Low-calorie Budget

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Tax Matters/ S.P. Babuta
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THE EUPHORIA is over and indubitable instrument of the finance bill 2006 is before us on the expected lines. Markets have reacted favorably with sensex going rocket high. Presented in the backdrop of 8.1% growing economy, the budget has many goodies in its kitty. Abolition of 1/6 scheme, no changes in the rates of taxes and no new taxes, enlargement of admissible deductions and rebates u/s 80C and 80CCC, will surely provide much needed respite, though nominal, to the already oppressed fixed income groups.

By extending the benefit of section 80C to fixed deposits of not less than 5 years in banks the Finance Minister has appreciated that savings are not only for the benefit of the individual but form the bedrock of a nation's long-term investment policy.

Service tax has been increased from 10 to 12%. In my opinion the rate should not have been increased but an attempt should be made to spread the tentacles of the service tax to many untouched fields. Some glaring issues on this front are:

- what stops the FM from applying the act to Advocates and Doctors?
- All services provided by chartered accountants will now be covered by service tax ,how can one explain the same services provided by advocates without charging service tax. It seems to be an oversight, if not , then it is inequitable and harsh on CA's.
- Service tax on ATM amounts to backdoor entry of cash withdrawal tax.

Review of fringe benefit tax introduced last year is a welcome step.

Most important being Fixing of threshold limit of Rs. 100000/- whereby a contribution by an employer to an approved superannuation fund in excess of 100000/- per year per employee will attract FBT.

Abolition of the one-by-six scheme is a welcome step and shows that the Govt has done its homework well. This will reduce unproductive burden on the income tax department and reduce tax blues for the small timers

This Year the FM had money to spend and the main focus has been health and education sectors which is appreciable. The focus on infrastructure development and investments is clear.

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All said and done who is going to monitor the spending and ensure that it is not ill-spent. No new measures have been announced to ensure transparency and accountability and till this is done the Indian taxpayer will always feel that the tax paid is a waste.

There is no denying the fact that the main object of taxation is to collect revenue for the larger public good. Other countries of the world, specially some European ones, have a personal rate of income tax which is much higher than the 30 per cent rate in India. However, the striking difference in the Indian context is the fact that the government provides no social security for the unemployed, the retired, the uneducated or those who are terminally ill. While educational and medical facilities are available in the urban areas, the quality of both falls much below desired standards in rural areas. Our implementation of the various social schemes are so hollow , nontransparent and non visible that the public at large does not want to feel cheated or look foolish by paying the actual taxes when they know that there is no monitoring mechanism that ensures proper utilization of public money, e.g. We pay road tax but how good are our roads?

What to tax?

The Finance Minister should tax luxury consumption, instead of incomes and this can be done by lowering income tax and raising excise and customs duties. That will be both equitous as well as pro-growth

The choice of tax should be made on the three criteria of equity, investment and simplicity.

It makes more sense to impose high duties on cars and chocolates while maintaining them at low levels on match boxes and inexpensive paper used for copy books. Such excise would be equitous. The difference is that this equity would be at the point of consumption, not income. **The rich who earn and consume will pay more taxes, those who earn and invest will pay less**. Would it not be a nation building exercise?