

ICAI INTERNATIONAL CONFERENCE

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MUMBAI

“ENABLING GROWTH THROUGH DIRECT TAX REFORMS”

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INTRODUCTION

- ▶ Many Committees constituted by the government:
 - ▶ Raja Chellaiah Committee report in 1993
 - ▶ Vijay Kelkar Committee report in 2002
 - ▶ Parthasarathi Shome Committee report in 2016
 - ▶ Akhilesh Ranjan Committee report in August,2019

Effective use of Technology

- ▶ Monitor tax payments
- ▶ Expand Tax Base
- ▶ File returns
- ▶ Complete Assessment

Current economic scenario

- ▶ Outlook for second quarter (July 2019 to September 2019) GDP at 4.5%
- ▶ Quote of Mr. D.K Joshi Chief Economist Crisil
- ▶ Medium Term Outlook - optimum
- ▶ Reasons
 - ▶ Corporate deleveraging Balance Sheet
 - ▶ Reduction in Corporate Tax rates
 - ▶ Consolidation of GST/IBC
 - ▶ Expanding Tax Base
- ▶ Need to step up reforms

1. Eliminate Double Taxation

Suggested Reforms:

To accelerate corporate growth

- ▶ Thin operating profits
- ▶ Corporate Profits Taxable
 - ▶ Dividend Distribution Tax
 - ▶ Share holder taxed dividend in excess of Rs.10,00,000/-
 - ▶ Capital Gain Taxed
 - ▶ Higher surcharge for Income above Rs.2 Crores -
- ▶ Effective tax rate
 - ▶ Rs. 2 - Rs.5 Crores - 38-39%
 - ▶ Above Rs.5 Crores - 42.7%

Eliminate Double Taxation

- ▶ Background for levy of DDT
 - ▶ Administrative convenience
 - ▶ Technology to monitor tax payments including TDS.
- ▶ Suggest withdrawal of DDT on companies and tax the shareholder
- ▶ Exemption with suitable limit for small investors

Impact of the suggestion

- ▶ Cost of corporates will be reduced
- ▶ Additional working capital
- ▶ Potential to explore new business
- ▶ Expansion in the form of Subsidiary/Joint Venture
- ▶ Need to provide exemption for Intercorporate dividend
- ▶ Tax on capital gains on sale of long term shares only beyond threshold limit
- ▶ Drop in revenue to be compensated by increase in business activities

2. Assessment of Partnership Firms

- ▶ Computation complex. Recent direction of CBDT check allowability of partners remuneration.
- ▶ Allow deduction without any limit
- ▶ Remuneration will be taxed in assessment of partners
- ▶ Rationalize tax rates applicable to firms

3. Foreign Direct Investment

Attract foreign investments

- ▶ **Major challenges & Suggestions**
 - ▶ Stability in Tax Laws
 - ▶ Complex method of computation of Income
 - ▶ Identify more sources of income of foreign corporates to be taxed at flat rates
 - ▶ An assurance that rates will not be altered for specific number of years
 - ▶ Alternatively the maximum rate of upward revision could be specified. This will give comfort for the foreign corporates.
 - ▶ Another suggestion, the scope of equalisation levy to be expanded

4. Wealth Disparity

- ▶ Increase in surcharge
- ▶ Effective Tax Rate
 - ▶ Rs.2 Crore to 5 Crore - 38-39%
 - ▶ Above Rs.5 Crore - 42.7%
- ▶ Objective is to reduce disparity in wealth
- ▶ Increase in effective tax rates is a dis-incentive for capable person for improving their performance. Hence suggestion is to reintroduce Wealth Tax.
- ▶ Wealth Tax to be levied on productive assets - Vacant land, more than 2 immovable properties, jewellery and property outside india.
- ▶ Alternatively reintroduction of Inheritance tax to be reviewed
- ▶ Wealth Tax is a recurring feature whereas Inheritance tax is one time assessment
- ▶ More difficult to draft and administer - Inheritance law

5. Simplification of Tax Laws

- ▶ It is a challenging task
- ▶ The provisions for claiming incentives are very complex and many conditions have to be complied
- ▶ Officers have to pass speaking orders
- ▶ Leads to tax litigation
- ▶ Limited no of assessee claim exemption
- ▶ Assessing Officer may not have insight of business
- ▶ Suggestion is to withdraw these incentives from Income Tax Act & assign to specific government department to give suitable monetary concessions

6. Business Disruptions

- ▶ The Business cycle reduced due to advancement of technology
- ▶ Initially profitable business face difficult times because of technological changes. The old suggestion of carry backward of losses.
- ▶ This should be done without resorting to reassessment.
- ▶ To compensate assessee who have paid taxes in the earlier years
- ▶ Average of taxes paid during the preceding 3 to 5 years to be refunded subject to monetary limits

7.E-Assessment

- ▶ Scheme Notified on 12th September,2019
- ▶ Applicability to contractors and transfer pricing should be deferred
- ▶ Practical problems in assessment of contractors
- ▶ Eg:1 Revenue recognition as per AS-7 & ICDS may differ. Reconciliation statement is required.
- ▶ Eg:2 Contractors may receive mobilization advance. It is not considered as income of contractor. Person making payment will deduct tax at source. Such advance will reflect in 26AS. Reconciliation statement has to be prepared.
- ▶ To comprehend these reconciliation statements in electronic mode will be difficult. Hence suggestion is to implement in stages.
- ▶ Similar issues may arise in transfer pricing assessments

Thank you

The background features a complex arrangement of overlapping, semi-transparent triangles in various shades of red, orange, and yellow. The triangles are positioned primarily on the right side of the frame, creating a layered, geometric effect. The colors range from deep reds and oranges to bright yellows, with some areas appearing darker due to the overlapping nature of the shapes. The overall composition is clean and modern, with a focus on geometric forms and a warm color palette.