



APPROACH TOWARDS NEW DIRECT TAX CODE 2018

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What is the new direct tax code about?

The Union Government is in the process of restructuring the Direct Tax Laws in the country by introducing a new direct tax code that will replace the Income Tax Act of 1961. The existing direct tax law, which deals with personal income tax, corporate tax and other levies such as the capital gains tax, has undergone numerous changes over the years. In September, Prime Minister Narendra Modi told tax officials that the old law needs changes. The idea is to rewrite it in line with the economic needs of the country and to keep pace with evolving global best practices. One key consideration is to ensure that the economy becomes more tax-compliant to generate enough revenue.

What does the new tax law aim to achieve?

The new direct tax code will try to bring more assesseees into the tax net, make the system more equitable for different classes of taxpayers, make businesses more competitive by lowering the corporate tax rate and phase out the remaining tax exemptions that lead to litigation. It will also redefine key concepts such as income and scope of taxation. Globally, governments are racing to woo investments and boost job creation by offering lower corporate tax rates. In December, the US enacted a Tax Cuts and Jobs Act, lowering the country's corporate tax rate from 35% to 21%. A month later, Apple Inc. said it would invest \$30 billion to expand US operations. India's new direct tax code will take forward the plan to lower the corporate tax rate from 30% to 25% for all firms gradually as revenue collection improves. From 2018-19, the 25% tax rate is available to all firms with sales less than Rs 250 crore.

Can individuals expect any relief?

The new direct tax code will try to make personal income tax rates more 'progressive' by giving relief to people in the 5% and 20% slabs. With a greater tax collection and most transparent approach of tax administration, individual tax rates are expected to be reduced.

What happened to the tax code planned earlier?

The previous government, too, had proposed a direct tax code with sweeping changes. Although it was never passed by Parliament, the current government has incorporated almost all the new ideas suggested in the code, including lowering the corporate tax rate, phasing out tax exemptions, the General Anti-Avoidance Rules and the place of effective management (POEM) rules that determine the residence status of corporations. New business models, the digital economy and measures taken by other countries to check off shoring are also among the reasons that prompted the move for a new tax code.

New approach towards Direct Tax Restructuring

It may take at least another two months for the Arbind Modi committee to submit its report on the new direct tax legislation; the public consultations and debates will follow thereafter. The Honble Prime Minister led government's plans to simplify the direct tax regime may spill over to next year, and may well have to wait until the next government is in place in 2019.

The six-member task force headed by Arbind Modi, member of the apex policy making body Central Board of Direct Taxes (CBDT) may not submit the draft new direct tax law on May 22, the day the task force completes six months.

It may take at least another two months to submit its report on the new Direct Tax Legislation. The public consultations and debates will follow thereafter.

A Parliamentary approval will be ultimately required to make the draft tax policy proposals into a law. "By the time all the changes are incorporated after consultations with the stakeholders and approval from the law ministry, it may be time for the general elections, 2019,".

Besides, a new direct tax code will likely involve change in rates and slabs that will require amendments in the Finance Bill, which will unlikely happen in an election year when an outgoing government presents only an interim budget/vote on account.

The discussion on reforms pertaining to taxation started in September, 2017, when the Prime Minister Narendra Modi said that more than half a century old Income-Tax Act needs to be re-drafted and a new Direct Tax Code (DTC) needs to be introduced in 'consonance with economic needs of the country'.

As the government overhauled the existing indirect tax system last year by implementing Goods and Services Tax (GST), on a larger scale, tax reforms would remain incomplete without revamping country's direct tax system.

Acting upon it, the finance ministry on November 22 constituted a task force comprising six members, as well as the Chief Economic Adviser (CEA) Arvind Subramanian, as a permanent special invitee in the task force. To this effect, the Finance Ministry on Wednesday announced the setting up of a task force to draft a new direct tax legislation.

"During the RajaswaGyanSangam held in September this year, 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," a Finance Ministry statement said.

The new legislation will be drafted keeping in mind the direct tax system in other countries, international best practices and the economic needs of the country, it added. Prime Minister Narendra Modi, during the annual conference of tax officers in September last year, had observed that the Income Tax Act, 1961 was drafted more than 50 years ago and it needs to be redrafted.

"The task force shall set its own procedures for regulating its work and shall submit its report to the government within six months," said the Ministry.

Sources said the recommendations of the task force would have to be examined in detail and are unlikely to take a final shape before 2019.

The UPA government had also undertaken a re-write of the I-T Act and had also finalised the Direct Taxes Code. The Direct Taxes Code (DTC) Bill was introduced in Parliament in 2010 but lapsed with the dissolution of the 15th Lok Sabha. The convenor of the eight-member committee will be Arbind Modi, Member, Central Board of Direct taxes (CBDT). Arvind Subramanian, Chief Economic Advisor to the Finance Ministry will be a permanent Special Invitee in the Task Force. Other members of the new task force include Girish Ahuja, non-official director of State Bank of India and Chartered Accountant, Rajiv Memani, Chairman and Regional Managing Partner, EY, Mukesh Patel, tax advocate, Ahmedabad, Mansi Kedia, Consultant, ICRIER and G.C. Srivastava, retired IRS Officer.

The task force is in the process of drafting a direct tax legislation keeping in mind, tax system prevalent in various countries, international best practices, economic needs of the country, among others.

Some of the provisions of the DTC such as General Anti-Avoidance Rule (GAAR) and Place of Effective Management (PoEM) has already been implemented.

While the GST replaced more than a dozen of central and state levies to bring in one unified nation-wide tax, DTC will consolidate and simplify the direct tax laws into a single legislation.

The erstwhile UPA government had finalised DTC and had introduced the Bill in the Parliament in 2010. However, the Bill lapsed with the dissolution of the 15th Lok Sabha. The draft law is likely to do away with various exemptions, increase threshold of taxation and lower tax rates.

It's the time to act upon

Prime Minister Narendra Modi, during the annual conference of tax officers in September last year, had observed that the Income Tax Act, 1961 was drafted more than 50 years ago and it needs to be redrafted. Central Board of Direct Taxes (CBDT) invited suggestions from stakeholders and the general public to prepare new tax law. A task force has been constituted to review the Income-tax Act, 1961, and draft a new direct tax law in consonance with the economic needs of the country, the government said. The panel has to submit its report by year-end. According to CBDT, "In this endeavour of drafting the new tax law, it is imperative to engage with stakeholders and the general public. Suggestions and feedback are invited from stakeholders and the general public.

As a part of technology driven tax administrative mechanism, the profession of Cost & management Accountants would contribute substantially in different initiatives of the Union Government to bring in a new era of taxation in India absolutely in line with the Global best practices. A collective wisdom in this aspect in bringing in best practices in India would also enable and entitle the Government in recognising the CMA profession as one of the flag bearers of Direct Tax area in the country as well as in abroad.