**Minimum taxes, tight control over expenditure, and ensuring sound money**

Swarna Bharat Party’s fiscal and monetary policies

*These policies should be seen in the context of the broader reform agenda outlined in* [*SBP’s manifesto*](http://swarnabharat.in/)*. Free markets require strong and effective governance. Without governance reforms detailed in the manifesto, that will build capacity and honesty in the government machine, the policies detailed below will not deliver the expected results.*

We need to get the government’s finances in order so that essential expenditures are met while waste is eliminated. The prosperity of Indians depends on good policies (outlined in detail in this manifesto) including sound financial management that produces low taxation, low inflation and a level of debt consistent with the economic well-being of future generations. This will create incentives for the people to produce, leading to high employment and prosperity.

## Balanced budget and low debt

Many political parties believe that the answer to every ‘problem’ is more government spending and more subsidies. Populist Indian governments have been spending well beyond their means, with much of that money siphoned off. As a result the rupee has dramatically eroded in value since independence, and our children face a huge debt burden at over 50 per cent of the GDP.

We believe that principles of private prudence should apply also to the government. Sound fiscal management involves a balanced budget and sustainable surplus over the medium-term. We do not abjure debt but believe debt should be tapped only where absolutely necessary, and where the returns to the society overwhelmingly exceed the costs.

Despite the significant increase in funding for first order (critical) government functions, we will bring the national debt down to 20 per cent of GDP within the first four years through significant operating surpluses from day one, and balanced budget with low debt in the medium term, by:

* broadening the revenue base;
* restructuring the use of government land and sale of surplus land. Large single or double storeyed government buildings in Delhi and other cities can be easily substituted by multi-storeyed, privately developed buildings, rented out (if necessary) to the government. (Under the reformed administrative system, there will be no ownership of residential property by government, as employees will hire their own homes, like anyone else in the private sector);
* sale of public sector undertakings at market price;
* having private enterprise invest in significant infrastructure; and
* by the end of the third year, all subsidies will be abolished and a highly targeted negative income tax programme operationalised to deal with poverty, thereby reducing wastage while eliminating poverty.

Such steps will also strongly support the rupee.

## Revenue principles

Citizens of a free nation pay for the services they want through taxes. Unfortunately, even here, our excessively complex and ill-designed system has failed us.

### Key principles of taxation

#### Total taxation not to exceed 25 per cent of GDP

Taxes, by their very nature, are coercive and reduce a citizen’s freedom. Only the absolutely lowest level of required taxes should be raised. Taxation should be just enough to allow necessary functions of the state to be performed well. That means funding only services that are essential. Taxation should not fund unnecessary programmes or be used to redistribute income. After poverty has been eliminated and reasonable equal opportunity provided, any other redistribution should be undertaken directly by the people (e.g. through any charitable work).

We will closely monitor the total level of taxation (central, state, local government) and ensure it does not exceed 25 per cent of the GDP. While overall taxation level is approximately at this level today, but it is hugely misdirected and inequitable

While doing so we will enact relevant laws or seek binding intergovernmental agreements on aspects such as limiting state and local taxes and having states abjure tax exemptions for any business, as that leads to a race to the bottom and to crony capitalism.

#### Simple tax system

A tax system should be equitable, simple, transparent, and fair. It should not disincentivise work and innovation. We will rationalise tax codes and rates by eliminating most exemptions. In most cases we will also reduce the marginal rates of taxation. Lower tax rates and simpler tax rules will also help widen the tax base and improve compliance, while reducing corruption.

We will minimize corporate income tax exemptions/ rebates and restrict them mainly for charitable work and some research and development. In addition, however, some activities directly related to the public interest can be exempted.

A special mention should be made here, of commercial crèches and day-care facilities for children (that meet appropriate regulatory standards). Crèches serve many public purposes, including preventing young girls from being pulled out of school to look after their younger siblings and helping to increase women’s workforce participation. We will exempt these entities from paying taxes.

