

## The Vicious Cycle of Annual Budget APRIL 18, 2016

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***"THE multiplication of public offices, increase of expense beyond income, growth and entailment of a public debt are indications soliciting the employment of the pruning knife." - Thomas Jefferson***



**THE** above diagnosis and prescription are very relevant to today's India. Every eleven months, the common man is battered by a volley of fresh taxes, additional taxes, new levies, a variety of cess and surcharges. Our politicians and bureaucrats have successfully proved Winston Churchill's prophecy that *"Power will go to the hands of rascals, rouges, freebooters; all Indian leaders will be of low caliber and men of straw. They will have sweet tongues and silly hearts. They will fight amongst themselves for power and India will be lost in political squabbles. A day would come when even air and water would be taxed in India ."*

Sir Winston Churchill should have been declared a Saint for making such a clairvoyant prophecy!

Every 11 months our Lawyers turned Finance Ministers keep adding to the citizen's woes, levying new taxes and duties in complicated ways that encourage fresh bouts of long drawn litigations. Look at the long drawn Vodafone retrospective tax case. Why are we having a penchant for Lawyers as our Finance Ministers? Continuously, for decades, Lawyers are donning the robes of the Finance Minister. Why can't we have a Finance expert or a Chartered Accountant as our Finance Minister? Lawyers are trained by default to complicate issues, give stimulus to discords, and keep giving new interpretations to make issues complex. Tax disputes are bound to multiply if Lawyers are at the helm of deciding finance matters. A lot of gloss is sought to be added by luring the media into advertising about the "dream budget", rather it should be correctly criticized as "dream crashing budget". Look at the manner in which interest rates have been cut on PPF, KVP, Post Office Monthly Income Scheme, Post Office Fixed Deposit Scheme, and Post Office Savings Account. Paltry savings assiduously nurtured and cultivated by the common man, believing, successive Pied Piper playing Finance Ministers, for decades, ended in being rudely shocked and deceived. The inexorable feeling of millions of ordinary people is one of betrayal. But, who cares for their watery tears? State governments are busy fighting their internecine water wars, while the Central government is busy collecting taxes on the booming water business, as also municipal corporations, panchayats and innumerable Metro Authorities! What better way to fulfill Churchill's prophecy?

Air is waiting to be taxed, the last limb of Churchill's prophecy. Our heavily polluted and messy cities will soon need Oxygen Bars, and then some Lawyer turned Finance Minister can impose a new levy and ensure complete compliance with Churchill's prophecy!

The tax bureaucracy itself is headed by a generalist IAS officer, with zero experience of either Direct or Indirect taxes. If targets are achieved, he gloats about his performance, and if not achieved, he rants against the respective Boards, as done recently. What we need is a Finance expert to be the Revenue Secretary and Finance Secretary. In U.S.A. the Joint Committee on Taxation comprises a team of Ph.D Economists, Accountants and Attorneys. They have statutorily prescribed duties, whereas the Revenue Secretary in India has no such obligation. No wonder that the Tax Administration Reform Commission (TARC) had recommended for the abolition of the post of Revenue Secretary itself! Yet nothing has been done till date to remedy matters.

The Direct & Indirect Tax Boards are manned by officers from the Indian Revenue Service, propelled into the Board, if they have age to fuel their journey into that final port of call. Only age and seniority counts, merit has no role whatsoever. Further, IRS officers are tax collectors; they do not have experience or expertise in tax policy and planning. Hence every 11 months these officers are on a wild goose chase trying to identify what fresh levy to impose? The new levy on gold and diamond jewelers of 1% excise duty is a clear example of inadequate tax planning. The government later clarifies that there shall be no visit by Excise officers, VAT and BIS documents will be accepted. **Can anybody prevent the visits by Excise officers who have to carry out their statutory duties? Have such circulars which stipulate against the Act any legal force?** If such Circulars are enforced then in the near future CAG will come out with startling disclosures of astronomical sums of tax evaded, a scam would be unearthed, by way of follow up, CBI will raid all and sundry, charge sheet officers with conspiracy and abetment in tax evasion. This has been happening and continues to happen. The plot remains the same, only the stuff and actors change! Tax policy needs to be carefully chalked out and industry taken into confidence. Advertisements by the tax department proclaims that trade & industry are partners in development. If this be true, then why so much secrecy? The entire budgetary process is shrouded in total secrecy. In this age of transparency, is such secrecy needed? Why can't we have open debates and take an informed decision? Nobody is going to evade taxes and run away from the country. We need to be pragmatic.

