Twitter Thread by Shravan Venkataraman ■■■



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****Time for a thread****

Through the last three years of experience in the entrepreneurship space, I understood why phenomenons like

- black money
- hawala
- money laundering
- tax fraud
- overclaiming of tax returns
- not reporting income

and other such scenarios exist.

1/ Running a business, especially with all the licenses and the jazz is like standing in a traffic signal.

The signal may still be red. But if vehicles have started moving, they will keep honking and hurling abuses at you for not moving and breaking the rules along with you.

2/ The corrupt system begets corruption.

The government employees seek bribe for every single thing that they are being paid to do as work.

If you don't pay them, your business will not get set up.

If you don't pay what they ask for, they will point out hundred issues.

3/ So, the base for corruption gets set up when you start your business.

You unwittingly become an accomplice to the systemic corruption.

If you don't bribe, your business won't get off the ground and you can't make money.

So, you are cornered to have to pay a bribe.

4/ Now, your business gets off the ground. But you have to get loan to set it up.

You go to MSME. They get you the loan. They also provide subsidy relief.

The catch: The officer asks you to pay 10-15% of subsidy as "formality" to ministers and the chain of command.

5/ You then go about registering required licenses.

Every single department in some form or other takes bribe during your lifetime. From EB to service tax department, they do this.

If you don't pay up, they will block your business in some way or the other.

6/ If this is government illegally grabbing money from you even when you aren't in a position to pay, then there's taxes.

GST goes up to 18%. If you're in F&B / restaurant business, you can't even claim ITC.

You pay a good chunk of what you collect as GST.

7/ On top of this, you also pay income tax 20-30% on your net profits.

Apart from this, you also regularly pay other small small taxes - property tax, water tax, land tax, and so on.

8/ As if this isn't enough, the government keeps your IT returns for a year before sending to your account. No-collateral loans cost 18-25% per annum.

Let's consider a conservative 18% on your returns stuck with IT department.

You lose on that too.

9/ On top of all this, if you're a company with some visibility, EB department and other related departments come to you every year for annual quota of collection.

The CM of the state gives the Commissioner a quota for collection for the year. They have to meet that quota.

10/ It trickles down several levels.

And at each level the different government department and each person responsible keeps a margin for themselves for the risk they take.

11/ Say commissioner is told to collect 100Cr for the year from the CM office.

He then distributes the quota to different branches. Traffic, crime, civil, etc.

The traffic police who grab hold of middle class people and charge them fines and bribes - that's for this quota.

12/ This quota is filled partly legally (challans and tickets but for unfair/unjust reasons) and mostly illegally.

If EB, the EB guys find the biggest income generators of the area and go tell them they have to pay x amount per month for the year.

13/ For ex: Chennai Silks in Chromepet, Chennai pays close to 1 lakh per day in EB bill, but around 5-10 lakhs per month for this illegal quota (in cash).

This I learnt from an audit intern working on their last FY audit.

If they don't pay, the EB authorities will act.

14/ If you're a small business, there are other ways you get screwed.

Big businesses strategically take advantage of you. They ask for credit, and then don't honor the credit. Some purposefully default your payments.

When you go to MSME, they don't pick up your case for long.

15/ When they do pick up, they advice you to let it go, and that you'll have to pay more in legal fees to pursue the case.

Big businesses and unethical owners know this and take advantage of small businesses that can't afford a legal fight.

16/ If you manage to bypass all these hurdles and somehow survive, and you somehow made profits and distribute dividends to shareholders, you had to pay dividend distribution tax.

17/ When you roughly calculate it, if a company operates legally, and if they notionally make 1 crore, they lose close to 55-70 lakhs in taxes and "formalities" itself.

On the other end of all this is the biggest legalized organized mafia in the world - government.

18/ You can't fight the government. You can't even register a case on the cpgrams portal against the central government departments.

Even if you register a case against state gov departments, it usually gets discarded.

19/ On top of this, there's inflation too.

Sometimes the inflation is crazy. So, 1 lakh in 2015 is only worth like 85k in 2020.

Businesses lose on a compounding manner VERY BIG in this inflation related losses too. More details in this thread:

https://t.co/SMtGhzmLg0

> 1/
>
> Get a cup of coffee.
>
> In this thread, I'll help you understand the relationships between *investing* and *inflation*.
> pic.twitter.com/8KKApyc6vU
>
> — 10-K Diver (@10kdiver) November 28, 2020

20/ So, what would a rational person going through all this do?

If they are not making money after so much efforts, and only enriching everyone else (their landlords, gov orgs, vendors, customers, etc.), they will quit their business and go get a job.

21/ Anyone who manages to find success will look at what the government does with all that money they pay in taxes.

Let's take a look at what the government does with all the money they collect as taxes.

22/ Government doesn't do much.

It gives humongous loans to fraudulent people and declare thousands of crores as NPAs.

It lets those frauds roam scot-free in foreign countries.

It then prints money and recapitalises such banks giving out money to frauds.

23/ And then what happens? These banks in turn charge the legit paying customers - us - for every single thing they are supposed to provide for free.

