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NEED FOR CHANGE IN THE HISTORICAL LEGACY OF CURRENT FINANCIAL YEAR

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ABSTRACT

The Indian financial year starts on 1st April of a given year and ends on 31st March of subsequent year. It was adopted by the Government in India in 1867, principally to align the Indian financial year with that of the British Government. Prior to 1867, the financial year in India used to commence on 1st May of a given year and ended on 30th April of following year. The current financial year's suitability to Indian conditions has been questioned time and again throughout its history of 150 years. Various committees and study teams were formed for this purpose. The important point to be noted is that the considerations relevant in any examination of the question of change in financial year have by and large remained the same over the years. Most of the proposals for a change in financial year are based on the consideration that the formulation of Budget should take place at a time when better account could be taken of the performance of monsoons, because they have an impact on the socio-economic character of the country. The issue of change in financial year was last examined by the L.K. Jha Committee in 1985, whose recommendation to switch over to the calendar year was not accepted by the Government due to huge transition problems.

KEYWORDS

financial year, Indian government.

INTRODUCTION

A financial year refers to a one-year period starting on a particular date and continuing till the end of 12 months from the start date, used for estimating and analysing the financial situation of governments, business organisations, private companies, institutions etc.

There are three variants of a financial year i.e.,

- **FINANCIAL YEAR FOR GOVERNMENT:** this refers to the financial year used by the Government(Centre/State) to prepare their budgets, accounts, financial statements etc;
- **FINANCIAL YEAR FOR BUSINESS ENTITIES:** this refers to the financial year used by a business entity to prepare their budgets, accounts, financial statements etc;
- **TAX YEAR:** this refers to the financial year mandated by law/regulations over which individuals or business entities are required to report their financial accounts and pay applicable taxes.

The financial year adopted by the Indian Government starts on 1st April of a given year and ends on 31st March of subsequent year. Each financial year is, therefore spread over two calendar years. The Central Government and State Governments state their financial situations through Union Budget and State Budgets respectively, each reflecting the Government's finances and accounts for the financial year. The present financial year was adopted by the Government in India in 1867, in order to align the Indian financial year with that of the British Government. The question of changing the financial year has been examined from time to time by various expert committees/study teams, over its 150 years history. Most of the proposals for a change in financial year are based on the consideration that the Budget should be based on a knowledge of the impact of monsoons on the economy. Monsoons have an impact both on the content (i.e. the estimates of revenue and expenditure) as well as the broader objective of the budget (i.e. a policy tool to optimally address the socio-economic and political priorities of the country). The impact of a bad monsoon on the Budget is not merely on account of any declines in the revenue that may follow but also on account of additional unforeseen expenditure on drought relief, etc. It is important to note that the considerations relevant in any examination of the question of change in financial year have by and large, remained the same over the years. All these considerations have been discussed in this paper.

OBJECTIVES OF THE STUDY

1. To assess the studies made in past on the desirability of change in financial year.
2. To evaluate the suitability of current financial year with respect to Indian conditions.

RESEARCH METHODOLOGY

This paper is a review paper so the data required for the paper was secondary data. This data was collected by reviewing thoroughly various articles, newspapers, government reports and by surfing government websites.

HISTORICAL INSTANCES QUESTIONING THE APPROPRIATENESS OF CURRENT FINANCIAL YEAR

1. Royal Commission on the Administration of Expenditure of India, commonly known as the Welby Commission, in its report given in 1900 considered the matter of changing the current financial year.
2. Later in 1908, the Government of India again considered this subject on the basis of recommendations made by Maharaja of Darbhanga.
3. Royal Commission on Indian Finance commonly referred to as Chamberlain Commission set up in 1913, pointed out that the present date is the most inconvenient for the budget, hence suggested to change it from 1st April to 1st November or 1st January.
4. Later in 1954, a non-official resolution was brought up before the Congress session at Kalyani at the instance of Prime Minister, proposing that the financial year must commence from 1st July. The reasons given for proposing the change were that the budget was prepared without any idea of the ensuing south-west monsoons and that the timing of the Budget session was such that legislators had to tour their constituencies in the monsoons, which was inconvenient.
5. National Developmental Council (NDC) also raised this issue but, the consensus was to maintain the status quo.
6. Then in 1958, Estimates Committee pointed out in paras 39-40 of their 20th report various difficulties in the present system of commencing the budget year from 1st April and suggested that it is desirable that early action to change the financial year to commence from 1st October be taken.
7. Later, an Administrative Reforms Commission (ARC) was appointed in 1966. Its study team examined this matter and suggested suitable options for alternate financial year. Later in 1968, the Commission's Chairman Shri K. Hanumanthaiya, in the 4th report on Finance, Accounts and Audit recommended 1st November as the preferred date for starting the financial year because it is related to Diwali and according to the commission, considering national traditions in choosing a financial year could result in considerable psychology advantage.