In addition to the budgetary woes, tax on petroleum products constitutes an area of concern. No doubt, this is related to the international market and its vagaries but ever since we deregulated prices of fuels, there has been a surge in food prices and household consumption items. Oil pricing is another complicated and secretive exercise, involving depreciation of the Rupee, burgeoning fiscal deficit, trade deficit, profiteering concerns of oil companies, and involvement of different Ministries, all have joined together to engineer an artificially deregulated market. When crude prices go up, government attributes it to the deregulated market and when the price decreases, the government increases excise duties to rake in more revenue. The central and state government taxes and duties levied on fuel prices are abnormally high, thereby impacting the entire economy.

Universally, all governments are struggling to make both ends meet. In many European countries and U.S.A. government spending is very limited and frugal. A visit to the government establishments there reveals that government expenditure is bare minimum, whereas in India, profligacy is apparent. By pruning government expenditure, substantial funds can be made available for development purposes. The astronomical hundreds of crores that the government recklessly spends on just transferring its employees every year, as well as throughout the year is simply mind boggling. It could constitute a world record by itself, deserving a place in the Guinness Book of World Records, as "the single most wasteful expenditure by any government anywhere in the world"! Compute transfer travel expenses for family, expenses for shifting personal effects, lump sum grant or disturbance allowance, it all works out in lakhs of rupees just for one officer! Annual transfers that are taking place ranges from several thousands to over a lakh, if all the Central government employees are taken together, including the Defense forces and Central Police Organizations. The precious taxpayer's money that is being squandered on just transfers alone can fund several welfare schemes. There will be no need to impose any cess like Swachh Bharat cess. The post-transfer expenses incurred like joining time, dislocation in work, and if legally challenged, then additional expenses incurred towards legal charges for CAT/HC/SC will all add up to astronomical amounts. **Readers will be surprised to know that even in a big country like U.S.A. there is no such concept as transfer of government employees. You work where you join, till the end, if you want to move elsewhere, if there is a vacancy there, you can try, and move to that place at your own cost! Government pays nothing**. Visualize the enormous savings. I encourage readers to file RTI applications to ascertain the phenomenal cost

incurred in transferring government employees, at least for the financial year 2015-16. To furnish that information itself would be an uphill task, but it can fuel a healthy debate about our sheer wantonness and reckless spending. If the U.S. government can function without transfers I fail to see why we cannot? If similar exercises are done in respect of expenditure incurred on foreign training programs, domestic training programs, foreign medical expenses (available to IAS, IPS, MP's, Judges and their families), Leave Travel Concession, Home Travel Concession, then the government will be able to identify and tax payer's can demand which segment to prune down.

Another example of government profligacy is in the field of education. I was recently invited by a Central University for a talk. The University was in a remote location, it appeared to be more like a government school than an University, lots of employees lazing around and chatting, a whole lot of disinterested students, and a Vice Chancellor comfortably ensconced in an air conditioned room, and, his red beacon adorning luxury car, glamorously parked in the portico! A gentleman was remarking that this is the reason why we find disturbances only in government run universities and institutes, because everything is free, free education, free hostel, and free food, results do not matter. There is zero value for these freebies. But, ultimately, it is all the poor taxpayer's blood, sweat and tears.