

Tax Congress 2022: A keek into spooky canvas of taxation by 2047!

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live today in a world which is not only changing but is also getting disrupted lightning fast! Courtesy, just too many fussy and vinegary change agents! Warren Buffett had once said - **"You only find out who is swimming naked when the tide goes out"**

! Bewilderingly, the tide causing disruptions across the global landscape is not going to go down, rather would scale more heights in the coming decades! And they are peeling the skin of the earth! They are so overwhelmingly powerful that politicians across the globe are getting 'dumber'! With risk of policy error being elevated, political leadership appears to be leaving many key decisions to a toss-up! However, guided by the directionless forces of their illusions, they never fall short of massaging their political messages designed for their constituencies! And these unstoppable forces are both - natural and man-made. They are

aging, climate change, globalisation and digitalisation! All the four constitute walloping tornado of change!

And when the winds of change, aided by tech-disruptors, blow across the globe, can we really presume the world of taxation to remain firm on its footings! Too preposterous! This is how it unwrapped itself at the inaugural session of the TIOL Tax Congress 2022 on November 7 in New Delhi! A vinegar-tasting session for the audiences!

It rolled out with a lucid and perspicuous presentation by the noted fiscal thinker and former IRS officer, Mr V K Garg. And the title of his presentation was - The Canvas of Taxes by 2047! **SacrÃ© bleu**

! This sort of study of fiscal crystal ball warrants an extraordinary pair of eyeballs to peep into the future which is governed by volatility, uncertainty and unpredictability! Let me arrange a **tour d'horizon**

! Kudos to Mr Garg who succeeded not only in doing justice to the spooky subject but also did honour to one of the objectives of the TIOL Tax Congress to facilitate national discourse which may shape up the course of future fiscal and trade policies-making! Referring to Elon Musk's dream to create a civilisation on the Mars, he observed that the next 25 years would swim into an ocean of changes equal in quantum and fission to what mankind has witnessed in the past 100 years! In other words, he hinted at what Arthur Miller had said -

"An era can be said to end when its basic illusions are exhausted"! And truly, the

baggage of basic illusions would disappear in the next 25 years

as the Indian economy in lockstep with the global economy would also undergo unrecognisable transformation by 2047!

The key agents of trade and economic change he red-flagged are - public debt, demography, the climate change, national security and formalisation of the economy. Debt is an unavoidable wound but like every injury, debt has to be managed intelligently and diligently too! However, he says that the Indian States have fallen into a land-mined zone - 15 years high of about 32% of GDP. For five States named by the RBI, it is above 40%! His suggestion is that the States need to hone the art of riding the trinity of borrowing, spending and tax collection, mindfully! GST compensation has turned parched and the future collections would be barrelled towards repaying the borrowings. Recognizing limits to getting more revenue to bridge the canyons of deficit, he rightly predicted that governments in the coming years would be under spine-chilling strain to levy newer taxes or higher taxes, including higher GST. Many States have already gone for higher fees and charges for the provision of many services to shore up their revenue kitties. Freebies are certainly additional blow! And the final onus would inevitably fall on the Centre to help States bridge the revenue gaps and the Centre itself would be at pains to uptick tax rates.

The next parameter, the rising population and the soaring old-age dependency ratio, would certainly impact the canvas of taxation in the coming decades. Only two days back, the UN has reported that India would race past China as the most populous country by the next year and in the next two decades, a good swathe of Indian population would be above 65. Though India does enjoy demographic dividend today but the chunk of aged population would be doubling in the next two decades and the burden would fall on the Exchequer to provide them food and shelter! This would certainly bite into income tax collections as

aged tend to pay less tax and they would naturally pay less GST as their consumption also shrinks markedly!

This also means a decline in the productive workforce which would in turn tamp down economic growth! And it would finally trigger decisions to hike tax rates which would consequently punch investments' light out! Mr Garg underlines that Japan is a good example - aging population,

slowing economy and rising VAT rate - 3% in 1989 to 10% in 2019!

The walloping climate change promises to be the most ballistic factor in the coming decades. India has pledged to be carbon-neutral by 2070. This basically means a calibrated shift from fossil fuels to a new energy mix. Mr Garg emphatically says that this would reduce Centre's as well as States' revenue collections disproportionately. Centre today mops up about 18% of total taxes from petroleum products. If a green mix of energy bowl is promoted, they cannot be taxed in the near future but the revenue from fossil fuels would be on a slide. In addition, faster replacement of combustion engines by electric engines would further dampen tax collections. Let's not forget that automobile sector which accounts for 49% of the manufacturing sector, chips in above 7% of India's GDP. **Aha!**

Double whammy! Mr Garg has pointed out that electricity despite being a 'polka dot' in the GST basket, is exempted from GST but cascading of local taxes tends to punch a hole in the global competitiveness of the Indian businesses!

Then comes the existential issue of national security intertwined with the doctrine of sovereignty of a Republic. Geopolitics has, of late, emerged as a key determinant for international trade and thus, the process of globalisation. One good example is the live-wire case of Sino-American trade war where import tariff and trade barriers were weaponised to stymie Chinese companies from doing business in the US. Given the emerging and accelerating cracks in the global geopolitics, the world is likely to embrace ugly tentacles of protectionism which would ultimately do more harm to the businesses and thereby prospects of revenue! Mr Garg also puts it succinctly that if India is going to be USD 25 trillion economy by 2047, businesses need to bin all such costs which do not add intrinsic value to a product or a service. **Voila!** Cost of tax compliance is one such cost! He says that

"tax compliance in future needs to be like self-driving cars, based on algorithms and design systems, freeing up the driver's attention to concentrate on business... automated tax systems, relying on advanced data analytics, will know so much about economic participants that evading taxes and hiding wealth would be next to impossible". Chris Rock was right when he said: ***"You don't pay taxes - they take taxes"***! Let's not forget what Edmund Burke had said - ***"Revenue of the state is the state"***!

After Mr Garg, came on the stage the Chairman of Prime Minister's Economic Advisory Council, who spoke at length about some of the important aspects of taxation which I intend to take up for analysis in my next week column. While delivering his inaugural speech, the Chair, Justice Manmohan of Delhi High Court, rightly put that in three decades, computers, mobile phones and internet have transformed almost every facet of our life and it is now inescapable for the legal system, including adjudication of taxation, to adapt itself to meet the challenges of the increasingly digital and electronic world. He concluded his speech by observing that if international tax systems change only once every 100 years or so, then it is happening now and all of us are blessed to have an opportunity to be change agents in this extraordinary twisting and turning! Time for me to doff my hat to all the dignitaries for making enriching observations! ***Merci beaucoup!***

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[Shri V K Garg making presentation titled 'The Canvas of Taxation by 2047' at TIOL Tax Congress 2022](#)

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