

National Update

ITRs Rising, but Not Tax Collection

Income-tax returns (ITRs) have seen a surge post demonetisation and GST introduction, and the government claims these numbers suggest a surge in tax compliance in the country.

But available data show there has not been a commensurate increase in tax collection. Analysts say using rise in ITRs to deduce an increase in tax collection is fraught with risks, and tax sleuths may be falling for the correlation-causation fallacy.

Broadly, the narrative has been an optimistic one. According to Crisil, direct tax collection soared post 2016 because of demonetisation, as seen in a significant jump in the number of new income-tax filers. But a report by SBI Economic Research talked about an additional tax revenue of only ₹30,000 crore that flowed in from a wider taxpayer base. The Economic Survey 2017-18 said this was the result of scrapping high value notes in November 2016. According to CBDT Chairman Sushil Chandra, the taxpayer base widened to 6.26 crore in 2016-17

(Source: ETMarkets.com)

Law Commission Proposes to Abolish Tax Saving Tool HUF

The concept of Hindu Undivided Family (HUF) may cease to exist if the proposals of a recently released consultation paper on Reform of Family Law by the law commission are accepted.

In 2016, the Ministry of Law and Justice made a reference to the Law Commission of India to examine matters in relation to a uniform civil code. The consultation paper, released in August of 2018, prepared by the law commission discusses the grounds for abolishing the HUF.

HUF, meant to be a tool to manage jointly held assets and properties and ease asset inheritance in joint families, is also used as a tax saving tool or a tax break. According to the Income Tax Department website, in assessment year (AY) 2015-16, there were a total of 9,98,878 tax returns filed by HUFs representing ₹38,615 crore of gross total income while the total tax payable was of ₹3,064 crore. "It is evident that the total tax paid viz a viz income declared under HUF regime is less than 10%. Where HUF is abolished and such income is added to the income of the Karta or co-parceners it shall generate a significant increase in the total tax collection for the Government. In case Karta/ coparceners are subject to tax at the maximum marginal rate of 30%, it

shall trigger a jump of around 20% in total tax collection for the Government from HUF held assets," says an expert. The recognition of HUF as a separate tax entity goes back to 1917, which was subsequently incorporated into the Income Tax Act, 1922. (Source: <https://www.business-standard.com>)

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Mergers and Acquisitions in India Have Reached Record Levels in 2018

In the last one decade, merger and acquisition activities in India have boomed, with as many as 600-750 Indian companies getting acquired annually with an average ticket size of ₹ 200 crore, according to a new report.

More than 3,400 Indian companies in both public and private segment have been active in M&As over FY10-18, a report titled "Value creation: Laying the foundation for mergers and acquisitions" by a global accounting firm and the Confederation of Indian Industry (CII) showed.

"India has seen M&A activity in excess of \$120, \$180, and \$345 over the last three, five, and 10 years, respectively, representing a CAGR of 13.2%, 13.7% and 4% for the respective periods," the report says. M&A in FY18 alone accounted for 6% of the aggregate gross capital formation

(Source: <https://timesofindia.indiatimes.com>)

Indirect Tax Evasion Cases Post a Decline in FY18-19

A closer look at government data reveals that the Central Board of Direct Taxes (CBDT) has registered an over six-fold increase in the number of prosecution cases filed in courts to 4,524 in 2017-18 from 669 in 2014-15. As the government has stepped up action against financial irregularities and frauds, cases by various agencies such as Central Board of Direct Taxes (CBDT), Directorate of Revenue Intelligence (DRI) and Directorate General of GST Intelligence (DGGSTI) recorded a significant increase over the last four years. When it comes to direct and indirect taxes, though, there is a clear divergent trend.

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(Source: <https://indianexpress.com>)