POLICY BRIEF

The Citizen's Choice Tax

A Citizen-Directed Channel for 5% of Personal Income Tax

Proposed by Valibabu Saladi · valisbabu@gmail.com For: Ministry of Finance · NITI Aayog · 17th Finance Commission

Sr. Director of Engineering — wireless communications (3G/4G/5G/6G), 24 years in the USA.
B.Tech (JNTU Kakinada), M.Tech (IIT Kanpur) · Former Engineer at Prasar Bharati and Scientist 'C' at ISRO.
Native of Nangavaram village, AP, and a graduate of SSR ZP High School, Bhimanapalli (1987) — the community this reform honours.

The Problem in One Sentence

Every successful taxpayer is the product of a long chain of community investment — a village school, a Primary Health Centre, a panchayat — yet when that person migrates to a city, **no fiscal flow ever reaches the specific institutions that shaped them.** Central collection and Finance Commission devolution stop at the state treasury, allocated by formula on population, area, and income distance; the formula is blind to who produced the taxpayer and reaches no individual school, clinic, or ward.

The result is a self-reinforcing rural-urban divide: cities concentrate tax revenue and infrastructure, drawing more migration, while the places that nurtured productive citizens decline. India has roughly **45.6 crore internal migrants (38% of the population)**, one of the largest such flows in the world. Section 80G lets citizens donate extra post-tax money to notified charities, but it does not reach government schools, PHCs, or panchayats, and reaches only a small fraction of taxpayers. A structural channel for gratitude, routed through the routine act of paying tax, simply does not exist.

India already accepts that two jurisdictions can hold a claim on the same tax — GST shares revenue between the state that produces goods and the state that consumes them. The same principle has never been applied to human capital:

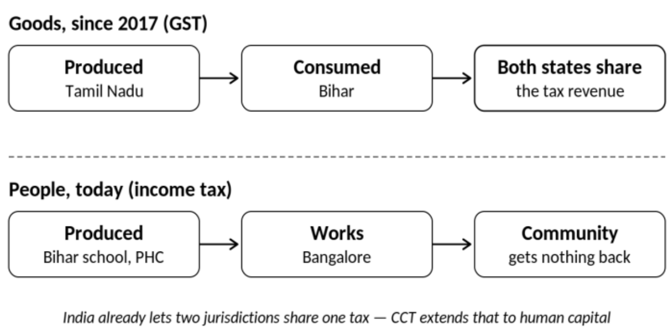

Figure 1 — GST shares tax on goods across states; nothing comparable exists for the people a community produces.

The Proposal

Allow every income taxpayer to direct 5% of their income tax liability to public institutions or communities of their choice. The remaining 95% flows exactly as it does today. The taxpayer pays the same total tax — only the destination of 5% changes, so the **additional cost to the taxpayer is zero.**

How it works

- **Structural but discretionary —** the 5% allocation is built into filing, but the choice of recipient is entirely the taxpayer's; it can be split across up to 10 recipients.
- **No verification required —** the citizen's declaration of which communities shaped them is accepted at face value, respecting autonomy and dignity.
- **Annually changeable —** allocations can be revised each filing year; if no selection is made, the 5% defaults to the standard pool with no penalty.

- **A SWIFT-code registry —** a public, searchable registry assigns each eligible recipient a unique code, with a designated bank account, published utilisation reports, and audit obligations proportional to funds received.

Eligible recipients

Village panchayats and urban ward committees; government schools, colleges and universities; government hospitals, PHCs and Community Health Centres; public libraries, museums and cultural institutions; registered NGOs and trusts (12A/80G); state tourism boards; and specific government programmes such as mid-day meal and scholarship schemes.

> **Why 5% — and why not more (yet)**
>
> At 5% of ~₹12.9 lakh crore personal income tax, the theoretical maximum redirection is ₹64,500 crore — meaningful for institutions yet fully absorbed within existing fiscal architecture, leaving Finance Commission devolution and central planning intact.
>
> Parliamentary primacy is preserved: 95% of revenue continues through established democratic processes. A staged pathway allows review and possible expansion to 7–10% (Years 4–6) and beyond, earned through demonstrated success — mirroring Japan's evidence-driven growth from ¥8.1 billion (FY2008) to ¥1.27 trillion (FY2024).

