Law – Taxes

As Bhishma said in LXXXVII of the Shanthi Parva:

A proper tax system is like keeping a cow and calf.

The king, O Yudhishthira, may take high taxes, but he should never levy such taxes as would emasculate his people. No tax should be levied without ascertaining the outturn and the amount of labour that has been necessary to produce it. Nobody would work or seek for outturns without sufficient cause.

The king should, after reflection, levy taxes in such a way that he and the person who labours to produce the article taxed may both share the value. The king should not, by his thirst, destroy his own foundations as also those of others.

A king who is possessed of sound intelligence should milk his kingdom after the analogy of (men acting in the matter of) calves. If the calf be permitted to suck, it grows strong, O Bharata, and bears heavy burdens. If, on the other hand, O Yudhishthira, the cow be milked too much, the calf becomes lean and fails to do much service to the owner.

Similarly, if the kingdom be drained much, the subjects fail to achieve any act that is great. That king who protects his kingdom himself and shows favour to his subjects (in the matter of taxes and imposts) and supports himself upon what is easily obtained, succeeds in earning many grand results.

It is proven that the more incentives people are given, the better they are motivated to perform and the current taxation system is a huge disincentive.

We should not give people “free” money and cheap unwarranted subsidies.

Instead we should give them freedom from taxes once they work hard and earn real money.

The only way a country can become prosperous is not by "free money" injected by the central banks, but by freedom from high and oppressive taxes.

We must have a tax system that discourages luxurious and profligate consumption and encourages saving and charity.

The tax system should be completely reworked and only the transaction, service and punitive taxes should be regulated, and monitored.

Any taxes like property taxes must be local.

So should any taxes for infrastructure development and maintenance – it must be local.

That would mean that poorer places would not get enough revenue – perhaps a system of tax breaks could be introduced – investors and business could get tax breaks and special incentives/privileges if they invest more in the poorer regions.

A punitive tax of 200% should be applied to all consumers and producers of alcohol, cigarettes, recreational drugs and other intoxicants.

A punitive tax of 400% should be applied to all consumers and producers pornography and prostitution.

A punitive tax of 20% should be applied to all consumers of meat and meat products that involve the suffering of animals (except when used in medicines).

A punitive tax of 15% should be applied to all producers of meat and animal products (leather and other by products) that involve the suffering of animals (except when used in medicines).

Only small meat producers with (less than 1000 chicken), sheep (less than 100 sheep) and cattle (less than 20 cattle) should be charged lesser transaction tax rates upto a maximum of 4% per year.

Only small animal products vendors with income upto Rs 15,00,000 should be charged lesser transaction tax rates upto a maximum of 4% per year.

A punitive tax of 400% should be applied to gambling dens and dance bars.

There should be a very punitive high tax of at least 200% on any wasteful expenditure like alcohol, intoxicants and recreational drugs

There should be a very punitive high tax of at least 600% on any wasteful expenditure on immoral activities not mentioned above.

Immoral activities include pornography and adult literature, adult entertainment and prostitution and other vices.

A tax of 200% must be imposed any weddings or birthdays or other celebrations and parties more than 1.5 times a government primary school teachers annual salary.

There must also be a tax on excess profits in addition to the standard profit tax.

Any business which has more than 50% net profit must pay an excess profits tax.

This was also done by the laws of Kautilya.

All taxes should be paid only when the business or individual has received the payment.

Taxes should not be paid in advance against bills raised, but payment is not received.

Anybody who receives the payment and does not pay the tax must pay heavy penalties as described for black money and tax dodging.

Small farmers and agribusiness industries that are run by farmer owned cooperatives should be exempt from the excess profits tax.

There should be a 4% transaction tax for the purchase or sale of any tangible product except software.

There should be a 8% service tax for the purchase or sale of any service.

There should be a 12% service tax for the purchase or sale of any software or services related to software.

A transaction tax must apply to financial transactions like buying gold and precious metals, real estate, shares, bonds, futures and options, and luxury goods.

