SWARAJYA

(Founded by KHASA SUBBA RAU)

Vol. XXI. No. 6 MADRAS, AUGUST 7, 1976 Price 40 p.

REFORM OF INDIRECT TAXATION

WHILE COMMENTING on the budget for 1975-76, the SWARAJYA dated March 8, 1975, observed: "It is wrong to imagine that excise duties can be increased *ad infinitum* without studying the impact of these duties on consumption patterns, on diversion of trade and the capacity of the goods to bear. With our excise duties now estimated at Rs. 3,500 crores, it will be worthwhile and appropriate to undertake a study of the impact of excise duties on production and consumption". There has been no study of indirect taxes in the country after 1953-54 when the last Taxation Enquiry Commission submitted its report. During this period, the indirect taxes have grown from Rs. 255.33 crores to Rs. 6,414 crores. The appointment of a committee on Indirect Taxes headed by Mr. L. K. Jha, former Governor of the Reserve Bank, announced by the Union Government, is, therefore, widely welcomed by the business community and the public. It also fulfils the assurance given by the Finance Minister in the budget speech on March 15.

It is common knowledge that during the past few years, when the national economy was scourged by galloping inflation, a few major upsets to stable growth were noted. Whether generated by monetary or other factors, inflation led to a tremendous boost in industrial costs, erosion in the savings of the middle classes and poorer sections of the people and operated as a big constraint on exports. In this context, the direct and indirect taxes levied by the Centre, State and local governments added fuel to the fire of soaring costs and prices. Responsible businessmen often suggested that if there was widespread tax evasion and emergence of black money running parallel to regular monetary flows, it was partly due to excessive taxation. Though the spiralling up of prices has been largely controlled, despite recent trends, for over a year now, the problem of stepping up the country's savings and investment still remains. Recessionary conditions in important industries in the country also urgently called for a scrutiny of the cost structure and a revision of the tax element if prices are to be reduced and demand stimulated for facilitating industrial revival. A new look at the growth and the consequences of indirect taxation has thus become necessary if appropriate fiscal policies are to be evolved for a more rapid growth for which the economy is now poised.

Already, during the past three years, the Government had focussed its attention on the impact of direct taxes. The Wanchoo Committee examined many problems connected with the haphazard growth of direct taxation, particularly the relation between the system of taxation and evasion, and made valuable recommendations. Direct tax rates have been considerably softened as a result, and more rational norms are now being adopted for tax collection. The Bhoothalingam Committee had given suggestions for rationalisation and simplification of direct taxes, most of which were implemented. This Committee also examined excise duties and other taxes, suggested an appropriate form of Value Added Tax (VAT) to simplify the wide range of rates and modes of excise levies. But this suggestion has not so far been examined by the Government, presumably because a basic review of indirect taxation, with reference to the present day conditions and immediate needs, had to be done first to evolve an integrated approach, which alone could subserve the needs of planning. While direct taxes were examined and improved upon several times in recent years, a similar attempt was not made in respect of indirect taxes. The Jha Committee is expected to undertake this task and report within a year.

A thorough revamping of indirect taxes will be possible only if it is studied in depth in relation to their economic, fiscal and administrative implications. The terms of reference for the Committee are, therefore, wide and comprehensive. The Committee is called upon to conduct a review of the existing structure of all indirect taxes, examine their role in promoting economic use of resources, their impact on prices and costs, their cumulative effect on various expenditure groups and suggest measures to reshape and widen the tax base and increase the elasticity of the system. In particular, the Committee has been called upon to study the feasibility of adopting some form of Value Added Tax and to suggest appropriate stages at which it should be extended. Another term of reference asks the Committee to lay down guidelines to indicate how far it will be advisable to assist any industry or particular sector of an industry by the grant of concessions in indirect taxes, having due regard to all the normal canons of taxation and the balance of administrative convenience. Besides, a review of the structure and levels of import duties from the point of view of import trade control, protection to indigenous industry and pricing of indigenous products and suggestions for changes, if necessary, has been called for. In addition, the Committee has been entrusted with the task of suggesting such changes in the administrative and organisational set-up and in the Constitution and taxation statutes as may be necessary for implementing the recommendations.

