

Business Standard

The go-to tax compendium

Sukumar Mukhopadhyay July 02, 2014 Last Updated at 21:25 IST

TAXATION - PRINCIPLES AND APPLICATIONS: A COMPENDIUM

Parthasarathi Shome

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For someone like me who has spent a lifetime in the tax department and researching tax systems, it is not easy to complete a review quickly, since I typically tend to agree or disagree with the author's views. But this is not the place to air them elaborately as the space is limited. Suffice it to say that this voluminous compendium of principles and applications of taxation should be a constant companion for anyone interested in all sorts of taxes and their working in various countries. What the Shorter Oxford Dictionary is for a writer in English, this book is for the tax analyst; it contains everything.

Overall, the scope of the coverage is very wide. Beginning with historical references to taxation in India, the book goes on to discuss the incidence and distribution effects of taxation, particularly the impact on efficiency and resource allocation. When taxation is not neutral, it has a distortionary effect, which is neither known nor discussed. There is considerable emphasis on consumption and production, which are also affected by taxation. The book provides comparisons among many countries for several taxes, including goods and services tax (GST).

The discussions in this book are focused largely on indirect taxes - Customs, excise, value-added tax (VAT) and GST. The value of the discussions lie in the fact that there is a balance between the theoretical and the practical aspects. These discussions also take into account the author's ideas expressed in his earlier publications on taxation. So some of the issues covered in the book are old, but that is to be expected in a compendium. Parthasarathi Shome has, however, taken care to update the discussions.

Of particular relevance here is that Mr Shome shows how to calculate the amount of evasion in VAT to explain how the tax is prone to manipulation, despite its much-flaunted reputation as a self-policing tax because it leaves an audit trail. Another interesting discussion is the history and application of Customs duty, which shows that it is irreplaceable as a protective duty.

Innovations in taxation are a special feature of this book. Not all of the concepts are new; they are innovations nevertheless in the context of India. For example, the credit for introducing the concept of large taxpayer unit, prevalent abroad, in India is due to Mr Shome. The unit has certainly brought considerable relief to large taxpayers, who account for the bulk of the tax collected; it goes without saying that the middle-level and small-scale taxpayers play an equally important role. However, that not all large taxpayers have joined the scheme suggests more structural changes are warranted.

An innovation that many would like to see implemented, namely, a single tax for small-scale units, has rightly been dismissed by Mr Shome, since such units anyway enjoy tax exemptions. I

agree with this conclusion also because such an incentive would tempt businesses to remain small, thereby discouraging them from expanding.

Other innovations discussed in the book - and they are not necessarily Mr Shome's own suggestions - include financial transaction tax, global carbon tax, cash flow tax, minimum alternative tax and fringe benefits tax. I do not agree that we should have financial transaction tax, fringe benefits tax and cash flow tax, if only because they will increase the number of taxes, making life miserable for ordinary businessmen. In my opinion, it is these kinds of levies that encourage businessmen to evade taxes. The purpose of plugging loopholes will not be served, since "professional evaders" know how to circumvent taxes, while the ordinary businessman gets exhausted and tied down to paper work.

What we need is not too much innovation but simplification, which leads to better compliance. This book fully covers this aspect.

The book is replete with discussions about and references to other countries, not all of them equally relevant. Owing to the fact that the author has worked in many countries, there are references to Argentina, Bolivia, Brazil, Columbia, Honduras, Mexico, Nicaragua, Uruguay and so on. None can say that all these countries have something to offer as guidance for the Indian tax system. Examples from European countries would have been more educative.

There are some good discussions about taxation in the United States - which makes this book very useful, since developments in the tax system in that country are starkly different from what is happening in the rest of the world. The US is one country that has not introduced VAT, instead choosing to depend more on progressive income tax and social security tax for revenues. Yet the US' remains an effective tax system all the same.

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