

## **Budget 2013: Higher tax should not punish law-abiding citizens, says Yashwant Sinha**

In his role as chairman of the standing committee on finance, former finance minister **Yashwant Sinha** has been involved with key legislative changes in the economy and the financial sector. In a pre-Budget interview, he says that too many taxes are bad for citizens and instead of a higher tax on the super-rich, it's a better idea to widen the tax base.

Similarly, he suggests that finance minister **P Chidambaram** should avoid inheritance tax as it may force several individuals to sell property to pay the tax. Excerpts:

**One of the issues that has attracted a lot of debate is a higher tax on the super-rich. What are your views?**

The tax rates of 10 per cent, 20 per cent and 30 per cent have continued from Chidambaram's 1997 Budget. It became a dream Budget because he reduced the rates. One criticism of direct tax, and **income tax** in particular, is that those who are law abiding end up paying tax and those who are not end up evading tax.

We should do everything in our power to bring evaders to book so that they start paying tax. Any increase in tax or the super-rich tax should not end up punishing the law abiding taxpayer. My fear is if you increase the tax rate and only the tax-paying assessee ends up paying more and those outside the net escape taxes, then there is an incentive to not pay.

**So, more attention needs to be given to widening the net?**

More attention should be given to widening the net and more attention should be given to giving the assurance that tax rates are stable.

**There is also a discussion on inheritance tax. Does that make sense since people are talking of a growing disparity between the poor and the rich?**

There is a logic and a philosophy behind levying inheritance tax and it should be tackled with a great deal of caution. Too many taxes lead to greater evasion. It was for that reason that inheritance tax was abolished and it was for that reason that I had abolished the gift tax. Taxation should be as simple as possible and it should not become punitive.

Often, inheritance tax results in sale of property that is to be inherited because people do not have the wherewithal to pay the tax. I may be living in my father's house and suddenly you ask me to pay inheritance tax and I may not have the ability to pay the tax. Social justice is very important but alongside, justice to individual is also very important.

**Do you see some consensus building on the issue of GST?**

From what one has been reading, there seems to be some consensus. They have probably settled the issue of compensation for the abolition of Central Sales Tax. It was a sticking point between the Centre and the states, which felt they were let down. I

understand that the states are looking at the design afresh. It is a tax reform that can succeed only when states are fully on board.

**How can the FM initiate steps in the Budget to show the government's intent to move to GST?**

Whether direct or indirect taxes, whatever is considered best, should be included in the Finance Bill. Unfortunately, only GAAR was included in the Finance Bill last year. On GST, he can certainly adopt a rate that will align the service tax and the central excise duty and implement it at the central level, especially when they seem to have agreed on compensation on CST. The government cannot just signal a shift to GST but will also get some very valuable experience.

**With the focus on managing fiscal deficit, the short-term programme is to squeeze expenditure. Is this the right way to deal with it?**

The quality of expenditure will play a very important role. There is some expenditure which are inflexible — interest payments and subsidies and establishment expenditure, including defence. Beyond that, you have still a large space which is available to you.

When it comes to quality, two things come to mind. One is to cut plan size and the second is to introduce long-term economy measures which will give you results over a period of time like the Expenditure Commission I had constituted. Expenditure management has been a major weakness of this government. Here, business as usual approach will not work. So they will have to look at the quality of expenditure.

**Has there been over-reliance on spectrum sale and disinvestment instead of generating more resources through taxes?**

Yes. All these are non-tax revenue and they are one-time. You can do so much with disinvestment and you can't keep auctioning spectrum. You will have to look at expenditure management in the long term and that will come only if you look at revenue and revenue realization in a more realistic manner.

**Given that this the last budget before the 2014 general elections, do you expect an expansionary, populist Budget or will ratings downgrade play on the government's mind?**

I can't claim to read the mind of the PM and FM. I can only say that if it's a populist Budget that adds to the expenditure burden, like the Food Security Bill, it will be an unmitigated disaster for the economy. The UPA owes it to the people of this country to come out with a sensible Budget though it is their last Budget. A lot of damage has already been done.

**Has the government moved on the bills despite the standing committee submitting its reports?**

Pension and insurance are long-pending reforms. It is time to move with them. It is possible to see the back of these bills provided the government discusses it with political parties.

**The standing committee had concerns on 49 per cent foreign investment in insurance. Will you support the bill?**

Not in its present form. But we are willing to discuss and find ways to deal with it.

**Will it be 26 per cent FDI and 23 per cent FII?**

As far as the FII part is concerned, some insurance company representatives had met me and they have expressed their reservation.

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