TODAY IN BUSINESS ASIA BY BLOOMBERG

Record income at OneSteel fuels gain in shares

Chinese spending on coal and oil rises

KKR's offer to buy Samsung Life is rejected

LANGUAGE TOOLS

Language Tools 6
Powered by Ultralingua

ARTICLE TOOLS
CHANGE FORMAT
PRINT PAGE
EMAIL ARTICLE

(+) FONT (-) FONT

PAGE 1 : 3

Commentary: India needs to curb tax evasion, but not this way

By Andy Mukherjee Bloomberg News

FRIDAY, MARCH 11, 2005

The nicest thing one can say about Finance Minister P. Chidambaram's recent proposal to fight tax evasion in India is that it's an impractical plan. Chidambaram wants to put a 0.1 percent tax on cash withdrawals of 10,000 rupees or more from 446 million bank accounts in the country.

The idea behind the tax, which applies to withdrawals equivalent to about $230 or more, seems to be that the supply of black money creates its own demand. Take care of supply, and demand will ebb.

The inspiration for the move is supposedly Brazil, which imposed a 0.25 percent tax on bank-account debits from 1993 to 1994. The so-called Provisory Contribution on Financial Transactions, or CPMF, reappeared in 1997. It now stands at 0.38 percent.

The tax is controversial in Brazil. Pedro Albuquerque, an economist at Texas A&M International University, has found it to be an inadequate tool for increasing revenue and one that probably makes real interest rates in Brazil higher than they should be.

So why is India so keen to walk down this slippery slope, when Australia, which reluctantly imposed the appropriately named BAD tax, or the bank-account debit levy, in 1983, is committed to phase it out this year?

For now, Chidambaram is not looking to the debit tax as a revenue source. Unlike the tax measure in Brazil or Australia, the proposed Indian levy would apply only to cash withdrawals, and not check payments.

Chidambaram said his proposal was aimed at what may appear to be suspicious withdrawals.

"I'm concerned about large cash transactions, especially withdrawals of cash, when there's no ostensible purpose to withdraw such large amounts of cash," Chidambaram said in Parliament in his Feb. 28 budget speech, even as lawmakers shouted in protest against the new tax that will start in June.

"These cash withdrawals leave no trail," Chidambaram added, "and presumably become part of the black economy."

< PREV PAGE | > NEXT PAGE

TODAY IN BUSINESS ASIA BY BLOOMBERG

Record income at OneSteel fuels gain in shares

Chinese spending on coal and oil rises

KKR's offer to buy Samsung Life is rejected

LANGUAGE TOOLS

Language Tools 6
Powered by Ultralingua

ARTICLE TOOLS
CHANGE FORMAT
PRINT PAGE
EMAIL ARTICLE

(+) FONT (-) FONT

PAGE 2 : 3

Commentary: India needs to curb tax evasion, but not this way

By Andy Mukherjee Bloomberg News

FRIDAY, MARCH 11, 2005

Still, the tax is impractical in an economy of one billion people where a large number of workers don't have bank accounts.

"A construction company that makes payments to daily wage earners pays only a small sum of money to each such worker," says Tejinder Singh Rawal, a senior partner at the Indian accounting firm T.S. Rawal.

"Can the company force the daily wage earner, who lives hand to mouth, to have a bank account where the amount would be credited after two days?"

So those who need to withdraw cash for completely legitimate purposes will have to pay a small sum to the government for the privilege. Tax evaders will continue to demand payments in cash.

Honest taxpayers, the only people who put their money in bank accounts, will not be able to persuade their doctors, lawyers, architects and landlords to start accepting checks. So they will end up paying the government for someone else's transgression. Either that, or they will devise strategies to avoid paying the levy, like using multiple bank accounts to withdraw cash.

If Chidambaram really wants to curb tax evasion, he has to find other solutions.

The Federation of Indian Chambers of Commerce and Industry, which is based in New Delhi, surveyed companies across 91 industries and concluded that each business is

regulated by 20 government inspectors who have the power to send the owner to prison for as long as seven years.

"Businessmen have to keep on bribing them every now and then," the federation, which is the country's second-biggest industry association, said in a March 2 report, "and therefore have to have cash on hand through tax evasion."

A 0.1 percent tax on cash debits looks innocuous. Investors should bear in mind, however, that last year Chidambaram imposed a transaction tax of 0.075 percent on selling and buying shares and proposed to raise it to 0.1 percent in his Feb. 28 budget.

So it's natural to wonder if this is the

< PREV PAGE | > NEXT PAGE