Such wide terms are welcome because the network of indirect taxation today is complicated, lopsided and unscientific. It is estimated that 80% of the tax revenue of the Government comes from indirect taxation, while income-tax and property taxes account only for about a small portion of this. The pattern of commodity taxation has grown through *ad hoc* imposts to such an extent that about three-fourths of the excise receipts is drawn from a few items like tea, coffee, sugar, tobacco, matches, kerosene, etc., which are essential for the common man. How far such anomalies could be removed, keeping in view the requirements of public revenue and accepted canons of taxation, will be an important task to which the Jha Committee will address itself. The sales tax, with its cumbersome structure and variations in rates between State and State, has become a source of friction between regional authorities, besides operating as an irritant and a road-block to the development of industry and trade. If the Committee could suggest an appropriate system of sales tax, preferably levied at uniform rates throughout th country, it will be adding a powe ful fillip to freer trade.

As regards the question rela ing to Value Added Tax, th Committee will have to stud whether, under Indian condition it will be useful as a substitut for direct taxes or can replac excise duties and sales tax. Seve ral surveys and studies have t be initiated to examine, statistic ally and otherwise, the suitabilit of VAT under Indian condition The advantage of VAT is that no only goods but services could be taxed, but it involves complicate schedules too sophisticated for th ordinary small trade or busines in our country. Theoretical advant ages should not be allowed t outweigh practical difficulties re levant to each country. It is hope that the team of experts workin with such an experienced adminis trator like Mr. L. K. Jha will finis their labours soon and give a appropriate lead to evolve a rea listic tax system.

—R. Venkataraman (31-7-76)

CLOUDY WEATHER FOR GOLD?

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For about 45 years now, gold has been very much in the news. Monetary authorities have wanted to acquire gold and later in the grapes are sour fashion tried to discard it gradually. Efforts were made to peg its monetary price artificially, for far too long, but then the market forces asserted themselves, to the point that notwithstanding earnest efforts to delink the international currency system from gold and turn to 'paper gold' (Special Drawing Rights), the price of gold shot up to $200 an ounce, as compared to the unchanged official price of $35 till 1972, that is for about 38 years. But, in recent months, there has been a sharp decline, the present price being a little above $100. This appears to be a delayed effect of the dramatic turn of events in the international monetary scene in the last 4-5 years. It will be interesting to narrate these developments briefly and discuss the future of gold as a commodity. The conclusion may well be that gold will continue to glitter as a commodity, with official monetary authorities and private citizens still eagerly clinging on to their gold holdings.

Non-Monetary absorption of the Yellow metal

A peculiar aspect of gold is that both its production and official holdings are concentrated in a few countries. Throughout, South Africa has accounted for the bulk of the production and the U.S.A. has been the biggest holder of gold, though its share has been declining steadily in the last 15-20 years, as a result of a prolonged deficit in its balance of payments. As far as newly mined gold is concerned, South Africa and the Soviet Union are the main suppliers. The decline in gold production, outside the communist countries, that occurred during the Second World War, was made good in the sixties, and until 1965, there was a steady increase. There after, production was practicall constant. Even Russian sales o gold were meagre. However, ther was a steady increase in the non monetary absorption of gold fo jewellery, dentistry, industria uses and finally hoarding.

As the official price of gol fixed at $35 an ounce continue unchanged from January, 1934 the efforts of the Internationa Monetary Fund (IMF) to divert gold for monetary purposes wa unsuccessful. So long as th U.S.A. had a balance of payments surplus, and there was a Dolla shortage, it was in the interests of the U.S.A. to keep the price unaltered at $35 per ounce, a she could obtain larger quantities of gold for her Dollars. But even when she moved into the red, i the early fifties, she did not resil from her earlier stand. The price of gold became a prestige issue. By raising the price of gold, the Soviet bloc would stand to gain. Further, South Africa (a countr condemned by the United Nation for its policy of racial discrimina tion) then accounted for 75 pe