

READING COMPREHENSIONS_10

Read the passage carefully and answer the questions given below it. Certain words/phrases are given in bold to help you locate them while answering some of the questions.

The first budget of the new administration needed to focus on two key macro problems – a path to fiscal consolidation and a clear signal for structural reforms – to boost the long run growth trajectory of the economy. The budget delivers on both counts.

On the fiscal deficit, the new government has continued from where the previous administration left in laying out a path and a commitment to reducing the deficit to 3% of GDP by FY 17. On the structural reform path, there was a clear focus on boosting labour intensive manufacturing and growth.

The excise duty cuts for food processing and footwear industries, creation of SEZs, single window clearance, tax deductions for investments, reforms to the Apprenticeship Act and Rs.10,000 Crore as venture capital for SMEs were all small steps in that direction. While the fiscal path is admirable, it also may be too aggressive. It may be difficult to get a 20% increase in tax revenues in a year when growth is likely to remain below 6%.

The assumption of service tax revenues growing by 40% may be a tad optimistic. Further, the 3G telecom privatisation proceeds of Rs.45,000Crore also look ambitious. To achieve the government's medium term targets will not be easy. First, we would have preferred a more realistic and gradual approach to consolidation. Taking an extra year to reach the 3% deficit target (i.e. by FY 18 instead of FY 17) might be more realistic, and would not compromise macro stability. Second, there is an urgent need for a return to fiscal rules and the FRBMA Act, with due sanctions, as the Economic Survey argues. Without it, and despite the medium term path laid out in the budget, there may be an incentive to pause on fiscal consolidation, as happened in FY 09 and was witnessed through FY 12. More than 80 countries follow some sort of a fiscal rule and have found them very useful in imposing fiscal discipline.

Third, if consolidation is based on increasing the tax base, then further **erosions** could be avoided. In this regard, the increase in income tax exemption limits further reduces an already small tax base. Only 3% of Indians (35 mn) pay income tax compared with more than 20% of Chinese and over 45% of Americans. The strategy that China followed was to not raise income tax thresholds with rising incomes to increase the base further.

If the government **consistently** raises the threshold limits, it would be difficult to expand the tax base.

Fourth, tax administration could be improved by having an independent revenue service, with its own budget and autonomy in hiring staff. As the government implements its revenue strategy, autonomy and reforms in administration could be potentially very helpful.

Fifth, a road map for reducing subsidies, particularly the large fertiliser subsidy, can give greater **credence** to the consolidation path.

The budget marks a very good beginning in terms of signalling a commitment to fiscal discipline and structural reforms. While the strategy seems to improve GDP growth and, thereby, reduce fiscal deficit through revenue **buoyancy**, such a strategy is **fraught** with risks.

We think that to meet the consolidation path requires a clear set of rules, measures to broaden the tax system and a road map to reduce subsidies. This budget lays out the overall vision.

1. Which of the following statements is not based on the facts mentioned in the given passage?

- a) It will be difficult to get a 20% increase in income tax revenue if the growth remains below 6%.
- b) It will be difficult to achieve government's medium term targets.
- c) The new government has committed to reducing the fiscal deficit to 3% of GDP by FY 17.
- d) Among India, China and America, the highest number of tax payers live in America.

2. What is being done by the government for structural reform?

- a) Special attention was paid on the growth of labour intensive manufacturing.
- b) Excise duty cut for food processing and footwear industries was allowed
- c) SEZs are to be created
- d) All of the above

3. What is/are the prerequisite(s) to meet the consolidation path? Give your answer in the context of the given passage.

- a) More and more people should be brought under the net of income tax.
- b) A blue print should be prepared to reduce subsidies.
- c) An independent, autonomous body with an authority to inspect the functioning of income tax department should be brought into existence.
- d) Only a) and b)

4. Choose the word/group of words which is most similar in meaning to the word/group of words printed in bold as used in the passage.

Erosion

- a) Destruction
- b) Deterioration
- c) Strengthening
- d) Consumption

5. Choose the word/group of words which is most similar in meaning to the word/group of words printed in bold as used in the passage.

Buoyancy

- a) Elasticity
- b) Snap
- c) Rigidity
- d) Resilience

6. Choose the word/group of words which is most similar in meaning to the word/group of words printed in bold as used in the passage.

Fraught

- a) Empty
- b) Devoid
- c) Lack
- d) Abound

7. Choose the word/group of words which is most opposite in meaning of the word/group of words printed in bold as used in the passage.

Consistently

- a) Steadily
- b) Customarily
- c) Never
- d) Congruously

8. Choose the word/group of words which is most opposite in meaning of the word/group of words printed in bold as used in the passage.

Credence

- a) Distrust
- b) Assurance
- c) Belief
- d) Credit

- 1. Option D
- 2. Option D
- 3. Option D
- 4. Option B
- 5. Option D
- 6. Option D
- 7. Option C
- 8. Option A