The report also mentioned the following important considerations to be taken into account in any serious discussion of this matter:

- India still remains, despite the industrial development of the past decade or so, a predominantly agricultural country with most of the industrial production and commercial activities being dependent to a large extent on agricultural production. This makes it necessary that the financial year should be such that the dominant character of the principal monsoon should be known before the budget is settled.
- The continuous spell of the working season or as much of it as possible should fall within a single financial year.
- The period commencing from the end of the monsoon and extending up to the peak of the next hot season constitutes the season of most intense activity.

- The timing of the budget session of Central and State Legislatures should be suitable for the members thereof.
- 8. Consequently, a Committee on Change in Financial Year was set up in 1984, under the chairmanship of Shri L. K. Jha. The committee examined this matter in probably the most comprehensive manner in recent past. It was of the view that the new financial year must be related to the Georgian Calendar which is followed for all practical purposes in the financial transactions of Government, as well as of the business community. The Committee while recommending the commencement of financial year from 1st January mainly with reference to the impact of South-West monsoon on the economy, had mentioned in their report that if for any reason a changeover to the calendar year is not acceptable despite its many advantages, then on balance, it might be best to live with the exiting financial year and avoid the problems of transition.

Government of India did not favour any change in the financial year for some of the reasons which are brought out below:

- i. The advantages arising out of the change would only be marginal in view of the innumerable considerations in the formulation of budget policies.
- ii. Change in the financial year would upset the collection of data and it might take a long time to return to normalcy in this regard.
- iii. The change would create a large number of problems, as extensive amendments to tax laws and systems, financial procedures relating to expenditure authorisation and other matters would become necessary and in that process the administrative machinery would get diverted to the problems of transition instead of concentrating on improving the tax collection machinery.

APPROPRIATENESS OF THE FINANCIAL YEAR IN INDIAN CONDITIONS

1. CORRECT ESTIMATION OF RECEIPTS AND EXPENDITURE OF CENTRE AND STATE GOVERNMENTS

A budget is a statement of estimated receipts and expenditures of the Government for a financial year. It is the Government's main economic policy document which shows how the Government plans to use public resources to meet policy goals. Since the budget is to be presented each year on the last working day of February, the budgetary receipts and expenditures need to be finalised around January end. But the main concern is that reliable estimates of ensuing South-West Monsoons are not obtained by that time and hence the Government ends up deciding fiscal allocations and investment plans without reasonable assessment of coming monsoon rains.

Of the two monsoons in the country the south-west and the north-east, it is the south-west monsoon which is generally more significant and has more pervasive impact on the economy. The inherent limitation with the current financial year and therefore with the Government's Budget is that by the time Government authorises fresh allocations, the impact of previous South-West monsoons is well over (more than 8 months over) and by the time allocations reach implementing authorities (May/June) - the South-West monsoon are just about to set in thereby making the budgetary policy measures more "reactive" rather than "proactive". This limitation in terms of Government's response can be seen from the table below. The Government having assessed the agriculture situation in the light of consecutive bad monsoon years - 2014 & 2015, allocated significantly more resources in the year 2016-17

TABLE 1: BUDGETARY ALLOCATION TO SECTORS

Sector Totals	2014-15	2015-16 (RE)	2016-17 (BE)
Agriculture and Irrigation	31497	25998	54212
Y-O-Y Change		-17%	109%
Monsoon (South-West)	Below Avg.	Below Avg.	Likely Above Avg.

