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BTT – Will it bite or get beaten up?



Author: G. Natarajan

When a single Banking Transaction Tax, abolishing the multifarious taxes in vogue now is propagated by the BJP's Prime Ministerial candidate, the first question that came to my mind was, had it been so, what shall I do for my livelihood? If the taxation is going to be so simple there will not be any disputes. After all, the Banks will transfer the tax on daily basis to the Government, by a press of the button. Leave alone my livelihood (at least I can try to become a criminal lawyer and there will never be any dearth of business for me) what will the fate of thousands of, nay, lakhs of officers of the CBEC / CBDT? How will the "cadre restructuring" be implemented? All these posers made me to ponder over the issue in little detail.

Our constitution has adopted a federal structure of Governance, with a Union Government at the Center and Separate Governments for the states. The legislative powers of these two Governments, including the taxation powers are well codified under 7th Schedule to the Constitution under 3 lists, viz., Union List, State List and Concurrent List.

Assuming that Mr. Modi is successful in implementing BTT both at national level and state level the taxing powers of the two Governments delineated in these Lists would have to be scrapped first and both Governments will have concurrent powers to levy only BTT. In our political scenario, will any state Government be ready to compromise on their taxing powers, by replacing a single BTT in lieu of several taxes, viz., taxes on liquor, taxes on property transactions, etc. By nature, BTT is supposed to be at a single rate, irrespective of the nature of transaction. Once a differential rate is sought to be put in place, we will be going back on the principle of single tax, as each and every banking transaction would then require a scrutiny to apply a particular rate of BTT. Goods like liquor, cigarettes, etc. which now attracts higher incidence of duties would also attract the same rate of BTT. Is it the intention? How will the politicians get money to dole out freebies, from grinders to laptops, from saris to bus passes? Even the GST, which is nothing but consolidation of the present taxes, without much compromising on the Federal liberties on taxation is still eluding in our country and caught in the quagmire of politics, rather than economics.

Further, will not a complete overhaul of the taxing powers of the Union and State Governments amount to altering the basic structure of the Constitution, which is impermissible? Will it stand judicial scrutiny?

Assuming that BTT is introduced only at Union level, it would mean that the taxation powers of States will remain in tact. If so, each and every banking transaction has to be scrutinized to see whether the said transaction falls within the taxing competence of Union Government or not? Who will do that scrutiny? The Bank Manager?

One of the indicators of development of an economy is the development of its banking systems. Over the years, the banking system in our country has developed to a great extent and the banking habit has matured among the citizens. As even transfers from one account to other, loans, etc. would also attract BTT, there will be a tendency among to the citizens to by pass the banking channel and create a parallel economy.

In our History books we have read about the thriving of barter trade between kingdoms. The economic development has led to demise of barter system, by introducing the concept of "money". A BTT may tend people to move towards barter system, to avoid BTT. Are we going to move backward?



BTT has been introduced in many small countries as a temporary revenue generation measure and not as a sole source of finances of the Government. That too, it will be too naïve to believe that a nation of our size, population, federal set up, societal and political environment, could achieve such a simplicity in the matter of taxation. Though the idea of single point / single rate BTT at once appeals to every mind and appears to be a panacea for all the troubles being faced in the taxation arena, it is only a mirage.

So, I heaved a sigh of relief, it is not all that easy to abolish all taxes and replace it by a single BTT and my livelihood and of my brothers in profession as well as in the department is not going to be doomed over night. No doubt, there is lot of scope for taxation reforms in our Country, as the present system often impedes growth and creates uncertainty, mostly not because of any fault in the law, but because of improper administration, reckless adjudication, harassment, judicial delays, Government's never satiable appetite for revenue, etc. But, certainly BTT is not an effective answer.