

## **Budget 2006: status quo on the paternal government**

*Giving and taking back tax exemptions continues*

**Parth J Shah, The Financial Express, 3 March 2006**

A budget is an exercise in revenue collection and expenditure. On the former, the best news from Budget was uniform national value added tax (Vat) for goods and services (GST) by April 1, 2010. Therein lies the most efficient way to collect revenues.

I would say all other taxes should be abolished and all the necessary revenue raised through GST after 2010. Yes, no income tax, nothing, only GST! Basic economics tells us that taxing consumption is better than taxing income. Compared to income, consumption is easy to measure, more transparent and difficult to hide. A consumption tax favours earning more and saving more, thereby providing the building blocks for economic growth.

Moving away from income tax bypasses the problems of whose income to tax and whose to exclude, and at what tax rate to apply at which level of income. The question of whether to tax incomes of an agriculturalist, pensioner, widow or freedom fighter does not arise. All are free to earn as much as they choose.

The goal of a tax system should be just one: collect revenues in the least costly and intrusive manner, with minimum economic distortions and deadweight losses. The rules should not be used to pick and choose good firms or industries, or worthy income earners or do any social engineering. It should get the revenues it wants in the most efficient manner.

A national GST is the best system. It is also self-enforcing — to claim a rebate on the tax paid at the previous level of production (intermediary good), you must disclose the value you added and pay the tax on it. In the past year, all the states that had introduced Vat found treasuries overflowing, without much complaint from tax payers.

Unfortunately, no such grand vision can be deciphered on expenditure. The finance minister seems most happy to announce increases in spending and giving and taking away exemptions in tariffs and taxes. The government still judges its commitment to growth and equity by the size of outlays than by the success of outcomes.

The education and rural health sector receive one of the highest increases. But all this money is spent in expanding largely the existing schemes and programs. Last year, the finance minister had recommended food vouchers; he should have built on that idea and suggested education vouchers and health and occupational accident vouchers. These are more efficient, effective and humane ways to deliver social services, that also allow the consumer choice and create competition among providers.

In doling out these oodles of money, law and order never seems to get any priority. A market economy cannot function properly without protection of life and property, enforcement of contracts and swift punishment for negligence. The police, crime investigation and prosecution, and the judiciary should be the first focus in creating a vibrant investment climate.

Despite the commitment to uniform rules, the old habit of giving and taking back exemptions for taxes and tariffs continues. It does not seem as insidious as granting or denying licences was during the license-permit days, but it is the same process. The state favours certain sectors/industries, a softer version of Central planning.