Why Section 80G Is Not Enough

80G has existed for decades, yet rural schools keep declining and PHCs remain under-equipped. The two are complementary, not competing — but they differ fundamentally. 80G asks for **extra post-tax money** and reaches only notified NGOs and specified funds; CCT **redirects tax already owed** (zero net cost) and adds government schools, PHCs, panchayats and wards. And where 80G is one-way charity that few use, CCT is an annual, reversible choice available to every filer — so a recipient must keep earning the community's trust to keep the flow.

The Core Idea: Money and Values Together

Two figures are always published together, never one without the other: **the sum directed** (which gives an institution a budget) and **the count of citizens who directed** (which records whether it was remembered, and does not rise with what its alumni came to earn). Read side by side, they interpret one another — a community competes on the count, which it cannot buy, while benefiting from the sum, which it can spend.

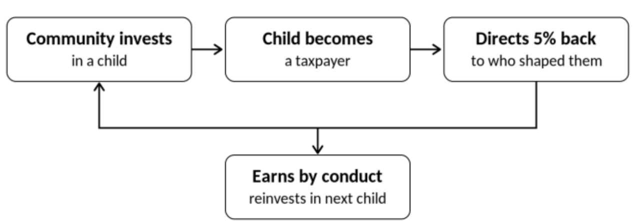

Figure 4 — Gratitude as a renewable loop.

Because the choice is renewed yearly, it rewards conduct, not history. A community that discriminates, neglects, or lets its institutions decay sees allocations move elsewhere; one that honours its members keeps them. The logic runs forward too: every child is a future taxpayer, giving even a self-interested community a direct stake in educating girls, poor children, marginalised groups, and children with disabilities well today.

The ethical principle is mutual respect, not one-way obligation. The citizen owes no gratitude they do not feel, and the community earns support only by how it treats its people — so the flow honours a relationship freely renewed on both sides, never a debt extracted or a loyalty commanded. This is what separates CCT from both charity (which asks the giver to carry the whole moral weight) and tax (which asks nothing of the recipient community): it makes remembering, and being worth remembering, a shared and continuing act.

> **A safeguard that never punishes the citizen**
>
> Government funding of every institution is unconditional and untouched. Where nothing is directed, the sum simply returns to the general pool — an institution no one chooses loses nothing it had. Low directed flow is not a verdict but a location: it marks, with

precision no survey achieves, where the chain between community investment and citizen success has broken, telling the State exactly where to seed.

Proven Abroad: Two Working Precedents

	Japan — Furusato Nōzei	Georgia (USA) — HEART
Since	2008	2017
Scale	¥1.2 trillion (~₹68,000 cr) FY2024; 1,785 municipalities	~80% of $100M annual cap used by 2026
Principle	Redirect residence tax to chosen municipality	100% credit; taxpayer picks the rural hospital
Lesson for India	Broad-based citizen direction works at scale	State-level pilot viable in a federal democracy

CCT improves on Japan's model with no return gifts (removing the wagyu-and-seafood distortion), an explicit mutual-respect principle, forward-looking investment logic, and a built-in diaspora channel — adapting proven models rather than experimenting.

What It Could Raise — A Conservative View

Revenue is a secondary output, not the purpose. India's tax base is highly concentrated — ~9.4 lakh filers above ₹50 lakh contribute the bulk of personal income tax — so realistic flows start small and compound, as Japan's did over 15+ years.

Phase	Participation	Domestic + NRI Combined
Pilot / Launch (Yr 1–2)	Under 10%	₹900 – 13,500 cr (building)
Growth (Yr 5–8)	25–40%	₹15,000 – 28,000 cr
Mature Steady State (Yr 8–10+)	40–60%	₹32,000 – 48,000 cr

Even modest flows spread across ~31,000 PHCs, ~6,000 CHCs, 1.5 million government schools and ~600,000 villages mean meaningful per-institution investment. India's diaspora (35.42 million; $135 bn remittances in FY2024-25) can participate via an FCRA-compliant "Friends of" 501(c)(3)-style channel needing no host-government concession.

Implementation: Riding Existing Rails

No new disbursement technology is required. CCT extends infrastructure India already operates — PAN, Aadhaar, NGO Darpan, the Income Tax e-filing portal, and the Direct Benefit Transfer / PFMS systems that have moved over ₹34 lakh crore to beneficiaries.

