATION → GLOBAL TREATIES, AGREEMENTS & INDEXES

24.10.1 📈 🌎 💵 Tax Information Exchange Agreement (TIEA: कर सूचना विनिमय समझौता)



- India has signed such agreements with multiple countries. It enables mutual sharing of information to detect tax avoidance and tax evasion. Example,
- 2019: India has notified a tax information exchange agreement (TIEA) with the Marshall Islands.
- From Indian side- CBDT is the nodal agency for such agreements.

24.10.2 📈 🌎 💵 USA's Foreign Account Tax Compliance Act (FATCA-2010)

विदेशी खाता कर अनुपालन अधिनियम

- USA's FATCA Act requires foreign financial Institutions (such as Indian Banks, Pakistani Insurance Companies, Chinese Mutual Funds etc) to report the assets held by Americans.
- This helps US Tax authorities to detect tax avoidance / evasion by Americans

24.10.3 📈 🌎 📊 Global Financial Secrecy Index (वैश्विक वित्तीय गोपनीयता सूचकांक)

- Prepared by London based Think Tank 'Tax Justice Network (TJN)'.
- It uses 20 indicators to measure the countries on their financial secrecy, opportunities for Tax Avoidance, BEPS etc. 2020 Ranking: 1st rank Cayman Islands>USA> Switzerland,...India (47).
- Its report says India is losing over \$10 billion in taxes each year due to MNC's tax abuse.

24.11 💰 BLACK MONEY → DEMONETISATION (विमुद्रीकरण)



Definition? Demonetization is the wholesale withdrawal of currency notes from circulation. (मुद्रा-चलन में से कुछ खास किसी नोटों को हटा देना)

- RBI Act 1934: Every banknote is a legal tender. However, RBI Central Board can recommend the Government of India to notify specific currency note(s) should no longer be treated as legal tenders. Then FinMin → Department of Economic Affairs makes official gazette notification.