Source: Annex No.III-A to Part A, Page 36, The Budget Speech

Correct estimation of ensuing south-west monsoon rains is essential because 50% of agriculture sector is still exposed to monsoons which directly impact both kharif and rabi crops. The monsoons have a direct and immediate effect on agricultural production, indirectly, through changes in consumer demand based on fluctuations in agricultural incomes, they influence industrial production, which in turn has its own influence on aggregate demand. Both these have a bearing on the estimation of Government's receipts during the financial year. Further, droughts, floods etc., when they occur, can necessitate substantial unforeseen increases in public expenditure on account of relief operations. Price trends too, which have a bearing on the level of deficit financing that can be safely undertaken, are affected by the behaviour of the monsoon.

This makes it necessary that the financial year should be such that the dominant character of the principal monsoon should be known before the budget is settled.

2. UTILISATION OF WORKING SEASON

Traditionally the working season in India is typically considered as the period starting October stretching over to the next 8 or 9 months (i.e. June/July). The period from June/July to September is generally the period of South-West monsoon rains which slows construction/development related activities such as construction of roads, irrigation projects, housing, buildings etc.

Since the funds lapse at the end of the financial year and there is a time-lag, which may extend even upto 3 months, before the fresh allocations are in the hands of executive agencies, the first quarter of the financial year sees a considerable slowing down of the works programme in most parts of the country. Thereafter, the south-west monsoon slows down, if not holds up, work in many areas. As a result there is a loss of 6 months of the working season. However, interruption of works on account of climatic conditions cannot be eliminated by any change in the financial year. Further, this interruption occurs at different times in different parts of the country. For example - in the Himalayan region, work comes to a standstill between January and March because of snowfall, while period from July to September provides ideal working opportunities for them. The L.K. Jha Committee had noted that if the delays in the issue of expenditure authorisations could be eliminated, then in each part of the country the working season would be subject to only one interruption, viz the climatic one, and not get shortened or broken up on account of the procedures in regard to the issue of financial authorisations following the presentation of the Budget. Hence, the L.K. Jha committee had recommended following procedures to prevent such delays:-

- a) Anticipated under-spending on major projects in a year should be provided for in the Vote on Account for the first three months of the following year, to ensure availability of funds for on-going projects and programmes.
- b) So far as new projects and programmes are concerned, if advance preparation becomes the rule rather than the exception, budgetary estimates would be much more realistic and the pace of execution could be speeded up.

3. ALIGNMENT OF THE FINANCIAL YEAR WITH INTERNATIONAL PRACTICES

There are no uniform global standards for choosing a financial year and therefore different Government's use different dates as start of their financial years to suit their conditions. For example, governments in countries like Austria, China, Germany, Brazil, Russia, Netherlands etc. follow the calendar year as their financial year starting 1st January and ending 31st December. Countries like India, Singapore, UK, Canada etc. have their financial years starting 1st of April of a given year and ending 31st March next year. Whereas Pakistan, Egypt, New Zealand, etc. follow a financial year starting 1st July of a given year and ending 30th June the following year. The US Federal Government uses October to September as its financial year. The key trend that can be noticed is that almost all the governments start their financial years on the start date of a quarter i.e. either 1st October or 1st January or 1st April or 1st July.

However, there are no uniform global practices for choosing a financial year. Each country chooses its financial year to suit its convenience/conditions.

4. NATIONAL/LOCAL TRADITIONS AND CULTURE

Each nation has its own traditions based upon its civilisation, customs and habits. These traditions are evolved over centuries and they continue to remain in force in view of their inherent vitality. The decision of Indian financial year was driven by the British historical legacy of their new year rather than by Indian national/local traditions. Considering that India has significant diversity in terms of culture and traditional practices, a range of options could emerge for the financial year. However, in India, whether it is in the agricultural or in the commercial field, the traditional dividing line between the close of one period of activity and commencement of the next is Diwali. The business community and other sectors of society start on the Diwali day with the feeling that they have finished with the old period of activity and have embarked upon a new one.

It was the first Administrative Reforms Commission (ARC) which particularly noted that considering "national traditions" while choosing financial year could result in considerable psychological advantage. The commission recommended starting the financial year on Diwali or a date near Diwali. Hence in terms of international

calendar 1st November was considered as the suitable option. Thus it becomes necessary that any alternate option for the financial year should preferably have some reference to local/national traditions and culture.