#### Honest disclosure

To ensure the integrity of the tax system we will make disclosure of the Aadhaar number mandatory for issuing a Permanent Account Number (PAN) for those living in India. We will consider the privacy implications of linking the two. However, we believe that all steps need to be taken to minimise tax evasion by those who can afford to pay.

#### A wide tax base: Everyone should chip in

Everyone who can afford should contribute to running the country. Today, less than 3 per cent of our population reports any taxable income. We will focus on opportunities to broaden the tax base. Non-salaried, farm sector and small businesses will be firmly brought under the income tax regime. We will make it mandatory for all citizens to lodge an annual tax return (regardless of the level of income), but the return will be kept very simple. This is also an essential component of the negative tax system (described elsewhere) to eliminate poverty.

#### Engaging private organisations to ensure compliance

We will engage private organisations (under government supervision) to assist the illiterate and the poor in completing income tax details, with (where necessary) photographic records of installed capacity, rolling stock and business or residential area occupied and characteristics, used as proxy for estimating income and made available for scrutiny/ audit.

#### Tax to be on profits and income, not on transactions

As a general principle, tax should be paid on profits or income and not on assets. Transaction taxes are particularly harmful to commerce and we will significantly minimize such taxes.

#### Using the more efficient taxes

The relatively more efficient taxes, i.e. those with least distortionary effects on work incentives and allocation of other factors of production, should be used. The cost of red tape imposed and of administering and collecting a tax should also be counted as part of the loss to society. In general, land tax is one of the more efficient taxes. We will significantly strengthen the land tax system, to be used mainly by the States, union territories and local governments, helping them reduce their dependency on central taxes.

#### No double taxation

Further, there should be no double taxation. Once tax has been paid on an income, that income should not be taxed again. This means, for instance, that we will not have estate duties (which are also harmful for many other reasons).

#### No retrospective taxation

We commit to not introducing retrospective amendments to any tax or law. Retrospective legislation increases litigation and destroys national wealth and happiness. There may be, however, occasion to consider this option in the rarest of cases to correct a major flaw in the tax provisions. In doing so, we will use mechanisms consistent with fairness, and apply grandfathering clauses.

#### Cost recovery and user pay principle

Wherever possible, the direct users/beneficiaries of a government service will be charged a fee based on efficient costs of provision of the service. Where a government service is comparable to a similar service in the private sector, market pricing will be applied. Full cost recovery/ market pricing recovery will be applied in all cases, less any measurable (and publicly disclosed) general community benefit.

#### Tax compliance: Coming down heavily on tax evaders and tax havens

We are committed to the tax laws being strictly complied with. We will significantly boost India’s tax compliance capability, including for the prevention of money laundering. We will treat tax evasion on par with crimes against the person to ensure exemplary punishment. This will include mandatory imprisonment of all large tax evaders including anyone who uses tax havens to hide income. Black money will be declared national property (without any opportunity to pay penal taxes), being confiscated entirely.

##### Indian tax cheats

A large chunk of India’s black money is located within India: stored in the form of property, gold and cash. We will significantly resource the machinery to unearth black money stored in India. Addressing the flawed land transfer system (as explained elsewhere in this document) will reduce some of the land-based black money. We will consider whether integrating Aadhaar and PAN with land and business records (assuming it is feasible) can assist with tax compliance.

In addition, vast quantities of black money are smuggled outside India. Global Financial Integrity reported in 2008 that India has lost nearly $213 billion in illicit capital flight since Independence. Some of this is recycled back into India through money-laundering. Around 40 per cent of FDI in India is routed through Mauritius, a tax haven. We will ensure that no one takes untaxed money out of India through spurious institutional structures and tax havens. We will amend banking secrecy laws to gain accurate information about any Indian black money deposited in foreign tax havens. We will also enter into tax treaties with other nations to ensure that any money deposited abroad by any Indian are transparently disclosed to tax authorities.