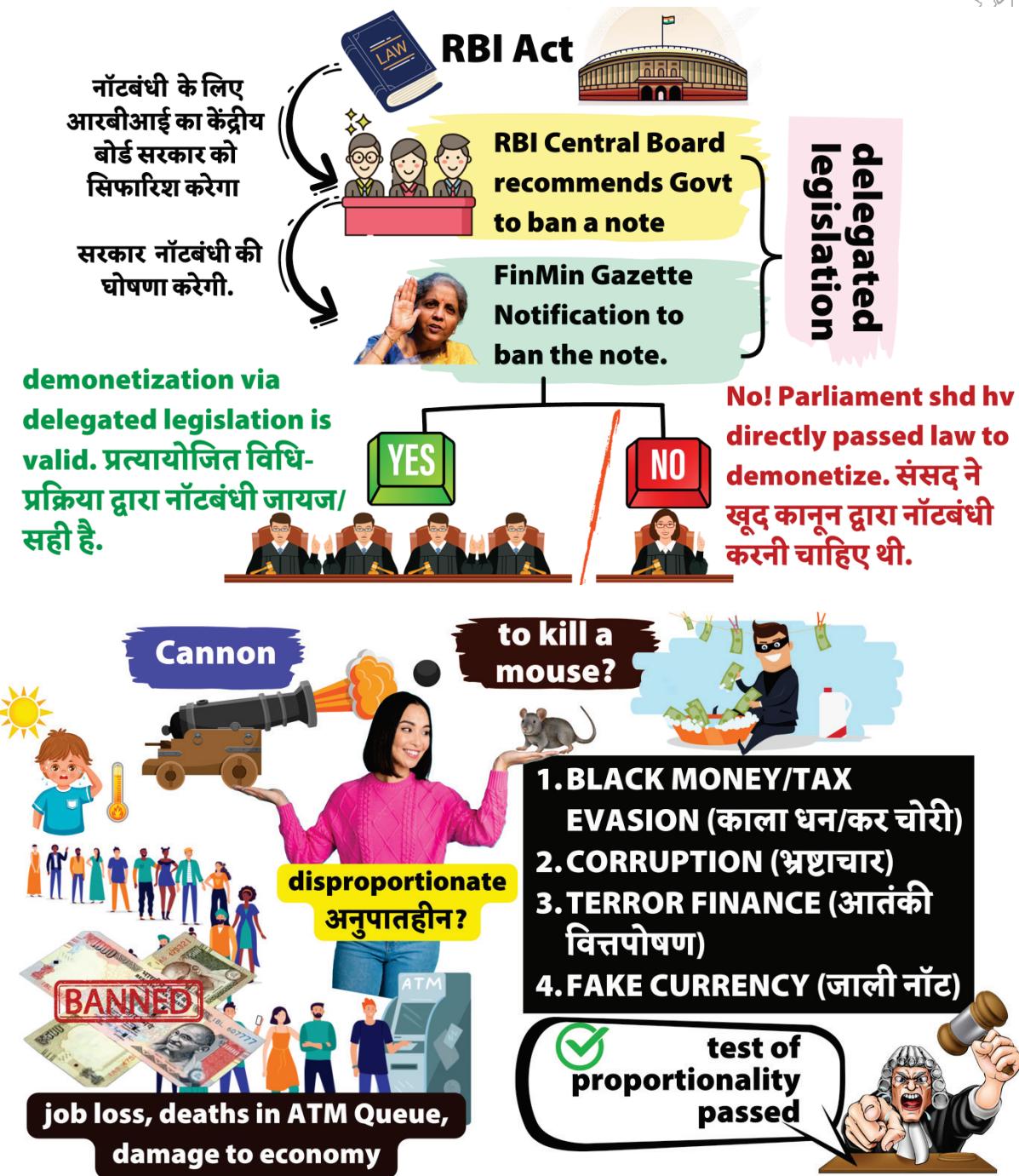
- 1946: ₹ 500 Notes demonetized; 1978: ₹ 1000, ₹ 5000, ₹10000 Notes demonetized.
- **2016-Nov-8th:** Public was ordered to deposit the (old) Mahatma Gandhi series currency notes ₹ 500 and ₹ 1,000 (henceforth called “Specified Bank Notes: SBN”) into Banks and post-offices latest by 30th December 2016. And all the banks and post offices were ordered to deposit such SBN into RBI.
- **Specified Bank Notes (Cessation of Liabilities) Ordinance:**
 - From 31st December 2016, RBI Governor not required to honour “I promise to pay...” or exchange the SBN. Except for NRIs: deadline little bit relaxed, with certain caveats.
 - Public prohibited from keeping SBN, except for research or numismatics or museum-and that too in limited amount. This ordinance became Act in 2017.
- India is not the only country in the world to do demonetisation. Sweden (2013), European Union (2016) and even Pakistan (2015) has done it for their currency notes.

24.11.1 💰 Why Demonetise ₹ 500 & 1000?

- Demonetization is usually done in the aftermath of hyperinflation, war & regime-change.
- India did it to combat Corruption, Black money, Counterfeiting and Terror finance .
भ्रष्टाचार, काला धन, जाली नॉट, आतंक का वित्तपोषण
- We had 12.04% Cash to GDP ratio, one of the highest in the world. Currency printing & transportation cost alone was 1.7% of GDP.
- “Soil rate” is the rate at which notes are considered to be too damaged to use and returned to the RBI. (बिगड़े/फटे हुए नोटों को रिजर्व बैंक में बदलवाना)
- For ₹ 500 & 1000 SBN-notes, soil rate was much lower than the currency notes of ₹ 10 to 100. (implying that 500-1000 SBN were used for ‘storing black money’, rather than in transactions.)
- So, experts made mathematical comparison of the foreign countries’ economic development, soil rates of their foreign currency notes etc. and arrived at a figure ₹ 3 lakh crores of Indian black money is stored in SBN (=2% of GDP).
- So if SBN were demonetised, the black money holders will not return their currency notes into banks (fearing IT-RAIDS) and thus black money will be destroyed. (काला धन स्वयं तबाह हो जाएगा)
- But in reality, ~99.30% of the SBN were returned back into the banking system, so hardly ₹ 10,720 crore of black money was destroyed by the demonetisation of 2016.

