

NATIONAL TAX CONFERENCE ON TAXATION – MODERN
PERSPECTIVES AND CHALLENGES

ADDRESS BY
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28.06.2014 – 08.55 A.M.

Vanakkam!

My Lord Hon'ble Mr. Justice C. Nagappan, my esteemed Brother/Sister Judges of the Madras High Court, Mr. Justice Ranganathan, former Judge, Supreme Court, Mr. Justice Easwar, Former Judge, Delhi High Court, Mr. T.N. Sitharaman, Mr. S. Gurumurthi, Chartered Accountant & Corporate Advisor, Mr.V.K. Moorthy, Mr.Harish Motiwalla, Dr.Anita Sumanth, Chairperson, Mr. G. Baskar, Secretary and Members of the Organizing Committee of the All India Federation of Tax Practitioners, Advocates, Members of the Bar, Media, Ladies & Gentlemen,

I deem it an honour to be present at the Inauguration of this National Tax Conference on 'Taxation – Modern Perspectives & Challenges', being conducted by the All India Federation of Tax Practitioners in association with the Society of Auditors, the Revenue Bar Association, the Chartered Accountants Study Circle, the Association of

Chartered Accountants and the International Chamber of Indirect Tax Professionals.

First and foremost, I would like to congratulate the Organizing Committee and their associate partners for arranging this Conference at Chennai. Such gatherings on a subject like Taxation are few and far in between. I am sure, such is the craving of almost all who are present here today that they want to make the most of this opportunity. So it becomes all the more necessary that you should enrich yourselves from the vast experience which experts in the field are going to share with you here today and tomorrow.

It is also heartening to see quite a few young faces who want to learn from experts in the field of tax law. I am sure, at the end of the two-day Conference, each one of you would stand immensely gained and get prepared to turn over a new leaf in your respective careers. I firmly believe, even those of you who are still mulling over whether or not to take up practice on the tax side, would be encouraged to take a plunge in it and start contributing towards building a solid foundation for Taxation as a subject in the field of law.

Before I venture into the subject chosen for this Conference, in order to get a grasp of things, I would begin with the basics.

‘Taxation’ is the primary form of income for most Governments. This allows increased Governmental expenditure and in return, as Justice Holmes of the House of Lords put it, gave the taxpayers civilization. Thus, in a sense, tax is the cost of being permitted to enjoy the infrastructure provided by the Government and it is the cost of civilization.

If only we peep into the ancient history of India, we will find that the system of taxation in those days, when kings were ruling different parts of the country, was very simple and the most ideal. Kalidasa in his Raghuvamsa says :

प्रजानामेव भूत्यर्थं स ताभ्यो बलिमग्रहीत्
सहस्रगुणमुत्सृष्टुम् आदत्ते हि रसं रविः

**“Prajanameva boothyartham sa taabyo balimagraheeth!
Sahasragunamutsrashtum aadatthe hi rasam ravih!!”**

It means, “The King collected tax from the people only for their good just as the Sun takes the water from the earth to return it to the earth after multiplying it by thousand times”.

Generally in those days, the Kings used to collect only 1/6th of the income as tax, but every pie collected as tax was being spent for the benefit of the public.

According to Kautilya's Arthashastra, which is regarded as one of the greatest political books of the ancient world, economic activity under the King was under strict control. State income was classified into Budget and Accounts under seven heads : (1) city (2) country (3) mines (4) irrigation works (5) forests (6) cattle heads (7) trade routes. They were together called as “Ayasarira” body of income. The sources were classified under seven heads called “Ayamukha”.

Contrastingly, the tax structure as it exists now hardly satisfies any tax-prayer. One can easily see the contrast between the attitude of the Government in the ancient days when every pie of the Revenue collected was spent for the public. Today, the general view is that most of the tax-payers money is being wasted on ostentatious Governmental functions and celebrations. The general tax-payer in our country will find that after years of honest and hard work, he is left without means of providing for his old age or family if he pays income-tax regularly. The end result leads to tax evasion.

However, the evil consequences of tax avoidance are manifold. First, there is substantial loss of much needed public revenue, particularly in a welfare State like ours. Next, there is the serious disturbance caused to the economy of the country by the piling up of mountains of black money, directly causing inflation. Then there is the large hidden loss to

the community by some of the best brains in the country being involved in the perpetual war waged between the tax avoider and his expert team of advisers, lawyers and accountants on one side and the tax collectors, who are not so skilful advisers, on the other side. Then again, there is the sense of injustice and inequality which tax avoidance arouses in the breasts of those who are unwilling or unable to profit by it. Last, but not the least, is the ethics of transferring the burden of tax liability to the shoulders of the guileless, good citizens from those of the artful dodgers.