- **Registry —** government entities auto-registered from existing databases; NGOs via NGO Darpan with 80G/12A verification.
- **Filing —** a new ITR section by routine CBDT notification; allocations sum to ≤5%, with last year's choices shown for easy continuation.
- **Disbursement —** quarterly DBT-style transfers via SWIFT-like routing, each linked to a specific allocation for a full audit trail.
- **Fraud response —** a credible finding suspends disbursement (not the citizen's right to direct); orphaned balances revert after 24 months.

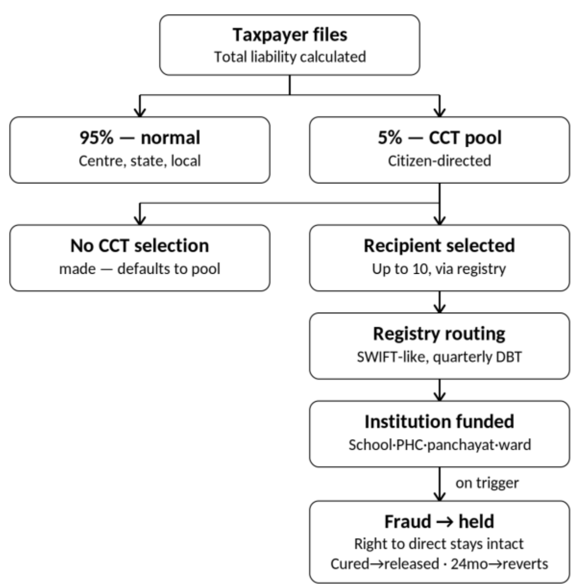

Figure 2 — Fund flow at filing.

Recommended Next Steps

- **Position as early input to the 17th Finance Commission** (expected ~2028–29), while pursuing standalone consideration via the Department of Revenue and CBDT.
- **Pilot at state level** (e.g., Andhra Pradesh, Telangana, Karnataka, Tamil Nadu), following the Georgia HEART precedent — no central action required to begin.
- **Route the reform** through the annual Finance Bill (the most direct legislative path), NITI Aayog, MyGov public consultation, and the Parliamentary Standing Committee on Finance.
- **Build the evidence base** with NIPFP, CESS, ISEC, CPR and PRS, and mobilise diaspora bodies (GOPIO, AAPI, Indiaspora) to champion the NRI channel.

Phased Rollout: Prove Capacity Before Scale

Figure 3 — Each phase is reviewable before the next begins; the hardest, slowest step (treaty integration) comes last.

Key Risks and Responses

Concern	Response
Flow favours elite / prosperous institutions	~70% of Indians attend government schools, so numbers favour public institutions. The citizen count is read against the district baseline, and undirected funds never leave an institution's existing floor.
Urban tax-base erosion (as in Japan)	Capped at 5%, and urban-born citizens largely direct to their own wards and schools — so most flow stays within cities.
Political resistance	95% of revenue still flows through Parliament; CCT completes the 73rd/74th Amendments' unfinished fiscal design, reusing existing PAN and e-filing rails.

Why This Is Not Theory: One Village, One School

The proposal did not emerge from theory. SSR ZP High School, Bhimanapalli educated three generations of the author's family and, over seven decades, produced DRDO and CCMB scientists, engineers in India and the U.S., a professor, entrepreneurs and bankers — collective tax in the hundreds of crores, **almost none of which flowed back.** Today its classrooms lack furniture and teacher posts are being cut. The author's own giving — ~₹8 lakh in equipment, ₹2.5 lakh toward a villager's hospital bills after the local PHC could not treat an accident, ₹2 crore in remittances across 24 years — **reached no institutional account**; it flowed person-to-person: reactive, episodic, invisible to planning.

> **The lesson:** had a fraction of those taxes flowed annually to the PHC over two decades, it would today have the equipment to handle emergencies — and the crisis need never have occurred. CCT does not ask migrants to start giving; it asks them to convert part of what they *already* give into a structured, institutional channel. Across millions of diaspora members, the latent annual flow already exceeds ₹10,000 crore.

"The communities that shape us deserve more than memory. They deserve economic acknowledgment. The Citizen's Choice Tax makes that possible." — Valibabu Saladi

Read the full proposal: citizenschoicetax.org · White paper and executive summary, free to read, quote, and forward.