24.11.2 🗂️ Demonetisation SC Verdict

- 2016: Congress Leader P Chidambaram and many others had petitioned in SC.
- 2023: Supreme Court upholds Demonetisation In 4:1 Verdict. (सर्वोच्च न्यायालय ने सरकार के के जजों ने विमुद्रीकरण के निर्णय को 4-1 की बहुमति से उचित/योग्य/सही ठहराया है)



24.11.3 Q □ Tax: GDP – why low in India (भारत का कर: जीडीपी अनुपात खराब क्यों है?)

- 1) Lack of civic sense among people that paying taxes is a basic duty. (देश के प्रति कर्तव्य की भावना नहीं)
- 2) Presence of informal sector, parallel economy, cash based economy provides ample opportunities of hiding income. (नगदी आधारित अनौपचारिक अर्थतंत्र)
- 3) Low per capita income, high level of poverty. Concentration of income in the hands of few people- who are greedy to engage in tax evasion & avoidance. (देश की ज्यादातर संपत्ति चुनिंदा लोगों के हाथों में केंद्रित, जो लालच में कर जमा नहीं करते)
- 4) Election funding → source of corruption → black money. Politician-Builders-Mafia nexus.

- 5) Due to political considerations, state govts and local bodies do not levy all the taxes authorised by the constitution e.g. tax on agricultural income. So our (direct) tax base is narrow. [Tax base: कराधार means the total value of all the persons/income/property, etc. on which tax is charged.]
- 6) Loopholes in the tax laws encourage tax avoidance (कर कानूनों में खामियाँ)
- 7) Direct taxes like wealth tax, gift tax and estate duty suffered from loopholes, lax monitoring and evasion. They didn't yield much revenue. Hence even referred as 'paper taxes', and had to be abolished ultimately. (कागजी कर जिनसे वास्तव में नाम माल की आमदनी होती थी)

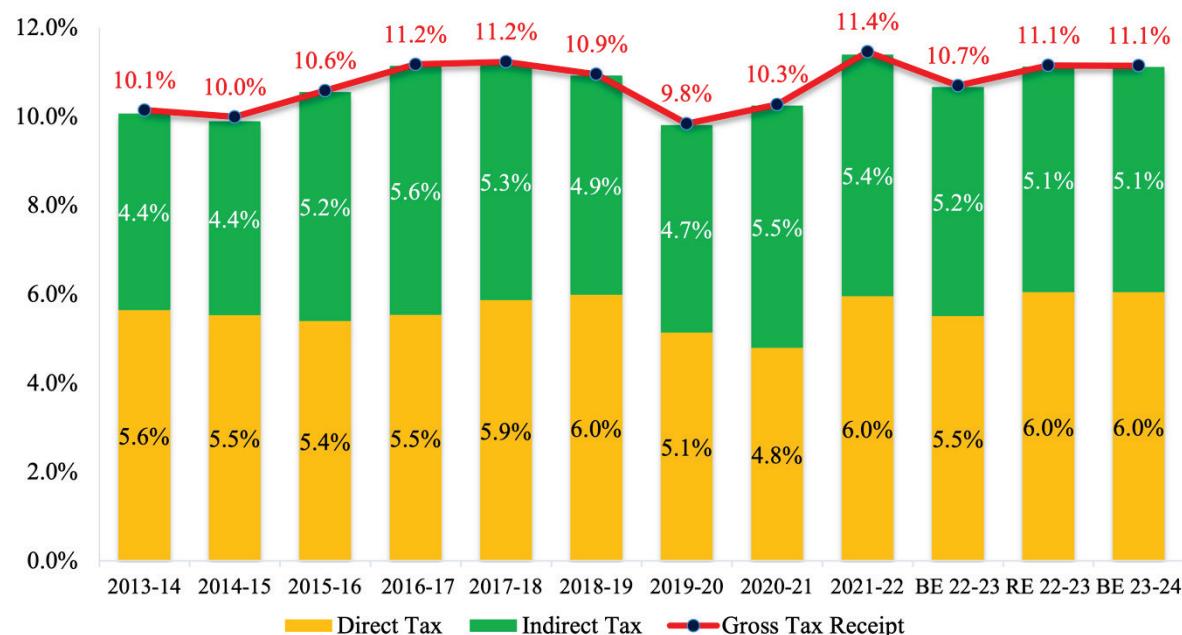
24.11.4 Tax: GDP ES19: "Use Behavioural Economics to improve Tax Compliance"



Shifted to Mains-QEP

? MCQ. Which of the following effects of creation of black money in India has been the main cause of worry to the Govt of India? [काला धन भारत सरकार के लिए चिंता का विषय क्यों है] (Prelims-2021)