Most current day derivatives and options for agricultural, plantation, mineral, hydrocarbon, energy, livestock, commodities and carbon trading must be strictly regulated and delivery must be taken for all such derivatives to avoid the transaction tax.

Speculators who trade in the above agricultural and natural resources must each pay the 8% transaction tax for both buyer and seller who speculate.

Speculators are those who dont take delivery.

There must never be any derivatives for water or land.

There should be a 0.1% transaction tax each on the buyer and seller for all financial instruments excluding derivatives.

Derivative financial instruments must have a 5% transaction tax each on buyer and seller who do not take delivery or short the derivatives.

For Real Estate valued upto Rs 2,00,00,000

There should be a 3.5% transaction tax on each buyer and seller (7% total transaction value) for real estate valued upto Rs 2,00,00,000.

This can be reduced to 2% (each for buyer and seller) and refunded at inflation indexed prices after the property is held for at least 20 years.

For Real Estate valued upto Rs 2,00,00,000

There should be a 5% transaction tax on each buyer and seller (10% total transaction value) for real estate valued above Rs 2,00,00,000.

This can be reduced to 3.5% (each for buyer and seller) and refunded at inflation indexed prices after the property is held for at least 20 years.

There should be a 5% transaction tax on each buyer and seller (10% total) on gold, jewelry and precious metals for physical delivery that is not used for a business or industrial purpose and used only for jewelry and storing in the hope of appreciation.

There is only a 0.03% transaction tax on gold bonds or gold mutual funds.

We should not pay any bank interest to any individual who has a cash deposit of more than Rs 5,00,00,000 or a firm/business which has a cash deposit of its average expenses(salaries and basic overhead to run the business, not project expenses) for 3 years.

This cash deposit for businesses will include bank deposits, liquid funds and short duration income funds/bonds of less than 2 years.

No taxes should be laid on basic goods for poor consumers –

basic food supplies (grains, cereals, vegetables, oils), primary education and basic healthcare and hand made produce by poor artisans and cooperatives (not private companies) of the same upto a turnover of Rs 100,00,00,000

Any transaction in luxury goods and items should be taxed at 50% for items above Rs 200,000 and at 100% for items above Rs 500,000 and at 200% for items above Rs 20,00,000. This will include high end homes, cars and entertainment.

Transactions in high end entertainment – any thing greater than three star hotels and above three star premium chain restaurants especially those publicly listed should also be taxed at 15% upto the first Rs 2000/person of entertainment and 30% for any amount above Rs 2000/person.

Lodging and hotel accommodations should be charged at 15% for upto Rs 6000/room/day, 25% for Rs 6000-Rs 12000/room/day and 35% for above Rs 12000/room/day.

High end restaurants and other restaurants that are owned by entrepreneurs who do not have more than 5 restaurants can be taxed at a much less rate of 15%.

High end hotels owned by entrepreneurs who have less than 2 hotels of an asset value less than Rs 50,00,00,000 for each hotel can be given a 50% discount on the tax rates above for rooms above Rs 6000/day.

Darshinis and low end restaurants less than 3 star can only pay a transaction tax of 2%.

Small business persons and professionals like doctors, lawyers, accountants, engineers, MBAs must pay a professional tax of 1% of their net income after deduction of all expenses and depreciation and amortisation.

Any art item above Rs 400,000 should be taxed at 50% (20% by the buyer and 25% by the seller).

This should be exempt for a work of art made by a poor artist or which will benefit a living artist or their immediate family upto the 3rd generation.

Reality shows like Oprah, Dr Phil, Jerry Springer, Survivor and Big Boss should be taxed at 200% (100% by organizer and 100% by contestant) if there are any winners in these shows.

Reality shows for talent and knowledge like quiz, dancing, singing, acting, comedy and other creative arts should not be taxed at all.

The income tax department should never be allowed to take away the houses and properties and assets of the people who are in default of their transaction and services taxes **if they did not knowingly evade these taxes,** even if these people cannot pay the taxes at that moment.

Instead, the income tax department should spread out these payments over time.

