

# Flaws and misconceptions about Transaction Tax

Two major Arth Kranti proposals are there- one is recall of large notes, other is transaction tax OF 1-2% AT EACH STEP. Number of steps can vary from three to fifty to hundred. So, this tax can vary from 3-200 %.

## **Arthakranti Proposal**

### **Withdrawal of existing Taxation System completely (except customs i.e. import duties).**

1. Every Transaction routed through a bank will attract certain deduction in appropriate percentage as Transaction Tax i.e. Single point tax deducted at source. (say 2 %).
  - This deduction is to be effected on receiving/credit accounts only.
  - This deducted amount will be credited to different Government levels like Central, State and Local (say 0.7%, 0.6%, 0.35% respectively).
  - Transacting Bank will also have its share in this amount as the bank has a key role to perform (say 0.35%).
2. Withdrawal of High denomination currency (say above Rs. 50).
3. Cash transactions will not attract any transaction tax.
4. Government should make legal provisions to restrict cash transactions up to a certain limit (say Rs. 2000).

So, while outlining benefits we must first see how much is current tax on each individual item and how much will be the tax after Transaction Tax for small scale and large scale industries.

### **Some important Links-**

#### **a) Central Excise Tariff 2011-12**

<http://www.cbec.gov.in/excise/cxt-2011-12/cxt1112-idx.htm>

[http://centralexcisemadurai.tn.nic.in/what\\_central.html](http://centralexcisemadurai.tn.nic.in/what_central.html)

#### **b) Schedule of VAT 2011-**

<http://tiny.cc/2821gw>

<http://taxworry.com/list-goods-exempt-sales-tax-vat-bihar/>

#### **c) "People are naturally inclined to evade tax"-**

<http://www.arthakranti.org/analysis/current-tax-system/effects>

1) Promise-to-pay is new type of account that I will provide my bank. Basically each person will have two types of account - savings account and promise-to-pay account.

In Arthkranti proposal, does a promise to pay fetch Transaction Tax? If yes, then **please provide the DRAFT of the law which says which classifies promise to pay as payment.**

If not, then tax collection will be too low ... . How?

I will open a bank and ask people to put deposit in savings. I will open two accounts --- actual savings and promise-to-pay. The promise-to-pay will also have promised-to-receive entries. So when X has to pay Rs 1000 to Y, he will just make promise-to-pay transaction in my bank. So I will add -1000 in account of X and 1000 in account of Y. So all payments will be promise-to-pay.

And since this was promise-to-pay and not actual payment, no Transaction Tax will apply.'

Now I will ensure that negative balance in promise-to-pay account of A does not exceed balance in his savings account and hence there will never be a default.

Now on 1-jan or some fixed date, I will do all settlements. If A's promise-to-pay balance is positive it will be added to savings account and if negative, it will be subtracted from savings account. So now transaction tax will apply only at this point.

So effectively, if Transaction Tax is 2% it will become 2% of (Money received in one year - Money paid in one year) or (Money paid in one year - Money received in one year) , whichever is positive. It will not be not 2% of all money paid plus 2% of all money received.

All in all Transaction Tax will be 2% if positive difference between opening balance on Jan-1

Say X has to pay to Y Rs 100,000. Then we have two options. X can give Y savings check in which case money will be deducted from savings account and moved to X and 2% transaction Tax will apply on one or both.

Other option is X gives Y Rs 100,000 promise to pay cheque. In that case, bank will deduct Rs 100,000 from X's promise-to-pay account and add Rs 100,000 to Y's promise-to-pay account.

The bank will ensure that negative balance in promise-pay-to-pay doesn't exceed balance in savings. If it does, cheque will be bounced.

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On Jan-1, if promise-to-pay account has positive balance, that much rupees will be added to his savings account. If balance in promise-to-pay is negative, then that amount will be deducted from savings account of X

2) As of today , there is no tax on unprocessed food items in India. So, after transaction tax comes, food items will be 1-20% costlier depending on the number of points in the supply chain if the Transaction Tax is 1% per point and will be 2-40% if Transaction Tax is 2% per point. So, as it is , it seems food items will be costlier when transaction tax comes and items made in small scale will be more costlier than in large factories. The small scale food industries will be out of business, in competing with large factories. Since the small scale factories are mostly swadeshi, this **proposal seems Anti-Swadeshi.**

Transaction tax of 2% will become sales tax of 20% to 50%. e.g. consider following chain :

Farmer sells Wheat of Rs 1000 to wholesaler in mandi

wholesaler sells wheat of Rs 1050 to retailer

retailer sells wheat of Rs 1100 to Atta maker

Atta maker sells Rs 1150 of Atta to bakery

Bakery sells Rs 1200 of bread to wholesaler

Wholesaler sells Rs 1250 of bread to retailer

Retailer sells Rs 1300 of bread to end user

Now if 2% transaction tax is added at each level, final tax at end user will be about 12% to 14%/. Not that I mind, such tax will create a chain of "transactions without bills". So it is lose-lose situation.

