Changing the Fiscal Year

What is the issue?

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Madhya Pradesh government has announced that it will implement the aligning of fiscal year (FY) with the calendar year by presenting its budget for 2018 in December 2017.

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Who mooted this idea?

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- The finance ministry (FM) had mooted a change in the Financial Year in 2016.
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- In July 2016, the FM constituted a committee led by the former chief economic adviser, **Shankar Acharya,** to examine the "desirability and feasibility" of changing the Financial Year.
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- In December, after the committee submitted its report, the ministry denied an imminent change in the FY.
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What are the justifications given?

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- Well before the Acharya Committee finalised its report, a discussion note put out by NITI Aayog — written by its member, Bibek Debroy, and Kishore Desai — had listed several reasons:
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- The primary one being that it would arm the government with levers to effectively and adequately reorient the budget formulation exercise.
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- Their point was that the April-March year prevented policymakers and the

government from taking into account the monsoon situation — important because the Budget is an important tool to address socio-economic requirements, and the farm sector dominates the country's socio-economic dynamics.
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- They also pointed to the higher share of the farm sector in the output of some northern states. There was also a mention of global practices.
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- **China, Brazil, France and Germany follow the calendar year**; in the United States, the federal government's fiscal year runs from October 1 to September 30.
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- Most top US and European firms have the calendar year as their business year.
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What do the critics say?

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- The proposal had evoked mixed responses with the NITI Aayog supporting it and the industry body, ASSOCHAM, issuing a trenchant critique.
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- The ASSOCHAM, had argued, changing the financial year will not only **mean a change in book-keeping,** but also in the entire infrastructure of accounting software, taxation systems, human resource practices involving huge costs for both big and small industries.
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- The shift would cost hundreds of crores of rupees, the industry body had said.
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- Aligning the FY with the calendar year would require the budget to be presented in October or November, about the time when sowing for Rabi crops — most importantly, wheat and mustard — begins.
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- It defies logic as to how the finance minister will conduct this exercise with, at best, a sketchy idea of the harvest next year.
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- **From an agricultural standpoint,** in fact, July-June would be the ideal financial year, as Kharif sowings peak in July with the arrival of the monsoon

a month earlier.
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- There is another, larger point — which is about whether the impact on a sector whose contribution to national income has declined to well below 20%, should be the driver for such a major change.
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What is the way ahead?

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- Perhaps it would have been better to first adopt an **accrual-based system of accounting,** which better reflects the state of the government's accounts.
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- The Finance Commission had recommended this earlier — and a previous government had accepted it in principle and mandated the Government Accounting Standards Advisory Board to draw up a detailed roadmap.
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- This would reflect more accurately the government's assets and liabilities, and provide a far more comprehensive and transparent picture of its 'balance sheet'.
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Source: Indian Express

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