People should not be punished if they cannot pay taxes on time, people should only be punished if they repeatedly avoid or evade taxes or violate Dharma.

There should be no interest on these delayed payments.

However people who willfully dodge and default on their taxes must be dealt with in the harshest manner possible including the stocks and donkey urine shaving treatment.

Excise, Service, Income, Profits, Capital Gains and Dividend taxes

There are many people especially in the USA and inspired by Irwin Schiff that say the income tax on individuals itself is illegal and should only apply to businesses that make profits.

Technically this is right since individuals who provide only their labour technically have no source of profit since they cannot deduct the expense of their labour from their income.

Only the businesses which employ them and then mark up these individuals labour derive profit from these individuals labour.

However trying to interpret the accounts of how much expense an individual incurs for their labour is a really complex process.

So the best way would be to exempt a minimum amount for all individuals which should take care of the expenses incurred for their labours.

There should be a flat transaction tax of 0.0005% on any transaction of income (credit to bank account) above Rs 100,000 and 0.001% on transaction of income of of income (credit to bank account) above Rs 5,00,000.

The transactions included above should be exempt from this transaction tax since they are already paying a transaction tax .

Considering the argument provided by Irwin Schiff above, no individual should pay income taxes for income upto Rs 10,00,000.

A business with the above Rs 10,00,000 limits of gross operating profit should pay a tax of 5% of the profits. Further deductions to these taxes can be made for interest payments, employee welfare and donations towards True Temples.

Anybody who makes an income of more than Rs 10,00,000 must pay an income tax of 8% above the Rs 10,00,000. Same applies to a business with the above limits of gross operating profit. Further deductions to these taxes can be made for interest payments, employee welfare and donations towards True Temples.

Anybody who makes an income of above Rs 25,00,000 should pay an income tax of 12% above the Rs 20,00,000. Same applies to a business with the above limits of gross operating profit. Further deductions to these taxes can be made for interest payments, employee welfare and donations towards True Temples.

Anybody with an income of Rs 50,00,000 and above should pay a income tax of 16% above the Rs 50,00,000. Same applies to a business with the above limits of gross operating profit. Further deductions to these taxes can be made for interest payments, employee welfare and donations towards True Temples.

Anybody with an income of Rs 75,00,000 and above should pay a income tax of 20% above the Rs 75,00,000. Same applies to a business with the above limits of gross operating profit. Further deductions to these taxes can be made for interest payments, employee welfare and donations towards True Temples.

Anybody with an income of more than Rs 1,00,00,000 should pay an income tax of 24% for the income above Rs 1,00,00,000. Same applies to a business with the above limits of gross operating profit. Further deductions to these taxes can be made for interest payments, employee welfare and donations towards True Temples.

We should not have an income tax more than 24%.

The transaction and luxury taxes will more than make up for this.

This tax should also be applied on dividend income and interest income. The tax of dividend income will apply only to the individual that receives the dividend. The tax of dividend and interest income will follow the above slabs.

The company should not pay any dividend distribution tax and no tax should be applied to a company for distributing dividends.

Any business with more than 5 shareholders but less than 50 shareholders and a minimum equity of Rs 50,00,000 with a net income of more than Rs 50,00,000 can have their profits taxed at 15%.

Any business with more than 50 shareholders and a minimum equity of Rs 5,00,00,000 with a net income of more than Rs 2,00,00,000 can have their profits taxed at 24%.

We should also have a tax surcharge for excess profits.

Any trader should be taxed extra surcharge for net profits above 40%, and any manufacturing/producing industry at net profits above 50%, and service industry should be taxed extra surcharge for net profits above 50%.

These should be net profits after taking into account all taxes and also depreciation, interest, amortization, employee welfare, charity and other social welfare. This does not include expenses for advertising and business promotion.

Depreciation and amortization should not be given for just plain land investment.

It should only be given for buildings, other capital expenditure and other permanent investments on that land.

Businesses can claim deduction for charitable donations only for funds given to organisations and trusts that do not have any legal or family relationship to the promoters and directors of the company.

