



GENESIS OF DIRECT TAX & IT'S REFORMS IN INDIA

CMA Anand Kumar Pandey
Practicing Cost Accountant

(A) Background

Law is Dynamic in Nature: This means that law evolves over time in order to meet the specific needs of the society in which it is operative.

During the **Rajaswa Gyan Sangam** held in September 2017, Prime Minister Narendra Modi had observed that the Income Tax Act, 1961 was drafted more than 50 years ago and needs to be re-drafted. Accordingly, to review the Act and to draft a new Direct Tax Law in consonance with economic needs of the country, the government has constituted the task force.

In this contemporary context its incumbent on all CMA'S to be ready for the next leap forward jump and thereby let's start with understanding the genesis of Income Tax with the passage of time, then only we will be in a better position to respond to the new task which we are likely to be assigned in the Income Tax.

(B) Genesis of Income Tax Law

It is a matter of general belief that taxes on income and wealth are of recent origin but there is enough evidence to show that taxes on income in some form or the other were levied even in primitive and ancient communities. It is remarkable that the present day tax system is in many ways similar to the system of taxation in vogue about 2300 years ago. Collection of Income-tax was well organised and it constituted a major part of the revenue of the every State.

Kautilya's Arthashastra, which deals with the system of taxation in a real elaborate and planned manner. This well known treatise on state crafts written sometime in 300 B.C., when the Mauryan Empire was at its glorious upwards move, is truly amazing, for its deep study of the civilization of that time and the suggestions given which should guide a king in running the State in a most efficient and fruitful manner.

The more enlightened ones like Ashoka and Akbar evolved a systematic taxation policy and also tax collection policy so as to earn revenue to run the kingdom without creating much hardship for the common man. Some kings had an arbitrary tax collection system which they used to maintain their lavish lifestyles and wage wars.

Today, in the modern economies, taxes are regulated by various rules and regulations and are monitored by the people's representatives.

(C) Chronology of Reforms

Pre- Independence

- **The Income-tax Act, 1922-** The foundation of a proper system of administration was thus laid.
- 1924, Central Board of Revenue Act constituted the Board as a statutory body with functional responsibilities for the administration of the Income-tax Act.
- World War II brought unusual profits to businessmen. During 1940 to 1947, Excess Profits Tax and Business Profits Tax were introduced.
- 1939-Directorate of Inspection (Income-tax) came into being. Excess Profits Tax introduced .
- 1941-Income-tax Appellate Tribunal came into existence

- 1946- Excess Profits Tax Act repealed.
- 1947- Business Profits Tax enacted.

Post-Independence

- 1951-**Vardhachari Commission** - Report on Income-tax Investigation. 1st Voluntary Disclosure Scheme was brought in.
- 1952-Directorate of Inspection (Investigation) set up.
- 1953-**Estate Duty Act, 1953**
- 1954, the Internal Audit Scheme was introduced in the Income-tax Department.
- **Wealth Tax Act-1957**. I.R.S. (Direct Taxes) Staff College started functioning in Nagpur.
- **The Gift-tax Act, 1958**. (ICWAI came into existence)
- **Income-tax Act, 1961**.
- 1963 - Central Board of Revenue Act, 1963 was passed. Central Board of Revenue bifurcated and a separate Board for Direct Taxes known as Central Board of Direct Taxes (CBDT) constituted under the Central Board of Revenue Act, 1963.
- In 1965, the Voluntary Disclosure Scheme was brought in followed by the 1975 Disclosure Scheme.
- 1966-Intelligence Wing created and placed under the charge of Directorate of Inspection (Investigation).
- 1968- Valuation Cell came into existence. Report of rationalization and simplification of tax structure (**Bhoothalingam Committee**) received.
- 1971- Summary Assessment Scheme introduced.
- 1972-Permanent Account Number introduced (**PAN**).
- 1974-**Interest Tax Act, 1974**
- 1978- Settlement Commission created 1978- Appellate functions given to a new cadre of Commissioners known as Commissioner (Appeals).**Chokshi Committee** submitted its final report.
- 1980- **Hotel Receipt Tax Act, 1980**.
- 1981-Computerisation in the Income-tax Department started with the setting up of the Directorate of Income tax (Systems) in 1981.
- 1982- Levy of Hotel Receipts Tax discontinued.
- 1987- **L.K. Jha** Committee set up for simplification and rationalization of tax laws.
- 1988- **Benami Transactions Prohibition Act 1988** introduced.
- 1990- **Gift tax Bill** introduced.
- 1992- Presumptive Taxation scheme introduced as a measure to widen tax base.
- 1993- Authority for Advance Rulings set up
- 1994- New **PAN** introduced.
- 1997- Presumptive tax scheme discontinued. Minimum Alternate Tax introduced.
- 1998- Gift-tax abolished for gifts made after 1.10.1998. **Kar Vivad Samadhan Scheme** 1998 introduced.
- 1999- **Samman Scheme** introduced in 1999 to honour deserving tax payers.
- 2000- Interest-tax Act terminated
- 2002- Computerised processing of returns all over the country introduced. **Kelkar Committee Report**, The National **Website of the Income Tax Department** (www.incometaxindia.gov.in) was launched to provide a vital interface between the Department and taxpayers.
- 2004- **Fringe Benefit Tax (FBT)** and Securities Transaction Tax (STT) introduced.
- 2005- **Banking Cash Transaction Tax (BCTT)**.
- 2006- Tax Return Preparer Scheme (TRPS).
- 2007- AayakarSeva Kendra (ASK).
- 2009- Centralized Processing Centre was setup in Bengaluru (**CPC**).
- 2010- To simplify the 50 years old Income-tax Act, 1961, '**The Direct Taxes Code Bill, 2010**' was introduced in the Parliament.
- **TRACES** (TDS Reconciliation, Accounting and Correction Enabling System).

Abolition of the Minimum Alternate Tax (**MAT**), burying the ghost of retrospective tax (the Vodafone/IT department crisis in realizing arrears of tax), phasing out tax holidays could reduce investments in SEZs, and restoration of capital gains tax treatment for buy-back of shares.

Voluntary disclosure of income Schemes (**VDIS**), Constitution of the Special Investigation Team (**SIT**) on **Black Money**, Enactment of a comprehensive new law - **The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015** to specifically deal with the issue of black money stashed abroad, Introduction of the **Benami Transactions (Prohibition) Amendment Act 2016** and **New Benami Transactions Informants Reward Scheme, 2018**, are some of the recent major initiatives of the Government in this regard

Kelkar Committee & Tax Administrative Reforms Commission (**TARC**) headed by **Dr. Parthasarathi Shome** submitted its report of reviewing the applicability of tax policies and tax laws in the context of global best practices and recommending measures for reforms required in tax administration to enhance its effectiveness and efficiency.

Direct Tax Code -2013 is still visible on the official website of Income Tax Department. This Code has modified the Definition of Accountant and includes all **CA+CS+CMA** but unfortunately the Bill has lapsed with the dissolution of the 15th Lok Sabha.

New Task Force Task Force has been constituted by the Government of India on 22nd November, 2017, the Task Force was required to submit its report to the Government within six months from the date of its constitution, i.e., 22nd May, 2018. Term of the Task Force is further extended by three months beyond the initial term of six months, i.e., the Task Force shall now be required to submit its report to the Government by 22nd August, 2018.

Since much water has flown down the bridge of drafting of New Direct Tax Code , it cannot be wished away anymore. While nomenclatures could change, call DTC by another name, but certainly urgent change is desired to align it with GST for economic needs of the country and adopt international best practices.