- A. Diversion of resources to the purchase of real estate and investment in luxury housing [संसाधनों को आलीशान बंगले खरीदने के लिए मोड़ दिया जाता है]
- B. Investment in unproductive activities and purchase of precious stones, jewellery, gold, etc. [कीमती जवाहरात सोने और गैरउत्पादक प्रवृत्तियों में निवेश होता है]
- C. Large donations to political parties and growth of regionalism [राजनीतिक पक्षों को बड़ा चंदा दिया जाता है और प्रांतवाद की वृद्धि होती है]
- D. Loss of revenue to the State Exchequer due to tax evasion [कर चोरी के चलते राजस्व आमदनी कम होती है]



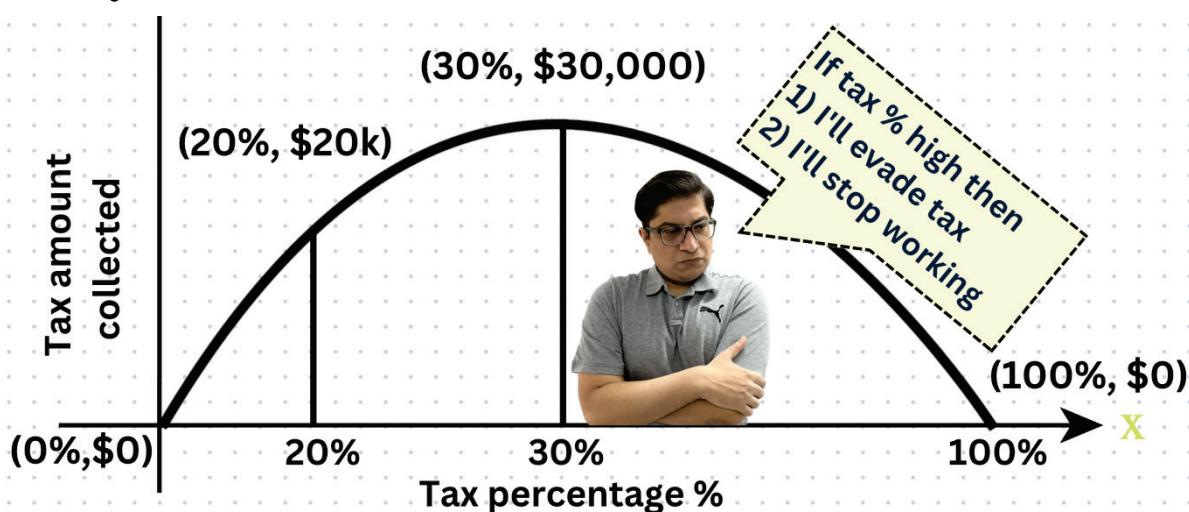


24.12 REVENUE SHORTFALL



Amt in Crores	2019-20	2020-21	2021-22	2022-23	2023-24
Budget Estimate (BE)	1962761	2020926	2217059	2757820	3360858
Revised Estimate (RE)	1684059	2027104	2709315	3043067	WAIT & Watch
Shortfall, if RE<BE	Shortfall of 2.78 Lcr	Surplus	Surplus	Surplus	WAIT & Watch

24.13 TAXATION: MISC. TERMS



Laffer Curve (लफर क्रक्ष):	<ul style="list-style-type: none"> American economist Arthur Laffer: if (direct) tax rates are above a certain level, then tax revenue collection will because higher tax rates discourage people from working and/or encourage them to evade tax. So, tax-cuts could lead to tax revenue collections.
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	<ul style="list-style-type: none"> - Modi Budgets from 2017 onwards: The lowest Income Tax slab was cut from 10% to 5%; The corporation tax on small sized companies was also brought down from 30 % to 25% in a phased manner. - Budget-2020: new optional Income tax slabs. - USA Budget-2017: Corporation tax cut down from 35 % to 15%
Tax elasticity (कर लचिलाता):	<ul style="list-style-type: none"> - If first income tax slab increased from say 5% to 15%, then in absolute terms how much more IT-revenue will be generated?