5. CONVENIENCE OF LEGISLATORS

This section assesses the suitability of current financial year with respect to:

- i. Convenience of legislators for transacting budget work: The budget session generally extends from 3rd week of February to 3rd week of May. From the weather perspective no inconvenience is caused to the legislators and administrators as most of the government offices are now equipped with modern all weather facilities enabling them to comfortably conduct their budget work even during the hot summer season.
- ii. Convenience of legislators for touring their constituencies: It was felt earlier that because of the timing of the Budget session, the legislators had to tour their constituencies to continue their work supervisions and meet people around June/July, which was inconvenient due to the arrival of south-west monsoons. But since the current situation has changed as infrastructure and connectivity have improved to a great extent, Legislators can easily visit or access most of their constituencies even during the monsoon season.

Thus the current financial year timing does not bring any particular inconvenience to the legislators either to conduct their budget work or visit their constituencies.

6. IMPACT ON THE FINANCIAL YEAR WITH RESPECT TO DIFFERENT AGRICULTURE CROP PERIODS, STATISTICS AND DATA COLLECTION PERIODS

The Central Statistical Organisation (CSO) compiles the National Accounts Statistics (NAS) with reference to the recommendations of United Nations System of National Accounts (UN-SNA). These statistics refer to the data collected and disseminated for different sectors of the federal system of the country, for example the GDP, GNP, per capita income, agriculture crop production and so on. The National Accounts are at present compiled on the basis of a number of statistical series, some of which relate to the financial year, some to the calendar year and some to the agricultural year. The agricultural statistics, despite the different crop periods to which they pertain, are compiled on the basis of the agricultural year, namely, July-June and adopted for inclusion in the National Accounts Statistics compiled for April-March. Likewise, the statistics relating to industries, financial institutions etc. pertain to their own respective accounting periods, but still are adopted for purposes of the National Accounts Statistics. All these statistical series can be adopted with such minimum modifications as may be necessary, for compilation of National Accounts Statistics. The inference being that consistency and quality of statistics do not get compromised on account of different data collection periods.

Now, coming to the point, in case the financial year is changed there would not be any serious implications from the perspective of data collection and production because as told by CSO to the L.K. Jha committee - "a change to calendar year would not result in any major disruption on the other hand it may be a neater arrangement especially since it would make for more uniformity in the periods of the various statistical series". Above that the UN Statistical Office and the various UN Organisations follow the calendar year for presentation of international statistics in all their statistical publications. Hence, according to CSO, adoption of calendar year as the financial year will align the existing statistical period with UN reporting standards.

CONCLUSION

Having assessed the question of need for changing the current financial year from various perspectives/considerations, the key findings are:

- On the impact of financial year on correct estimation of receipts and expenditure of Centre and State Governments - As argued, the timing of the current financial year puts the Government in a situation that it is unable to account the monsoon situation while formulating budgetary investments and allocations. Hence, this makes it necessary that the financial year should be such that the dominant character of principal monsoon should be known before the budget is settled.
- On the impact of financial year to the utilisation of working season - Under the present arrangement, the working season falls in two financial years, and the break between the two is not conducive to the best utilisation of the season. In conclusion, if the delays in issue of expenditure authorisations are eliminated, then in each part of the country the working season would be subject to only one interruption, viz climatic one, which cannot be eliminated by any change in financial year.
- In terms of International practices - There are no uniform global standards for choosing a financial year and therefore different Government's use different dates as start of their financial years to suit their conditions/convenience.
- In terms of National/Local traditions and Culture - Considering "national traditions" while choosing the financial year could result in considerable psychological advantage. Hence, any alternate option for financial year should preferably have some reference to local/national traditions and culture.
- In terms of convenience of legislators - The current financial year timing does not bring any particular inconvenience to the legislators and by and large the Parliament sessions could also be tweaked appropriately in case the Government opts for change in financial year.
- On the impact of financial year to data collect periods - It is concluded that a change to the calendar year is preferred by the CSO as it will make for more uniformity in the periods of various statistical series and align the Indian statistical series with UN reporting standards.
- In Conclusion:

A budget is not just a statement of estimated receipts and expenditure but also an economic tool for achieving the socio-economic objectives of the Government. To the extent that economy gets disturbed by a poor monsoon, the impact on the budget in some way or the other is inevitable. Hence a change in financial year, in a manner that monsoon information could be reasonably considered, could thus facilitate re-orientation of the budgetary planning exercise.

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