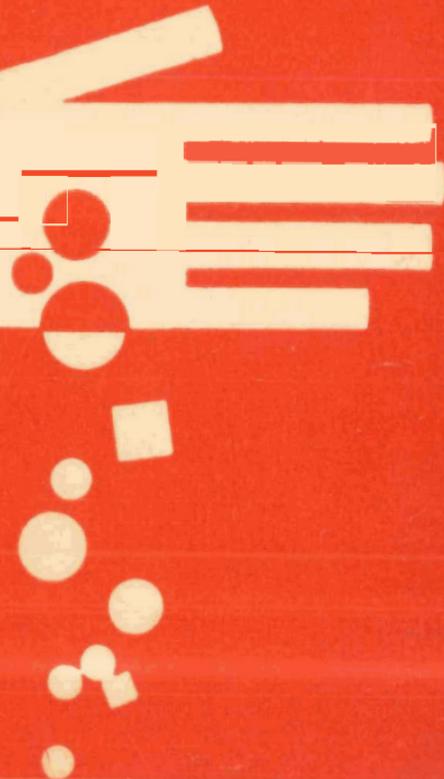


# Expenditure Tax



THE proposal in the recent Budget for a tax on expenditure is novel. It is no less dangerous on that account. For the first time in the history of the world, a risky experiment with an explosive tax measure will have been made if Expenditure Tax is implemented in India.

Why should Expenditure Tax be compared to explosives, it may be asked. Does not the Statement of Objectives and Reasons in the Expenditure Tax Bill state that Expenditure Tax "is consistent with the avowed goal of the attainment of a socialistic pattern of society?" This is a very impressive statement. This is likely to appeal to our emotions and make us blindly accept Expenditure Tax as just and

necessary. A statement which depends on emotion to carry conviction needs to be closely examined. The dangers contained in Expenditure Tax are so great to future of Democracy and general welfare of the country that a careful analysis of the tax should be made.

Expenditure Tax has not been tried anywhere else in the world. This novel tax was proposed by Prof. Nicholas Kaldor of Cambridge University. The Expenditure Tax Bill introduced in our Parliament proposes that any person having an income of over Rs. 60,000 a year be made to pay this tax. The individual's family is taken as the unit for purposes of taxation. Expenditure up to Rs. 24,000 for the individual and his wife and an allowance of Rs. 5,000 for each dependent child is allowed. Any expenditure over and above this will be taxed at the rate of 10% for the first Rs. 10,000, 20% for expenditure between Rs. 10,000 and Rs. 20,000, 40% for expenditure between Rs. 20,000 and Rs. 40,000,

80% for expenditure between Rs. 40,000 and Rs. 50,000 and 100% for expenditure above Rs. 50,000. That means an individual who spends Rs. 50,000 over the exempted limit will have to pay Re. 1 to the State for every rupee spent !

Certain exemptions are granted. For instance, expense for business purposes is not taxed.

Tempting arguments are put forth in support of Expenditure Tax. It is said that Expenditure Tax is superior to income-tax, because it is "a tax based on actual spending" and, therefore, "rates each individual's capacity (to pay taxes) according to the yardstick which he applies to himself". Anyone who maintains a family and keeps a diary of his expenses can immediately know that this argument is based on anything but the real conditions as obtain in the world. Social customs,

sickness and other contingencies of life influence a man's expenditure more than anything else. Therefore, the "yardstick" referred to by Prof. Kaldor is one whose length is determined more by circumstances than the will of the individual. While tax on income may be defective in a few respects, it is a reliable tax in that experience of all nations have proved its fairness.

Another argument in support of Expenditure Tax is that it promotes savings. Why not discourage expenditure and promote savings so that they may be channelled into productive industrial enterprises, it is further argued. Such an argument utterly ignores the realities of life. If there is the proper climate for investment, which any Government can easily create, people are more likely to save and invest than spend their money. If the proper conditions for industrial develop-

ment do not exist, then even forced savings cannot be directed towards development of industries.

Prof. Kaldor himself is neither clear nor convincing on the subject of Expenditure Tax. He failed to carry any weight with the British Royal Commission on the Taxation of Profits and Income. If even a Labour Party Government in the U.K. considered Prof. Kaldor's proposals as not desirable, the practical worth of any such proposals can easily be guessed.

Even if we charitably ignore the impractical nature of Expenditure Tax, the evils arising in the implementation of this tax cannot be overlooked in the true interests of our country.

To implement the tax, the Government will have to take upon itself immense powers to pry into any aspect of an individual's life. He

cannot spend a single rupee without fear of being flooded with questions one day by some Officer about the expenses. The discretionary powers given to the Tax Officers are so great, that filing of tax returns is likely to be the twentieth century version of the Inquisition. To avoid this trouble, even honest people will be driven to dishonest ways. Ingenious people will find out ways and means either of avoiding or minimising their burden. Officers will easily succumb to the temptation of demanding bribes, when such an immense opportunity is before them.

Apart from the climate of **Police Raj** which is introduced in the country, individuals will be put to great hardship. Many of the wealthy people today support a large number of relatives and dependents whom they will be obliged to turn away. The State does not take any responsibility for the maintenance of these persons. So in theoretically benefit-

ing the country, in practice great suffering and misery will be brought upon a large number of people.

The question arises, therefore, why inflict Expenditure Tax on the country if it is so dangerous as all that. After all, what is the purpose of a Welfare State? The Welfare State aims to provide the individual both liberty and security. To enjoy that liberty, one must be free to spend how he likes. Otherwise the meaning of Welfare State is lost.

While our country is aiming to march towards the goal of a Welfare State, to introduce measures like Expenditure Tax will be like injecting a deadly poison into the roots of a growing tree. Today merely 4,500 individuals may be affected by this tax. But it is not a question of numbers. Slowly the numbers affected will increase to include people

in the lower income group also. Corruption will increase in the country. The dangers to liberty of a few individuals will magnify into dangers of liberty of all individuals.

Expenditure Tax will lead the country away from **Swaraj** to **Police Raj**.

# Forum of Free Enterprise

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