24.13.1 **Tax buoyancy (कर उत्पादकता):**

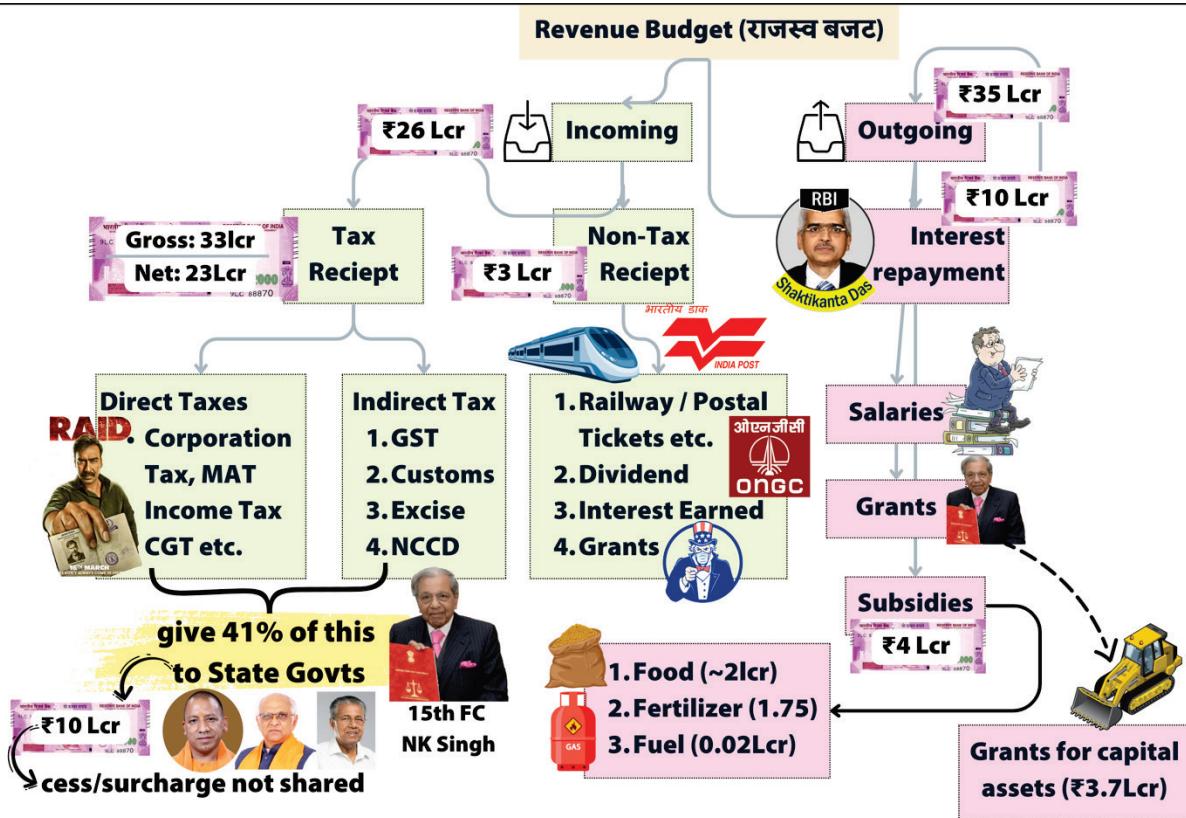
- Tax buoyancy measures the degree to which tax collections increase or decrease in response to changes in GDP.
- If GDP grew by x%, then how much % Income tax collection will grow?
- E.g. if income tax collection growth rate is 11% when GDP growth rate is 10%, then Income Tax's tax buoyancy is 1.1

BUOYANCY	INTERPRETATION	EXAMPLE FROM ES23
> 1	High buoyancy. Mean tax collection will increases at a faster rate than the growth in GDP.	e.g. GST = 1.12
< 1	Low buoyancy.	e.g. pre-GST indirect taxes (VAT, Services Tax etc) = 0.99

24.13.2 **Net Tax Revenue of the Govt (शुद्ध कर राजस्व)**

Sr.	Budget → Revenue Receipts → Tax Receipts (Approx.)	Budget 2023
A	Gross Tax Revenue = Union's Direct and indirect taxes, incl. cess and surcharge	33.60 Lakh Cr
B	Union territories without legislature: their direct and indirect taxes: विधानमंडल रहित संघ राज्य क्षेत्र	8400 cr
C	Gross Tax Revenue (=A+B) सकल कर राजस्व	33.60 Lakh cr
D	Minus the Tax devolution to States (कर हस्तांतरण) as per the Finance Commission	(-) 10 Lakh Cr
E	Minus Contributions to National Disaster Response Fund in Home ministry**	(-) 8700 cr
C-D-E	Net Tax Revenue of Union (शुद्ध कर राजस्व)	23 Lakh Cr

**Public Account → National Disaster Response Fund (राष्ट्रीय आपदा प्रतिक्रिया कोष) is a statutory fund under Disaster Management Act, 2005. Previously, called National Calamity Contingency Fund (NCCF).