### **Arth-Kranti proposal of transaction tax is Anti-Swadeshi**

Arthkrati proposal of transaction tax favors big companies at the cost of small. e.g. say 5 people do business Wheat -> Mandi -> Wholesaler -> Retailer -> Bakery -> Retail Bread Shop -> customer. Then tax is about 12% of wheat price as there are 6 levels. Now if a big company buys wheat and directly sells to end customer, tax is only 2%.

I don't oppose big companies, but tax laws shouldn't favor big at the cost of small.

The small companies have to pay more taxes comparatively to the big companies. This will lead them to go out of business. And since most small companies are swadeshi. So, Arthkranti proposal of transaction tax is Anti-Swadeshi.

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## **How Transaction Tax will destroy Small Scale Jewellery Industry, who Trade for Jewelleries in White (By Check). We have considered Transaction Tax as 2% per step**

In Jewellery, there are 3 layers in 90% cases of small jewellery show-room.

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1st layer is Jewellery Manufacturer. Such jewellers manufacture jewellery in their factory.

2nd layer is Jewellery Wholesaler. Such traders invest in jewellery and deal in wholesale trading. 90% small jewellery show-room buys from such wholesalers.

3rd layer is retail Jewellery Show-room you can see on road. 90% small show-rooms buys jewellery from Jewellery Wholesalers.

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Now let us understand the effect of Transaction Tax. Say 1st layer sold jewellery worth 1 lakh to 2nd layer and price comes to 1.02 Lakh. And 2nd layer sold jewellery worth 1.02 lakh to 3rd layer and price comes 1.042. When 3rd layer sold jewellery worth 1 lakh to retail user price comes to 1.0642, FINAL PRICE WILL BE 106420.

Now same case, MNCs & Big Corporate Jewellery House manufacture jewellery in their own factory outlet. So, MNCs will save Rs 6420 Transaction Tax. ===== Transaction Tax is open loot of 6.042% for Small Jewellery Industry and the day Transaction tax will be implemented, small scale industry will be destroyed.

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Now this is simple item. Take items like car. From rubber plant to Tire, there are 5 people. From metal to transmission, there are 10 factories and 5 traders. Please ask any of your friend in manufacturing. A metal piece goes through 10 manufactures and 5 traders before it comes into consumer items.

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Please give exact tax figures for other items and also number of steps, so that we can compare today with after Transaction Tax comes.

### **3) Transaction Tax will kill short-term borrowings or lead to collapse of economy-**

Say a person X borrows Rs 1 crore and repays Rs 1.01 crore 1 month later with 1% per month interest. Then will transaction tax be 2% of Rs 100,00 or 2% of Rs 1 crore or 2% of Rs 1.01 crore or 2% of Rs 2.01 crore . If it is 2% of Rs 200,000 , then it is income tax of 2% and not really transaction tax. And Government can't run with 2% income tax. And if tax is 2% on Rs 2 cr, then

whole economy will collapse. Because even wealthy companies like Reliance have to sometimes borrow 100s of crores of rupees for 1-2- weeks to meet day-to-day requirement. There is a whole area called "overnight borrowings" where Rs 1 cr is borrowed for 1-2 days and returned with interest of mere Rs 2000 to Rs 3000 !! Paying even 0.1% on whole transaction will just kill whole business.

#### **4) Recall of large notes and Transaction tax will not reduce black economy or reduce corruption-**

If the final tax is 10% to 50% of item cost, then there will be parallel "without bill" economy, where good will be 10% to 50% cheaper. And this economy can function with gold, silver or dollar as medium. A cost difference of 5% is sufficient to generate "without bill" economy.

