

Changing the financial year

This is as good a time as any to align with the calendar year. Otherwise, there is a perpetual worst of times



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Madhya Pradesh (MP) has changed its financial year and so, in due course, might the Union government. Today, the government's financial year, with the MP exception, is April 1 to March 31 of next year. (This is not in the Constitution, but flows from the General Clauses Act of 1897.) Note that private companies and business organisations don't necessarily have to maintain accounts for a period identical with the government's financial year. That isn't the case today. It won't be the case when government changes its financial year. India had its first Budget on April 7, 1860, and till 1867, the financial year used to be May 1 to April 30. There was only one reason for the 1867 change, aligning Indian government's financial year with the British. In 1865, there was a Commission of Enquiry into Indian Accounts with Foster (assistant paymaster general) and Whiffen (deputy accountant general) as members. They recommended the year from January 1. The secretary of state didn't agree because of the alignment motive. We move to Royal Commission on Indian Finance and Currency (commonly referred to as "Chamberlain Commission") appointed in 1913. This said: "It is clear in fact that from the financial point of view the present date

is almost the most inconvenient possible for the budget, and the suggestion has therefore been made that the date of the beginning of the financial year should be altered from the 1st April to the 1st November or 1st January. There may be administrative difficulties in carrying this suggestion into effect, but financially, it would be a great improvement."

Post-Independence, in 1958, there was the 20th Report of the Estimates Committee of Second Lok Sabha. Again, strong arguments against April 1, arguing in favour of October 1. We move to first Administrative Reforms Commission (1966) and its study team on financial administration. Strong arguments against April 1 again. After considering January 1 and October 1, and opting for October 1. The 4th Report on Finance, Accounts and Audit said, "The Financial Year starting from the 1st of April is not based on the customs and needs of our nation. Our economy is still predominantly agricultural and is dependent on the behaviour of the principal monsoon. A realistic financial year should enable a correct assessment of revenue, should also synchronise with a maximum continuous spell of the working season and facilitate an even spread of expenditure." After an NDC meeting, in 1983-84, the Union finance minister brought up the issue again and asked for the views of state chief ministers. Almost all chief ministers who replied wanted a change, though they differed on which month should be chosen. Several chief ministers suggested after the monsoon, with knowledge of kharif output; many suggested synchronisation with the calendar year, others recommended July 1 for facilitating development works. This led to the L. K. Jha Committee of 1984. This



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again recommended January 1.

The chairman's letter to the Union finance minister said, "It seemed to us that making January-December the financial year would be the most advantageous from this point of view, as it would enable the Budget to be presented in November when the size of the kharif crop would be known, and a preview of the rabi crop would be possible. The choice would also be helpful in the compilation of statistical data for purposes of National Accounts, in line with international practice, and do away with the confusion caused by having to refer to the financial year for some purposes

and the calendar year for others". I have mentioned all this to demonstrate this isn't a new issue. Among the reasons cited are (a) current financial year leads to suboptimal utilisation of the working season; (b) difference in agriculture crop period, statistics and data collection periods from a national accounts perspective; (c) convenience of legislators; (d) international practices; (e) national culture/traditions. Even if agriculture's share in the national income is declining, those other reasons remain valid, especially the one about working season. Talk to anyone from the Northeast, or other hilly states.

The recommendation wasn't implemented. The government's response was: (a) advantages are minimal; (b) data collection is upset; and (c) it would require amendments to tax laws, financial procedures ad son on. On (c), the Jha Committee did ask the Central Statistics Office and the latter "supported the change to the calendar year which it feels is not likely to result in any major disruption. On the other hand, it may be a neater arrangement, especially since it would then make for more uniformity in the periods of the various statistical series." On (c), the first Administrative Reforms Commission said: "We recognise that any change in the financial year would cause in the short run considerable dislocation in the administrative and statistical fields of activity. But that consideration should not deter us from adopting a more rational, practical and convenient system, keeping in view the many advantages which will accrue therefrom." Right now, there are ongoing changes in public expenditure and budgetary processes — end of Plan versus non-Plan distinction, 14th Finance Commission recommendations, restructured centrally sponsored schemes. This is a good time to bring in change, with arguments in its favour from 1865. In 1993, the deputy chairman of the Planning Commission wrote to the finance minister, asking why nothing had been done about the Jha Committee recommendations. The minister replied that the country was in the middle of reforms and this wasn't the best of times. Stated thus, there is a perpetual worst of times.

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