Notable components are:

- ⇒ Interest receipts (व्याज प्राप्तियाँ received on Union's loans to states, railways, CPSE, foreign countries.) is a revenue receipt. [Had those borrowers repaid loan-principal, then that portion is 'Capital Receipt'.]
- ⇒ Dividends and profits received from CPSE, PSBs, RBI. [Had Union sold its shares to a third party (disinvestment / privatization) → that's 'Capital Receipt'].]
- ⇒ Union's income from (Dividend & Profits) >> from Interests.
- ⇒ Income from selling various goods & services such as railways, postal services, selling of India Yearbook-, Yojana-Kurukshestra magazines, fees that CISF charges for giving protection to Private Airports, auction of spectrum & mining rights, selling of commemorative coins etc.
- ⇒ Grant in Aid (अनुदान)/ Donations received by Union.
- ⇒ [If Union had received 'loan', it'll be 'Capital Receipt'.]
- ⇒ Similar Non-tax revenue earned by UT without Legislature

25 BUDGET → REVENUE EXPENDITURE (राजस्व खर्च/ व्यय)

- Expenditures spent on day to day functioning of the organs of the state =
 - salaries & pensions, stationery, electricity bill, phone bill etc.
 - in Executive, Judiciary, Legislature, Constitutional & Statutory bodies.
- Expenditures that do not create income generating assets or permanent assets or financial assets.



- Thus, money SPENT on loan-interests, subsidies, scholarships, grants etc. counted here

Notable Revenue Expenditures	
Interest to be paid on previous loans is Revenue Expenditure. [Whereas Union repays loan-principal, its 'Capital Expenditure']	
<ul style="list-style-type: none"> - Finance Commission's Grant-in-Aid (अनुदान) to States & Local Bodies for Disaster Management, Panchayati Raj Development etc. - Grant = Amt doesn't have to be returned with Interest. (Whereas If Govt gave 'loans' to States/CPSE/Foreign Countries then it's an income generating financial asset = counted under Capital Expenditure). 	
Subsidies:	
<ol style="list-style-type: none"> 1. ⚡ Food subsidies 2. ⚡ 🌾 Fertilizer (Urea, Others) 3. 📁 Fuel (LPG, Kerosene) 4. Interest Subsidies on loans: Farmers (highest), MSME, Affordable Housing, LIC Vay Vandana Yojana etc.: 5. Other (Price stabilization fund, Cotton & Jute etc.): 	
⌚ Pension to retired employees (who belong to old pension scheme-walli generation.)	
<ul style="list-style-type: none"> ➤ Economic services related revenue expenditure (Agriculture, energy, transport, communication, Science technology) ➤ Social services' revenue expenditure (health, education, social security): ➤ Expenditure on Administrative machinery (Police, Jail, External Affairs etc.), Elections, Parliament, Judiciary: ➤ 🛡 Defence revenue expenditure (e.g. soldier salaries, fuel for tanks) ➤ Revenue expenditures of UT without Legislature: 	

💡 ? As per the Budget 2019-20, the maximum subsidy expenditure was likely to be on ___ (UPSC-CDS-2020-II) (a) urea subsidy (b) petroleum subsidy (c) food subsidy (d) fertilizer subsidy

25.1 📦 🕒 (⚡ 📁) REVENUE EXPENDITURE → SUBSIDIES

Amt in ₹ crores	2021-2022 वास्तविक Actuals	2022-2023 बजट अनुमान Budget Estimates	2022-2023 संशोधित अनुमान Revised Estimates	2023-2024 बजट अनुमान Budget Estimates	why subsidy bill overcrossed?
Subsidy -					
Fertiliser	153758	105222	225220	175100	1. Russia Ukraine war -> imported inflation
Food	288969	206831	287194	197350	2. State election-5kg free food scheme deadline extended
Petroleum	3423	5813	9171	2257	