Please see these links for more information-

a) Thousand ways for noteless and white ways to take bribes-

<https://www.facebook.com/groups/rrgindia/doc/181369795245803/>

b) 0088 : रिश्त लेने के लिए, बिना नोट के, हजार अप्रत्यक्ष वैध तरीके-

<https://www.facebook.com/groups/rrgindia/doc/191952767520839/>

**C) All transaction tax bhakts rule out possibility of dollars as alternate use of currency being used. But this has actually happened in countries like Russia in 1990s. What if people in our country also start using dollars with coming of transaction tax ?? I will give one link here . If others find the same, please post in comments.**

[http://www.google.co.in/url?sa=t&rct=j&q=use+of+dollars+in+russia...+in+1990s&source=web&cd=10&ved=0CGEQITAJ&url=http%3A%2F%2Fwebcache.googleusercontent.com%2Fsearch%3Fq%3Dcache%3AIs3voPJxABIJ%3Asitemaker.umich.edu%2Falainalemon%2Ffiles%2Fdollars.pdf%2Buse%2Bof%2Bdollars%2Bin%2Brussia%2Bin%2B1990s%26cd%3D10%26hl%3Den%26ct%3DcInk%26gl%3Din%26client%3Dfirefox-a&ei=fWWyTs\\_ZFIjtrQeGwdDoAw&usg=AFQjCNG\\_ZbauyWG9SOqTOGEUVfGKv5r4og&cad=rja](http://www.google.co.in/url?sa=t&rct=j&q=use+of+dollars+in+russia...+in+1990s&source=web&cd=10&ved=0CGEQITAJ&url=http%3A%2F%2Fwebcache.googleusercontent.com%2Fsearch%3Fq%3Dcache%3AIs3voPJxABIJ%3Asitemaker.umich.edu%2Falainalemon%2Ffiles%2Fdollars.pdf%2Buse%2Bof%2Bdollars%2Bin%2Brussia%2Bin%2B1990s%26cd%3D10%26hl%3Den%26ct%3DcInk%26gl%3Din%26client%3Dfirefox-a&ei=fWWyTs_ZFIjtrQeGwdDoAw&usg=AFQjCNG_ZbauyWG9SOqTOGEUVfGKv5r4og&cad=rja)

Say I do a business. Then-

1) Only 50% or so of my transactions will be non-rupee transactions.

2) If I fall short of rupees, I can go to the unauthorized money changer and exchange my... dollars, gold, etc. Similarly this will work in the reverse also. I can get gold, silver, dollars also from the money lender if I need that.

Thus I can evade tax in 50% or so of my business transactions.

This tax evasions will set up a parallel economy. Similar things have already occurred in other countries, so this is not unrealistic and dollars I can change even today

d) All those things which Swami Ramdev Ji tells on Astha that you will need truck loads of small notes to give bribes is not true. I do not know who misguides him, but we calculated if all the notes of the country were converted into small notes, it will take only rooms of 10 feet high in one square kilometer of space.

यदि देश के सारे बड़े नोट हजार-हजार के ही हों, तो इस देश के सारे बड़े नोटों(हजार) को कमरों में बंद करने में कितनी जगह चाहिये ?

उत्तर :-

1. एक कमरे की लम्बाई 6 मीटर = 20 फीट

2. एक कमरे की चौड़ाई 3 मीटर = 10 फीट

3. एक कमरे की उचाई 3 मीटर = 10 फीट

कमरे का आयतन  $10 \times 10 \times 20 = 2000$  घन फीट = 54 घन मीटर

हजार के नोट के बण्डल (एक बण्डल में लगभग 1000 नोट आयेंगे ) का आकार 2 सेमी\*7.5 सेमी\* 20 सेमी = 300 घन सेमी = 600/1000000 घन मीटर

एक कमरे में आने वाले नोट के बण्डल =  $54 * (1000000/300) = 180000$  बण्डल

सारे बड़े नोट के बण्डल आने में लगे कमरे =  $1000000/180000 = (लगभग 500$  कमरे)

यदि बड़े नोटों को छोटे(सौ के नोट) में बदल दिया जाये तो उन्हें रखने के लिए कितनी जगह चाहिए =  $500 \times 10 = 5000$  कमरे

= लगभग एक वर्ग किलोमीटर | इतने बड़े देश में इतनी तो जगह मिल ही जाएगी |

ये बात अलग है कि भ्रष्ट व्यक्ति अपना अधिकतर काला धन बेनामी जमीन, बेनामी शेयर, विदेशी बैंक अकाउंट , सोने के रूप में रख सकता है | इसीलिए बड़े नोट (हजार, पान सौ ) को रिकाल करने से भ्रष्टाचार 1 % भी कम नहीं होगा | ऐसा कहा जाता है कि