However family and legal related charitable organisations can also own these businesses with at least 60% holding and claim income from the profits of these businesses and then claim deductions for charitable donations to organisations that have no legal or family relationship to the promoters and directors of the company.

The above conditions can be exempt if the family and legally connected charitable organisation and the organisations that they are donating to can provide completely audited accounts that show how and where funds were contributed by the donor and how and where the funds were spent by the recipient.

This should be backed up by receipts and photos and physical proof of the activities that are claimed to be carried out and by written or video testimonies with at least 50% of the identity verified final recipients (final end receivers) of this charity confirming that they have received this charity.

This proof of charity should be obtained from a nationally approved government regulatory authority.

All healthcare and educational institutions serving at least 60% of patients whose families earn less than Rs 5,00,000 per year, should be exempt from all customs, excise and any other duties.

They should also be exempt from any service, transaction and VAT taxes for all services and equipment that they use and render services to these low income individuals.

Long term capital gains in financial instruments would be traders who take delivery and hold for at least one year and investors(excluding gold and real estate) who hold a financial asset for more than one year.

Long term capital gains in real estate should be 20 years.

Long term capital gains in real estate and gold should be exempt for the first holding and then taxed at a rate of 20% for secondary and subsequent holdings.

The holdings are calculated on a first in first out basis.

What you buy first and inherit is your first holding.

Long term capital gains on gold and financial instruments should follow the same slabs as that given for income taxes.

Long term capital gains on real estate should follow the below slabs:

10% of the net capital gain for real estate asset sales upto Rs 2,00,00,000.

15% of the net capital gain for real estate asset sales of Rs 2,00,00,000 – Rs 6,00,00,000.

20% of the net capital gain for real estate asset sales Rs 6,00,00,000 – Rs 12,00,00,000.

24% of the net capital gain for real estate asset sales above Rs 12,00,00,000.

Estate taxes and Inheritance

We should not have estate taxes immediately because a person dies, but we should have very high taxes for those who inherit wealth and use it for idle, luxury and wasteful expenditure.

If any of these heirs other than the spouse, sell their family property, shares, and other inherited assets, then there should be an estate tax of 15% on the sale. This is outside of and in addition to the capital gains tax for the sale of the same asset.

The estate tax can be applied to any transaction over Rs 5,00,00,000 within a 5 year window and over Rs 10,00,00,000 on a more than 5 year window.

For those who have deceased, their spouses should be exempt from estate tax and any children (not grandchildren unless the children are dead) who inherit the property and are less than 18 years old should be exempt from estate tax.

All persons, especially wealthy persons have some contribution to their earnings mainly from their family and also from their employees and society.

Hence no wealthy person has the right to exclude any of these

parties in their legacy of their business especially if their wealth has been earned because of the contributions of these three parties – the family, the employees and society.

The suggested ratio for distribution of business legacies is given in the Estate Tax section of my article on Inheritance and Succession.

Wealth Tax

We should have a law of a wealth tax for 0.5% percent of our idle liquid income above Rs 1,00,00,000.

We should have a wealth tax of 0.08% of our idle non income generating assets like second house, and second site, farm, jewelry, precious metals, luxury cars and luxury goods above an exemption limit of Rs 2,00,00,000.

But this should be voluntary for those who have no source of income and are living on their inheritance only, especially for the spouses of those who had expired.

However for those who have idle wealth and are still earning a significant income, the wealth tax must apply.

Tithing

Some parts of the Abrahamic religions can be adapted to these modern times-especially the law for tithing.

10% may too high for some people but it should be at least 2% of net income after all necessary expenses for future savings and current needs, not wants and luxuries.

The 2% tithing amount should be applied to all those with an income above Rs 15,00,000 per year.

Tax Treaties

All tax treaties with tax havens like Mauritius, British Virgin Islands, Cayman Islands, UAE, Singapore, USA, UK and other tax havens should be abolished and the tax rate that applies to domestic and local companies in Bharat must also apply to the foreign investors.