Direct Tax Code to Overhaul 58-Year-Old Income Tax Act

The high-level government task force on direct taxes, which was appointed to review the existing 58-year-old Income Tax Act, is believed to have proposed several changes that could reduce the taxation burden for several companies and individuals taxpayers. The eight-member government panel, headed by Central Board of Direct Taxes (CBDT) member Akhilesh Ranjan, submitted its report on the new Direct Tax Code (DTC) but till the filing of this report, government was yet to make the report public.

According to reliable sources, the Panel has highlighted the need to review existing tax brackets, surcharges and implementation of special guidelines for start-ups. The suggestions could make the existing Income Tax Act friendlier and even reduce the burden for middle-income group taxpayers. Further pruning of corporate tax, which is a major hindrance for companies, could be another recommendation that has been mentioned in the report. Finance Minister Nirmala Sitharaman has even indicated that the corporate tax rate for companies, earning over Rs 400 crore, will be gradually cut to 25 per cent.

One of the main objectives of the committee was to make the I-T Act simpler, with focus on easing the burden on individuals and companies as acute slowdown continues to erode economic growth. The committee's report is believed to shed light on two core aspects. The primary focus is on simplifying tax brackets to provide relief to middle-income taxpayers while removing any excess surcharges that add to the woes of taxpayers.

The report is also expected to focus on promoting ease of doing business by suggesting a common tax rate for domestic and foreign companies. The committee may have proposed a special set of provisions for start-ups, which are worst-affected when it comes to taxation.

(Source: http://www.ndtvprofit.com)

How Tax Dept Is Using Data to Increase Revenue Collection

How exactly the department is collating and using data? A look at the income tax department's action plan for 2019-20 gives an insight. In an event to commemorate 159th Income Tax Day, both the finance minister and the revenue secretary stressed on the use of data mining and risk profiling as tools to catch hold of tax evaders rather than using intrusive assessment techniques. It is, therefore, clear that tax department is actively using data from different sources to detect tax evasion and bring more people in the tax net. But the question is how exactly the department is collating and using data? The action plan lays down ways and means of achieving the department's various targets. While income tax collection target for 2019-20 is Rs 13.8 lakh crore, which is a steep jump from actual collections of Rs 11.37 lakh crore previous year, the department is planning to take help of data and information received from various sources to achieve the target. For long the tax department has been using data collected through tax deducted at source (TDS) as a potent tool to catch non-filers and make them file returns. While last year the tax department added 11 million new tax filers, in the current year the department's action plan has a target of adding 13 million new filers. The action plan recognises the importance of TDS as a non-obtrusive but powerful instrument for preventing tax evasion, widening the tax base and augmenting revenues over the years. "The contribution of TDS to the overall gross direct taxes collections during FY 2018-19 was about 37.55 per cent. Effective and efficient TDS administration, therefore, remains a key area not only for achieving the above-mentioned objectives but also for providing better taxpayer service," says the action plan of the department. The arrear demand - tax demands raised but not received - increased from Rs 11.20 lakh crore at the end of March 2018 to Rs 12.77 lakh crore. The department targets a 40 per cent reduction in the arrear demand by the end this financial year. For this it talks about detecting the causes of such high arrear demands through a centralised data management by using latest technology and advanced analytics. The tax department has been using the Annual Information Return (AIR) of high value transactions like purchase of immovable properties worth more than Rs 30 lakh, etc. The action plan talks about obtaining the AIR data on sale of immovable properties over threshold limit and matching them with transactions on which TDS has been deducted to generate list of defaulters. It further says that in several cases the buyer of a property deducts TDS only at the rate

of 1 per cent on purchase of immovable property from NRIs, which actually requires TDS at 20 per cent. "These are high-risk cases, which need to be taken up on priority basis. Action may be taken in such cases to augment revenues," says the action plan.

(Source: www.financialexpress.com)

No Income Tax on Interest from Accident Compensation: High Court

Forty years after an eight-year-old city boy was left maimed for life in a car accident, the Bombay High Court on Thursday held that income tax should not have been deducted from the interest on the compensation awarded by the court. The ruling was given by a bench of justices Akil Kureshi and S J Kathawalla on a plea by accident victim Rupesh Shah, now 48.

Shah, a resident of South Mumbai, was crossing a road when a car hit him in 1978. He remained in coma for six months, and after regaining consciousness, he learnt that the accident had left him with severe injuries including permanent brain damage.

His parents approached the Motor Vehicles Accident Claim Tribunal seeking that Oriental Insurance, the company that had insured the car, be directed to pay compensation. His plea was allowed but the insurance company went in appeals, first to the high court and then to the Supreme Court. The Supreme Court finally in 2015 upheld the Bombay High Court's ruling that awarded Shah a compensation of 39.92 lakh. The High Court also ruled that Shah be paid an interest of 9% on this principal amount of the compensation since the time he filed the insurance claim.

After the apex court upheld it, Shah received 1.42 crore in total in compensation. This amount was arrived at with the Income Tax department deducting 30% tax at source' on the amount of interest. When Shah filed income tax returns and declared the compensation interest received, he was further served with a notice to pay additional tax of 37.97 lakh.

Shah then approached the high court challenging not just the fresh tax notice but also arguing that the department should not have deducted tax on the interest amount that he had received as part of compensation.

Under the Motor Vehicles Act, the principal amount of compensation is not taxable, so the interest accrued on the same should not have been taxed either, he argued. The interest too was compensatory in nature, its rate decided after taking into account factors such as the passage of time, inflation, etc, he said.

The Income Tax Department, however, contended that the interest being distinct from the principal amount of compensation is taxable as income from an additional source.

The High Court recently held that the interest earned by Shah for the period between filing of the claim and awarding of compensation by the high court in 2014 should not have been considered as income, and therefore, not taxed.

"We hold that the interest awarded in the motor accident claim cases from the date of the claim petition till the passing of the award or in case of appeal, till the judgment of the high court in such appeal, would not be eligible for tax, not being an income," it said.

The bench also said the IT Department assessor made a mistake in issuing the further tax liability notice to Shah. It sent back the notice, directing the department to re-assess the same.

(Source: www.economic times.com)

Direct Tax Committee Calls for Major Changes to Reassessment Rules

The government-constituted task force for re-writing the direct tax legislation has suggested major changes in provisions for reopening and reassessment, in a bid to reduce litigation, said a source privy to the development. The panel on the Direct Tax Code (DTC) proposed amendments in Section 147 and Section 148 of the Income-Tax (I-T) Act, empowering the tax officer to reopen assessment cases based on pre-defined criteria. The I-T officer can go back up to six years to scrutinise the books of accounts of the assessees. Currently, these provisions are prone to the interpretation. Forty per cent of litigation happens because assessees challenge reasons given by officers for reopening cases, the source said. The panel has recommended increasing the threshold limit for opening cases; currently it is Rs 1 lakh and above. Also, the pre-defined criteria to select cases for scrutiny will be tightened.

(Source: www.thehindubusinessline.com)