Budget of Hopes

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The Hon'ble FM shall be presenting the last full budget of the 2nd term of the regime. Obviously, there are lots of anxiety and hopes in the business and professional fraternity and jury is still out whether the budget announcements shall be it will be more growth oriented or more populistic considering the upcoming election season.

From a taxation point of view, not much is expected on corporate tax rates. The Government had pleasantly surprised everyone by announcing steep rate cuts and introduced the Section 115BAA of the Act. For foreign corporates who has a base in India, the corporate tax rate of 42% is levied on them on their income earned in India while the tax rates for domestic companies have been reduced to 25%. With the Dividend distribution tax now abolished, there is a need to bring parity between the domestic and foreign players to make India more competitive than the other developing economies. It is expected that to position India as an attractive market for the foreign businesses and bring more foreign capital, the FM will introduce a uniform corporate tax structure for all.

Nothing much has been done on personal tax front in last few years. The personal tax rates are too high as compared to rates in other Asian countries. After such a long wait and ask by the individual taxpayers, being the largest sources of income tax revenues, it is expected that Government will announce substantial reliefs. Individual taxpayers expect various reliefs like increase in standard deductions to align with inflation, enhanced limit of tax deduction under section 80C of the IT Act, revision in the tax slabs rates , eliminate double taxation of PF / NPS / SAF etc.. Such measures will be crucial to gain confidence of these sincere individual taxpayers. It may also be a good idea to simplify the law and have only a single tax regime and common ITR forms for all individual taxpayers. It is expected that maximum personal tax rate be restricted at 25% with additional surcharge for the high individual earners.

Currently the capital gain tax system is very cumbersome with multiple rates depend on the nature of assets, tenure of holding and residential status. With the matured Indian securities market, it is high time that capital gain tax system be simplified and rationalised. To provide tax relief to mass population, the tax revenue needs to be protected. it is also important to concentrate further on increasing the tax base. Even after 75 years of independence, agricultural income is exempt. To begin with, agricultural income beyond a certain limit (may be INR 1 Crore) may be taxed and the limit can be gradually reduced to align with the limits prescribed for the normal tax payer.

Services sector contribute significantly to the GDP, however still tax neutrality is not available for mergers in service sector. Reference is drawn to Section 72A of the IT Act. It is urged that Section 72A of the IT Act shall be made applicable to all sectors. To give impetus to the "Make in India" "Digital India" heavy investment in R&D and innovation is of paramount importance. It is expected that the Government will consider the tax incentives for genuine expenditure on Research and Development and innovations as it was available under Section 35(2AB) of the IT Act. With the inflation and overall growth, the wage level has also increased over a period hence the limit of INR25,000/- per month which was set up long back in year 2016 for incentive under section 80JJAA of the IT Act need to be increased to minimum INR 50,000/-. Similarly, with the introduction of wage code several measures have been taken to protect the interest of the contract work force, hence it is also recommended that the incentive under section 80JJAA of the IT Act be extended to the contractual employees as ultimate object of employment generation is achieved. CSR is a mandatory expenditure as per the Companies Act hence the same should be treated as a normal business expenditure.

On the international tax side, Government is keeping a close watch on the developments at OECD / G20 Inclusive Framework on Pillar 2. It is expected that Government will introduce certain key enabling provisions within domestic tax law for implementation of Pillar 2 framework, , certain administrative provisions like laying down the compliance Roadmap, provisions for data sharing, etc.

In Budget 2016, India had introduced its unilateral tax in the form of equalisation levy which were then, substantially widened in 2020 by brining within its ambit online sale of goods and services. The Government had committed to roll back the same once the Action Plan 1 is in place. It is expected that this Budget will clarify its intention to roll back such levy in the near future. Also, whether these provisions will remain effective for the taxpayers who are not covered under the Pillar 2 provisions is to be seen as the Budget is announced.

The provisions for ‘Significant Economic Presence’ were introduced in Finance Act 2018 which expanded the scope of ‘Business Connection’ to enable taxation of non-residents having a Significant Economic presence in India. Various industry representations have been made to get more clarity on the scope, applicability, attribution rules, etc and it is expected that Government would provide a definite clarity on all the concerns raised so that the industry can undertake a proper impact analysis for implementation.

Ease of doing business has been the primary agenda of the Government. TDS and TCS compliance have become a tedious task. There are number of sections with multiple TDS rates and multiple thresholds. TDS on goods has added too many complications. The deductors acts as a tax collection agent of Government and any tiny error may lead to serious consequences of interest, penalties and even prosecution. There is a need to revisit the entire TDS section of the income tax act to consolidate few of the sections, common threshold limits and maximum two or three slabs of the TDS rates. Also, there is need to reduce the compliance burden and penalties and prosecution only in case of wilful omissions and frauds etc. Also on the credit side, the TDS should be treated equivalent to advance tax and the requirement for linkage with income as per Section 199 of the IT Act shall be eliminated.

Post introduction of the faceless assessments, the disposal of appeals at fist appellate level have become extremely slow. Similar to the timeline prescribed for assessments, the law must provide certain time limit for disposal of cases pending with CIT (Appeals). There is general tendency that Income Tax Appellate Tribunal (ITAT) or even high court orders are not followed at first appellate level if the revenue has not accepted any decision on any issue, and appellants are made to suffer the hardship of payment or security of 20% of the demand to pursue appeal at ITAT level. The conditions of pre-deposit as per the provisions of Section 254 of the Act needs reconsideration. To reduce the pending litigations and bring certainty, it is recommended that Government make appropriate provisions in the law to issue guidelines, circulars on tax position on industry wise common issues.

GST collection has been very robust and have stabilised with almost INR 1.50 Lakh Crores per month. Though any changes in law must be as per the approval of the GST council it is expected that Govt shall present a road map for rationalisation of GST rates like merging the 12% and 18% and bring the same at 14/15% and bringing down the peak rate of 28%.

Overall, the hopes from Finance Minister are very high and wish that this budget will set a foundation for the Golden India for the generations to come...

** Views expressed are personal and may not reflect that of the organization.*