Why is taxation so important in a particular nation or State? What makes it a very significant aspect of governance? A layman might ask, “Why can’t the Government print the money it needs to spend rather than acquiring it through taxes?” The notion that the Government could operate entirely without tax revenues may seem absurd.

The nature of the State’s power to tax is two-fold. It is both an inherent power and a legislative power. It is inherent in nature being an attribute of sovereignty. It is a legislative power because it involves promulgation and implementation of rules. Taxation is a set of rules, how much is the tax to be paid, who pays the tax to whom and when it should be paid.

Government financial operations are well-nigh impossible without taxation. Taxation can be a powerful means in order to achieve the goals of social progress and the objectives of economic development. Taxation can also be used to reduce inequities or inequalities in wealth and income by progressively higher taxes as in the case of estate and income tax. Taxation is indeed the lifeblood of the State, without which the existence of the state will be put to jeopardy.

Taxes are necessary in an economy in which Government spending comprises a significant part of the economy. For a no-tax system to be viable, Government spending would have to be far less than it is in most industrial countries today.

India is in a unique position in that here, taxes are imposed by both State as well as Central Governments and also Local Bodies, depending on the jurisdictions given to them under the State, Union and Concurrent Lists. This method of taxation does not take place in many countries around the world which follow a unitary system of governance like the United Kingdom.

In this age of Right to Information, the populace needs to know several kinds of information. There is a general need to improve the level of information about Taxation among citizens. To start with, people need

to realize that the money the State dispenses is the taxpayers', not State money. The change of system has made it possible and necessary to change this mentality. One of the main yardsticks for measuring the change is the prevalence and depth of the understanding that what one citizen receives from the State is paid for by the others. This insight should be promoted throughout the society. Another necessary addition is for citizens to have far more specific and reliable information about the relation between taxes and State services.

The whole fabric of general governance and economic constitution should be clarified and made more transparent to taxpayers. Citizens' tax awareness and the prudence of their choices will increase most when the budgetary and fiscal systems become more transparent and financial discipline consolidates. If all these favourable changes take place, the findings of the next survey of this kind will be more reassuring.

Tax is an issue of fundamental importance for development. If developing countries are to escape from aid dependency and from poverty more broadly, it is imperative that their revenue authorities are able to collect taxes effectively. In addition, the ability to collect taxes also has implications for the quality of governance. Taxpayers have a legitimate right to expect something in return – namely a functioning State – so are more likely to hold their Governments to account if they underperform.

The position of tax revenues within the wider economy varies widely between countries. In developing countries, tax revenues as a percentage of GDP are generally significantly lower than in developed countries. If developing countries are to improve their collection of tax revenues, it is imperative that elites within those countries pay the correct amounts in personal income taxation, and – critically – are seen to do so.

The perennial questions haunting a general taxpayer is “Are Taxes Fair”? “Are we paying too much”? “Are Governments taxing us too much”?

Taxation is a necessary burden, but the question is how much is too much? Today, it seems that everything is being taxed. Income tax has been hotly debated since the issue of taxation first began. Today, as in the past, the question of the fairness of taxation is going to be one of the issues that will be debated well into the future.

For most people, taxes are a burden that are deemed necessary to a certain extent, but most believe that there has to be a point when the Government should stop adding tax to an already overtaxed population.

With changing times, there is serious need for a re-look at the taxation structure and the taxation system in general.

Indeed, there have been several attempts to redraft the income tax law. The Kaldar Committee, Wanchoo Committee, the Chelliah Committee, the Expert Group, Kelkar Committee and the most recent Direct Taxes Code have all made valiant efforts to bring in a new law which will have a civilized face and stop harassment and litigation in respect of income tax. However, nothing turned out of all these efforts.

There was a time when tax law was considered an egalitarian weapon introduced to rein in enrichment of the rich and to bring about a just society. Many believe that the sense of justice, fair play and equity that should be present in any tax law remains absent from the Indian Tax Law. Wiser counsel requires that we reform the tax law and administration in such a way that people perceive it to be in the larger interests of the nation and society at large.

I do not want to take much of your time as you would all be too keen to hear My Lord Hon'ble Mr. Justice Nagappan and other illustrious experts in the field present here. I compliment the Organising Committee for putting up this Conference and thank them for giving me this opportunity, not just to talk to you on the subject, but also to study the subject of Taxation along with you and as one amongst you.

I conclude by reminding you of the prayer made by Saint Dnyaneshwar to his Guru Sant Nivrithinath :-

“Let the darkness of evil be overcome. Let the Sun glow on the Universe. Let everyone get everything as desired.”

The last part of the prayer is important,

“Let every Tax Planner and every tax payer get everything as desired”.

Nandri. Vanakkam.

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