Tax	Subsidies



<p><i>Tax is a compulsory contribution imposed by State.</i> Refusal to pay the tax is punishable. कर= राज्य द्वारा लगाया जाने वाला कर एक अनिवार्य योगदान है। करचोरी एक दंडनीय अपराध</p>	<p>A subsidy is a benefit given to an individual or firm by the government to reduce some type of burden. A person may refuse to accept the subsidy, he will not be punished.</p>
<p>Tax doesn't promise specific and direct goods/services to the taxpayer. (Mukesh Ambani's car will still suffer from potholes)</p>	<p>A specific benefit is promised e.g. 6000 to farmers, idli@₹ 1 rupee in Amma Canteen (Tamilnadu).</p>

25.1.1 Types of subsidies with selected examples

1. **Given in direct cash (or bank transfer):** PM KISSAN 6k for farmers, LPG Pahal ~200 per cylinder. नगद में.
2. **Given in kind:** free school bags, uniform and books to the poor children, free medicines in public hospitals, free insurance. मुफ्त वस्तु या सेवा के रूप में
3. **Indirect subsidies (परोक्ष):** cheap fees in government colleges, cheap kerosene, cheap urea, cheap crop insurance premium etc. Here govt. is paying some money to an organization so they may provide goods/services @cheap rate to the beneficiary.
4. **Implicit Subsidies (अंतर्निहित):** Govt suppresses the supply so to the prices to help a sector. E.g. Indian govt banned import of American chicken/poultry/eggs. So, shortage of chicken helps local Indian poultry industry to demand high prices from public. Here Indian poultry receiving 'implicit subsidy' (from public), even though Govt is not paying them money. (More in Pillar#3B -> WTO)
5. **Cross-Subsidization (क्रॉस सहायिकाकरण):** To keep rail travel cheap for the poor people, Railways keeps the passenger tickets lower than its input cost. To compensate this loss, Railways keeps freight (goods transport) prices higher. This is called "Cross subsidization" (More in Pillar#5 Infra → Railways)
6. **Regulatory (नियामक) subsidies:** e.g. if State Electricity Regulatory Commission directs companies that electricity to farmers must NOT to be beyond ₹ "x" per unit.
7. **Procurement (खरीद) subsidies:** e.g. FCI purchasing at food grains from farmers at minimum support price (MSP). (More in Pillar#4A -> AGRO)
8. **Interest (ब्याज) subsidies / subvention:** govt pays "x%" interest on agriculture, MSME, affordable housing loans.

25.1.2 Impact of Subsidies (सब्सिडी का प्रभाव: सकारात्मक एवं नकारात्मक)

- **Merit Goods (लाभदायक वस्तुएँ):** Healthcare, education, scientific research, LPG, solar panels, wind mills etc. Here subsidies can increase the positive externalities. (Cheap LPG → poors don't use firewood → more trees & less indoor pollution.)
- **But subsidies on diesel, kerosene =negative externalities (नकारात्मक बाह्यता) on environment.**



- Urea subsidies to industries → cheap urea to farmers → excessive consumption → soil & water pollution, algae-blooms. (यूरिया उर्वरक का अत्याधिक उपयोग जमीन पानी में प्रदूषण)
- **Subsidy leakage:** When **ghost** beneficiaries (non-existent persons propped up by corrupt officials), and **ineligible** (rich) people are receiving subsidy. (सब्सिडी रिसाव, धांधली और गबन)

25.1.3 Past Economic Surveys on subsidy delivery (आर्थिक सर्वेक्षणों के उपाय)

Shifted to Mains Handout.

25.1.4 National Recruitment Agency (NRA: राष्ट्रीय भर्ती एजेंसी)

- **Present:** multiple recruitment exams conducted by multiple agencies at different points of time throughout the year..
- **Future:** NRA will conduct Common Eligibility Test for recruitment to Non-Gazetted personnel in Government and PSBs. → SSC and IBPS will conduct Mains exams for respective posts → time and cost saved for both candidate and recruiting agencies.
- Budget-2020: we'll set up NRA & open a (computerized) test centre in every district.
- **Self-Study-Topics for GSM2/GSM4:** 1) Lateral entry in IAS. 2) Three years tour of duty in Army. Source? Internet / Current Affairs PDF/Lectures.

