

Tax Freedom Day

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***If we were to go by Kautilya's teachings,
it is probably time we demanded a refund of the taxes paid***

Nothing in life is more certain than death and taxes. Death, however, comes once, taxes very year. How many days of the year does an average citizen work to pay for government expenditures? When does he become free from being a slave to the government?

Tax Freedom Day is the day you stop working for the government and start working for yourself. It refers to the number of days one has to work to pay off the taxes.

During the years 1980 to 2000, it has varied between 65 days (1980) to 80 days (1987). In other words, people had to work from January 1 to March 5 (1980) and to March 20 (1987). The Tax Freedom Day for the year 2000 was March 14 (74 days).

The government collected Rs 292 per person as tax (that is, per child, man, and woman) in 1980 and Rs 3,217 in 2000 (in current prices). Tax take includes all direct and indirect taxes at all levels of government (Centre, state, and local).

Indirect taxes constitute a greater proportion of government revenue, though the share of direct taxes has been increasing over the years. Tax on income is the most important direct tax.

Income tax was first introduced in 1860, a reminder from Queen Victoria that India had been transferred to the Crown from the East India Company. The 1860 Income Tax Act expired in 1865, and the next Act was not introduced for twenty-one years.

The Income Tax Act of 1886 exempted agricultural income, a practice that we still follow. The current Income Tax Act is of 1961 vintage. The government can spend more than the taxes it collects.

It can borrow or print money to finance expenditures above tax revenues. In 2000, for example, central, state and local governments collected Rs 3,217 per head in taxes but spent Rs 5,965 per person.

The government spent 54 per cent more than its revenues. In 1986, the tax take was 22 per cent of Net National Income, but government expenditures were 44 per cent; it spent twice the amount of tax revenue.

The difference is made up primarily by borrowing or printing money. But the costs of government borrowing and printing is finally borne by the people, just as taxes.

The government debt is ultimately paid by taxpayers. The cost of printing money falls on all citizens. The new money printed to finance government spending leads to an increase in prices of goods and services.

The rise in prices lowers the purchasing power of money that people possess. People would be able to buy lesser quantity of goods and services than they would have at the old, lower prices.

This is known as inflation tax. It is an indirect tax where the government increases its spending not by taking money from the people (either as tax or by borrowing), but by lowering the purchasing power of money that people hold. By borrowing and printing money, government can spend more than the current tax revenue.

A fuller picture of government burden on the citizenry should focus on total government expenditures. Central, state, and local governments spent Rs 558 per person in 1980 and Rs 5,965 per person in 2000.

To pay off the government expenditure burden, a person would have to work 125

days (or up to May 3 from January 1) in 1980 and 137 days (or up to May 16) in 2000. An average citizen worked for four and half months to pay for government expenditures in 2000.

During 1980-2000, the earliest Freedom from Government Day was May 3 in 1996 and the longest was June 8 in 1986. The two extreme years are 1986 and 1996, a coincidence that highlights the governing philosophy of those two decades. The years 1985 to 1992 have been the most profligate — the high tax and spend years.

For 2000, the Tax Freedom Day for USA is May 3 and for Canada June 29. Compared to these, India's TFD of March 14 seems like a tax heaven. But this hides the fact that the link between tax revenue and government expenditures is tighter there.

In India non-tax revenues constitute a sizeable proportion of the overall loot. The total government expenditures therefore give a more realistic picture of the cost of government in India.

And the Freedom from Government Day is May 16, a date right in the middle of USA, an apparently laissez faire state, and Canada, a welfare state. We haven't yet abandoned the middle ground; Narasimha Rao can sleep

easy. (For more information on US and Canada, check www.taxfoundation.org and www.fraserinstitute.ca. And have fun at www.taxslaverysucks.org.)

Kautilya's Arthashastra, which in my opinion is a work on public finance and public administration, and not really on economics, regards revenue and taxes as the earning of the sovereign for the services rendered by him to the people, offering protection and maintaining law and order.

The relationship between the king and his subjects is based on dharma, and it is the king's sacred duty to protect his subjects in exchange for tax revenues.

And if the king failed in his duty, says Kautilya, the subjects had a right to stop paying taxes, and even to demand refund of the taxes paid.

What services we citizens get in exchange for our taxes to the government? Isn't it time to demand a refund?

New Delhi, April 19, 2001

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The Chains of Tax Slavery								
Tax Freedom Day (TFD) & Freedom from Government Day (FGD)								
Year	Tax Take percent of NNP	Tax Take per capita Rupees	TFD		GE Burden percent of NNP	GE Burden per capita Rupees	FGD	
			Days	Date			Days	Date
1980	18	292	65	05-Mar	34	558	125	03-May
1981	19	349	68	08-Mar	35	643	126	05-May
1982	19	385	70	10-Mar	37	735	134	12-May
1983	19	436	69	09-Mar	36	830	131	10-May
1984	19	485	71	10-Mar	39	970	141	20-May
1985	21	561	75	15-Mar	38	1041	139	18-May
1986	22	643	79	19-Mar	44	1303	161	08-Jun
1987	22	723	80	20-Mar	43	1399	155	03-Jun
1988	22	831	79	18-Mar	41	1571	149	28-May
1989	22	945	79	19-Mar	41	1766	148	27-May
1990	21	1046	77	16-Mar	39	1951	143	21-May
1991	22	1206	79	18-Mar	39	2172	141	20-May
1992	21	1309	76	16-Mar	37	2328	136	14-May
1993	19	1369	70	09-Mar	36	2611	133	11-May
1994	19	1628	71	11-Mar	36	3005	131	10-May
1995	20	1891	73	12-Mar	34	3275	126	04-May
1996	20	2132	73	12-Mar	34	3643	124	03-May
1997	19	2222	71	11-Mar	36	4092	131	09-May
1998	20	2487	72	12-Mar	38	4751	138	17-May
1999	20	2919	74	13-Mar	39	5605	141	20-May
2000	20	3217	74	14-Mar	38	5965	137	16-May
Tax Take = Total taxes collected by all levels of government (centre, state, and local)								
GE Burden = Government expenditures incurred by all levels, local, state, and centre (in current prices)								