नकली नोट कम होने से हमारी अर्थव्यवस्था में सुधार होगा लेकिन कितना? १-२ % ही सुधार होगा और भ्रष्टाचार होने से अर्थव्यवस्था गिरेगी बहुत अधिक | कुल मिलाकर अर्थव्यवस्था को हानि ही होगी |

भ्रष्टाचार कम करने के लिए कारगर उपाय रिज़र्व बैंक गवर्नर , प्रधान मंत्री, वित्त मंत्री पर राईट टू रिकाल, पारदर्शी शिकायत/प्रस्ताव प्रणाली (तीन लाइन कानून ) और जूरी तंत्र की आवश्यकता है। कृपया इनके ड्राफ्ट यहाँ देखें- [www.righttorecall.info/301.pdf](http://www.righttorecall.info/301.pdf) के चैप्टर १,६,७ और २१ |

दिनेश कुमार राठौर (<https://www.facebook.com/dineshbaldaurathore>)

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e) For small expenses of upto Rs 5000 , there are small notes. For medium level exchanges, there is silver. The value of gold and silver in India right now exceed total cash volume. Hence there is enough gold to do all transactions. Also, when gold becomes more popular, its value will increase to a level that gold and silver become sufficient.

The gold coin of 10 gm is worth Rs 25000. Silver biscuit of 100 gm will be worth Rs 2000. For smaller amounts, one can use cash notes.

Gold with GoI is 1000 tons and gold with Indian public is 12000 tons. 12000 tons will be about RS 27,00,000 crores. Existing cash with public is Rs 9,00,000 crores. If Rs 900,000 crores can support black economy, so can Rs 27,...00,000 of gold. To that, add silver, which is another Rs 30,00,000 crore or so. All in all, gold/silver as currency is viable. Today it doesn't happen as Rs 1,000 notes are plentiful. But if Rs 1,000 and Rs 500 notes go away, people may start using gold and silver.

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All depends on difference between bill and non-bill.

Please do reality check as well. In late 1990s, when Russian Government did not issue larger notes, people started using dollars. Now how do you stop people from using dollars?

India has 13000 tons of Gold. Pls correct me if I am wrong --- value comes to Rs 32,00,000 crores. Existing cash in India is Rs 900,000 . So there is enough gold to replace cash. And also, there is silver for small transactions.

There are lot of ways of getting gold both legal and illegal, so getting gold is not a problem. I can get gold without bill from the goldsmith even. Who will stop me without Recall , Jury etc. procedures ?? To check gold quality, there are also so many ways. One of them is gold testing machine, which is freely available.

Gold will be purchased once by paying money. So that will fetch Transaction Tax. But later when gold is used as medium of exchange, transaction tax collected will be zero.

**f) 0125. Replies from ArthKrati --see how they evade questions!!!-**

<https://www.facebook.com/groups/rrgindia/doc/231330560249726/>

g) Nimesh Chandra , small scale etc. is applicable only on 20% to 30% of GDP. You can make car or scooter etc in every district. Even making tooth paste and soap in every district is not cost effective. eg does Patanjali make soap in every district? No. Everything is made in Haridwar and distributed all over India. Why?

Nimesh Chandra , over 90% of items these days can't be made at small scale. Look at things around you. watch, mobile phone, PC, monitor, fans, washing machine, microwave .... Nothing can be made at small scale. Even toothpaste's container can't be made at small scale. You may be able to make soap at small scale and that's about it

Avinash Kumar, you say Transaction Tax benefits all. Then do you agree to bring Transaction Tax only via TCP (Transparent Complaint Procedure) ? e.g. all tax changes we have proposed like Wealth Tax etc., we have proposed to bring it via TCP only i.e. via Transparent Complaint Procedure.

And is Bharat Swabhiman Trust agreeing to bring Transaction Tax via TCP only?

Avinash Kumar , the loans rate depend on RBI and demand and have nothing to do with tax structures. If you are claiming that banks will reduce interest rate just because they gain money, please explain --- Transaction Tax goes to Govt. and not banks. How will banks' profits increase? Also, if a bank charges Transaction Tax that remains with bank, then due to competition that will come down anyway