Banks run because we park money there. Not the other way around. They earn from our money and giving loans from our deposits.

What do these banks do? They charge us for sms alerts, for NEFT, for IMPS, for RTGS, for debit card, for cheque book, and all that they lose in their NPAs, they somehow try to recoup whatever they can, by charging us for everything they have to provide for using our money.

24/ Then if we managed to get loans for 10L - 1C, even if we don't pay one month of EMI, they hound us like anything.

But you get 10,000 crore loan, even if you don't pay, you get VIP treatment.

25/ Then, government takes all these tax payer money, and constructs humongous statues costing thousands of crores.

But why?

What's even the point when so many people are under the poverty line, and don't even have a basic gas facility?

Bhakts will say "tourism revenue".

26/ What government does with all that tourism revenue, no one knows.

Covid happened, and government didn't provide much relief.

The entire 20L Cr package was all a bunch of hogwash. On top of that government took donations.

What happened to those donations? No one knows.

27/ Leave all this. Does your neighborhood get developed for all the money your local municipality/corporation/and panchayat board collects from your business legally and illegally?

Nope.

Drainage isn't maintained.
Garbage collection is not regular.
Roads are with potholes.

28/ What does a sane person who notices all this while bleeding money from his business think?

"If I have to shed blood, sweat, and tears for all the pigs to sit and eat, I might as well take my fair share of money. "

29/ It starts small.

- Not declaring bills here and there.

- Getting cash payments and converting it to gold in the grey market.

- Holding an account in wife or mother's name where they don't file any taxes.

- Buying property using benami's.

30/ It gets bigger.

- Accounting smarts. Some minor accounting adjustments here and there.

- Setting up a holding company and showing non-existing transactions for travel, and other such claims.

- Utilizing some of the legal ways to reduce taxes and slightly illegal ways too.

31/ Eventually it gets much bigger once the company is at the big leagues.

The amount they have to pay illegally also increases. They don't want to, but they have to.

So they move on to bigger ways of taking as much of their money away from government.

32/ Now they move on to full on accounting loopholes, and fixing books.

We see 0.000001% of these in news.

Every single company out there that's successful has fixed books and accounts to their convenience, to save every single penny. Very few get caught.

33/ The few that get caught do get caught because of political affiliations 99.99% of the time.

When parties/regime/leadership change, favorites are played, and unfavorables are taken out.

IT department plays the queen while the government plays the king. You're the pawn.

34/ At the highest level, keeping one's money becomes a power struggle between the government and the business.

Business owner and group strategically extracts money from government higher than the proportion they paid.

They collude with bankers to accomplish this.

35/ Gov doesn't pay bankers well. At the highest level, they maybe make 50L per annum.

When a businessman comes along and pays 10c to get a LOG for 1000C, who would reject?

36/ And then, this guy grows so big that there's a systemic risk with his business. Government is very well aware of it. Gov knows it played a part in the business' growth also.

Some of these people become Mallaiya's and Choksey's.

Some become Ambani's and Birla's.

37/ Ambani's legal net worth is 1.7-2L crore.

You have no idea what his illegal net worth is. He may be richer than Bezos and Warren Buffett and even Putin in reality. You'd never know.

That's why he's the kingmaker. His money can sway elections and turn governments.

38/ When one of these guys turn rotten, all the government department who colluded to get them there, will wash their hands of responsibility.

Nobody goes to jail.

All of that then comes and drains down the heads of middle class honest salary earners and job goers.

39/ Ever seen a middle-class honest tax-payer friendly budget?

Nope.

Budgets are a joke.

On non election years, they are to appease the big guys and corporates giving the party money.

On election years, it's to appease the illiterates who vote for anyone giving 5000 rupees.

40/ All this is what it looks like. It's a cycle.

You can't run a honest business and become big.

Every single big corporate you see does something wrong and illegal. Including public companies.

You're just not smart enough to notice those.

The Big-4 are responsible too.

41/ In the last 20 years, Big-4 audited firms have been responsible for most of these NPAs and losses to governments.

Yet those big-4 auditors stand tall and help businesses take money away from government.

42/ So, before you start your business, learn the legal and taxation system inside out. There are loopholes. A lot of them.

And you HAVE to take advantage of the loopholes you can take advantage of, legally.

43/ And, be ready to suck it up and cross the grey area, cross certain lines if you want your business to grow.

Otherwise, you have to accept either not scaling your business and stay small. Or you'll have to just shut your business down and go to a regular job.

44/ Corruption, bribery, and black money don't exist for no reason.

You think Modi's total net worth is only 2.5 odd crores? What a joke!

He definitely has so much more in undeclared and illegal net worth. I'd say he's as rich as some of the richest businessmen in Chennai.

45/ So, before you start a business, know that these things exist and that you'll have to compromise on your morals, values, and principles to have your business grow, at least to a certain extent.

46/ Finally, know one thing.

In the business world, bad people continue getting enriched. You constantly see that happen.

If you're good and honest, you will never be able to grow.

At some point or the other, you're gonna have to cross the line.