##### Foreign tax cheats

Transfer pricing scams by multinationals drain out vast quantities of potential tax revenues from India. Currently, the Income Tax department has no authority to question the ‘certificate of residence’ provided by the other country authorities. No exemption from investigation will be permitted. ‘Tax inversion’ involves a restructuring that shifts the multinational’s legal residence abroad. Generally this involves little or no shift in actual economic activity, but can substantially reduce the company’s tax bill. We will identify and crack down on such strategies. We will also remove protections for investigation under Double Taxation Avoidance Conventions by which investors can set up pseudo companies in havens which have the benefit of zero tax. Such companies avoid paying taxes not only in the tax havens but also in India.

### Income tax

#### Mildly progressive income tax

While in principle each citizen much pay equal taxes as share of costs for public goods, this is not practicable. The equal tax, a poll tax, is inappropriate since it must necessarily be set at the level the poorest are able to pay, making it impossible to either defend the nation or provide essential infrastructure or other services. Hence, taxation in the free society is based on the ability of each citizen to pay.

A low income tax at a flat rate is a relatively efficient tax, with minimal distortion of work incentives. Therefore, we will implement a broadly flat income tax, with a mild level of progressivity. This will yield higher revenues in the long run, and prosperity for all.

To the extent possible, a family will be treated as a single unit. Wherever possible, income tax rates and any deductions will be pegged to inflation, noting that we do not expect significant inflation during the tenure of our government.

#### Standard deduction

We will reintroduce standard deduction that was abolished from April 2005. This will bring a level of equality of treatment of ordinary taxpayers with professionals or businessmen who are entitled to offset their business expenses against income (we will review and reduce any unnecessary offsets and deductions).

### Corporate income tax

Indian businesses face one of the world’s highest corporate income tax rates. This reduces their global competitiveness, encourages them to invest overseas instead of in India, cripples job creation, lowers Indian wages, and fosters tax avoidance. We will reduce the corporate income tax rate significantly, but in a phased manner (while reducing deficits), to keep our corporations competitive.

By the same token, we will ensure that taxes are paid by foreign investors at the point of making a profit in India. This will significantly increase tax collection in India and ensure a level playing field for all businesses in India.

#### Franking dividends

We will introduce franking to prevent double taxation of dividends, since the company issuing the dividend has already paid corporate income tax. The tax payable on the dividends will reduce by an amount equal to the tax imputation.

#### Consideration of a turnover tax

We will consider options to replace corporate income tax by a turnover tax. This would eliminate a significant amount of tax avoidance and gaming of tax rules, simplify the maintenance of books and would be very simple to monitor: companies would be loath to show lower revenues than they have earned, as their market capitalisation could take a hit.

### Minimising regressive indirect taxes

Indirect taxes such as Goods and Services Tax (GST, also called Value Added Tax or VAT), excise, import duties, and sales taxes are regressive. As Engel’s law shows, the share of consumption declines with wealth, thus imposing a greater relative incidence of consumption taxes on the poor. Further, since purchases of education and health are generally exempt from consumption tax, while their consumption rises with income, consumption taxes become a less reliable source of revenues as a society becomes richer. On the other hand, indirect taxes distort consumption and investment decisions relatively less than some other forms of tax. On balance, indirect taxes can form part of a free society’s tax mix.

#### GST/VAT

We will impose a 10 to 15 per cent pan-Indian consumption GST, with modified VAT benefits through the line, so there is no cascading. Unfortunately, political parties have repeatedly delayed introduction of a streamlined pan-India GST. VAT, which replaced state specific sales tax in most states since April 2005, started off on the right note – with an intent to provide for uniform tax rates, an input tax credit mechanism to prevent ‘tax on tax’, and relatively standard processes. However, states have increased VAT rates and blocked or reduced input tax credit (which allows a credit for taxes paid on intra-state purchases), thus hampering pan-India trade. India needs to be a seamless, not fragmented, marketplace.

We will put VAT back on track and complete the work to implement the GST to create a national market by bringing uniformity in tax rates, rules and procedures in different states.

GST will replace the present nightmare of indirect taxes — state sales taxes, central sales tax, excise duty, service tax, entry tax, etc. Since it will tax only the added value at each stage, it will discourage cash transactions as no one wants to lose credit for taxes already paid. Compliance will rise, tax revenues will swell, black market will diminish, and peoples’ morals will improve.