25.2 REVENUE EXPENDITURE → SALARIES → 7TH PAY COMMISSION (वेतन आयोग)

Setup by Finmin → Dept of Expenditure. 1st: Srinivasa Varadachariar (1946). 7th: (Retd) Justice AK Mathur (2014). Its recommendations became effective from 1/1/2016. Major highlights were:

- ✓ New system of “**Pay Matrix**” instead of previous system of pay band and grade pay.
- ✓ Regulatory bodies salaries increased: Chairman ₹ 4.50 lakh / month, members ₹ 4l.
- ✓ Minimum pay in Central service increased to ₹ 18k / per month (Group-D).
- ✓ Maximum pay: ₹ 2.25 lakh per month for Apex scale (e.g. Secretary of a Dept.), and ₹ 2.50l (for Cabinet Secretary)
- ✓ It adopted Dr. Aykroyd **formula** to compute wages at periodic interval (formula tracks the changes prices of the commodities used by a common man).
- ✓ So, critiques believe there will not be an 8th Pay Commission because salaries will be updated automatically at regular interval, using this formula.
- ✓ Various reforms for defence and CAPF services. (सशस्त्र सेना /केंद्रीय पुलिस बल के लिए सुधार)
- ✓ stronger rules in **Modified Assured Career Progression (MACP)** system so lazy officials don't get promoted. (आलसी और निकम्मे अफसरों की पदोन्नति को रोका जाए)

25.2.1 Pay Commission: Dearness Allowance (DA: महंगाई भत्ता)

- Dearness Allowance (DA): It is an allowance given by government to (serving/non-Retired) central government employees to protect them against the inflation. (नौकरीशुदा कर्मीयों को)
- Dearness Relief (DR): It is an allowance given by government to RETIRED central government



employees to protect them against the inflation. (निवृत कर्मीओं को)

- In 2020- Union govt had frozen DA&DR because Govt was struggling with money for Corona relief. 2021-July: Govt resumed paying & DA&DR from 17% to 28%. कोरोना-वर्ष में सरकार ने सरकारी कर्मचारियों को महँगाई भत्ता नहीं दिया, क्योंकि सरकार को खुद ही पैसों की क़िललत थी, लेकिन अब वापस शुरू कर रही है.

Pay Commission: Misc. terms

- It's given by an employer to protect the employees against rise in inflation. In government services, both working employees and retired pensioners are given dearness allowance.
- **House Rent Allowance (HRA: मकान किराया भत्ता):** rent allotted by the employer for employee's accommodation (house).
- **Gratuity (ग्रेचुटी):** It's a lump sum amount "x" given by an employer to the employee for rendering services continuously for "y" number of years. Usually given at retirement. Norms governed under Payment of Gratuity Act, 1972
- **One Rank One Pension (OROP):** 2015- Modi govt. promised equal pension to military personnel retiring in the same rank with the same length of service, regardless of the date of retirement. Some, Ex-servicemen unhappy about the base year & calculation formula.

SALARY REFORMS IN ATMANIRBHARAT 2.0 (OCT 2020)

To shopping/market demand during the festival season, FinMin launched two schemes:

Atma-Nirbhar 2.0: Festival Advance Scheme (त्योहारों में एडवांस रकम)

- Govt will give ₹10,000 as interest-free advance to govt employees. Employee need to repay it back in maximum 10 instalments. (किरतों में रकम वापस चुकानी होगी हालाँकि ब्याज नहीं लगेगा.)
- Govt will not give this ₹ in cash form. but in form of a prepaid SBI Rupay Card known as "SBI Utsav Card". This card can be used like a debit card, for making purchases e.g. billpayment, ECommerce websites etc. (Ref: HDT-Pillar#1A1)

Atma-Nirbhar 2.0: LTC Cash Voucher Scheme

Outdated technical topic. Removed from handout

REVENUE DEFICIT & EFFECTIVE REVENUE DEFICIT

Shifted to Pillar2D: Deficit Handout.

NEXT BUDGET → CAPITAL → RECEIPTS & Expenditure

- To be continued.... Next Handouts

- | | |
|---|---|
| 2A) <input checked="" type="checkbox"/> Direct Taxes [<input checked="" type="checkbox"/> 2A2-Indirect Taxes & GST] | 2B) <input checked="" type="checkbox"/> Black Money, 15th FC |
| 2C) <input checked="" type="checkbox"/> Subsidies, Salaries, Revenue Expenditure | 2D) Disinvestment, Deficit, FRBM Act, Fiscal Council, Budgeting-Railway budget, plan-non plan budget, & scheme types etc. |