#### Lottery for receipts, to encourage tax compliance

To further reduce any non-reporting of the pan-Indian GST, we will implement a scheme similar to Taiwan’s lottery for receipts. They print lottery numbers on every official receipt, which prompts people to demand official receipts, dramatically increasing tax compliance.

### Other taxes

#### Sin taxes

We will examine opportunities for greater use of ‘sin’ taxes (e.g. on lotteries, races and betting) while ensuring that there are minimal adverse effects of these activities on society. We do not oppose any such activity, so long as it is well-regulated and minimises harm.

#### Review of wealth taxes

We will review existing wealth taxes with a view to making land taxes a primary vehicle for taxing property value windfall gains. Any additional wealth taxes – over and above land taxes – for the extremely wealthy, if considered appropriate and fair for the country, will be carefully considered, while avoiding double taxation and minimising any associated risks of capital flight.

In this regard we wish to specifically reject the socialist idea of *Amiri Rekha* or upper limit on individual wealth or property suggested by some people. Such an idea violates the basic concept of liberty. If wealth is justly received or earned, no restriction or upper limit can be imposed in a free society. The government is obliged, instead, to protect wealth, just as it is obliged to protect any other form of private property. We oppose any form of redistribution.

## Expenditure principles and accountability

A basic method to keep taxes low is to tightly manage expenditures. We stand for thrift in public expenditure. We will treat government spending with the same care and scrutiny with which we treat our personal moneys. A key part of this is to spend only on what is essential and eliminate all unnecessary roles for government.

### World best-practice disclosure principles

We will disclose the finances of governments in great detail, according to world-best standards. In addition, environmental assets will be valued separately to assess sustainability.

### Strict audit of the finances and performance of the government

We will review and strengthen audit systems to give taxpayers an unambiguous indication of how their money is being spent. In particular, we will strengthen performance audit, to verify that outcomes are being achieved.

## Sound money: Abolishing the inflation tax

A sound monetary policy is critical for a strong economy. High inflation caused by reckless increase in money supply reduces the buying power of the rupee and is highly regressive, hurting the poorest the most, but also the middle class and those on fixed incomes. Money should not become a mechanism to transfer wealth from the poor to the rich.

Sound money requires going back to the fundamentals. Money is a medium of exchange, and should not have a direct effect on the real economy. In a free society, citizens are able to determine, through their various experiments, the types of money (medium of exchange) they are willing to use. Such experiments are currently prohibited by governments which have empowered central banks (and governments themselves) to create money at will. We will end this illiberal prohibition on experiments in money, in a phased manner.

We will abolish the inflation tax and liberate the issue of money in three stages.

### Phase 1: Monetary rule for a maximum of 3 per cent inflation

In the first stage we will require the Reserve Bank of India (RBI) to follow a monetary rule that keeps inflation at a maximum of three per cent. In addition, a comprehensive review will be initiated of the need for central banking, and options to privatise money. A relatively minor detail: we will also require the RBI to print currency notes in polymer.

In addition, the rupee will be fully floated, with exchange rate determined by demand and supply. To support this, all constraints on hedging will be eliminated. Before these actions are fully implemented, however, a review of timing and risks involved will be conducted, to recommend the best pathway for reform.

### Phase 2: Monetary rule for maximum 1 per cent inflation

In the second phase, the inflation limit will be reduced to one per cent, even as the findings of the review are considered and a regulatory regime for a competitive market for money developed. We expect such competitive markets in money to be backed with gold, but alternatives will be considered.

### Phase 3: Competitive private currencies backed by gold

In the final stage, we will establish a well-regulated competitive system of money supply. Private citizens/ banks will be able to create money, subject to stringent regulation. Initially, RBI will be one of many competitors but as the system stabilises, money creation powers of the RBI will be phased out.

These measures will ensure stable purchasing power of various competing currencies, as well as interest rates that are determined purely by the market. These steps will lead to optimal production and consumption decisions, leading to further economic growth and prosperity.