

CBDT FEELS TAX CODE NEEDS MAJOR REWORK

Source : Financial Express

Corporate India is not the sole critic of the Direct Taxes Code. The code, precursor to a brand new income tax law, has found opposition from within government, too. An internal committee of the Central Board of Direct Taxes, the principal policy-maker in the domain, has called for a thorough review of the code, including a revision of the income tax slabs and the definition of 'income from salaries'.

The committee has mooted a review of the proposed income tax rates, fearing significant revenue losses. It has also proposed a narrowing of the tax slabs. The concern is that the proposal to tax annual income between Rs 1.6 lakh and Rs 10 lakh at the lowest rate of 10% could affect revenue streams even if all perks are added in the definition of salary income.

As for corporate tax, the panel has suggested retaining the current 30% tax, instead of at the proposed 25%.

The code has proposed a radical shift in the tax rates on the rationale that lower rates lead to better compliance. Accordingly, it has suggested taxing annual income between Rs 1.6 lakh and Rs 10 lakh at a rate of 10%, annual income between Rs 10 lakh and Rs 25 lakh at 20% and income above Rs 25 lakh at 30%.

Coming out in aid of salaried employees, the panel has also called for re-examining the definition of salary income. It has suggested that allowances given

to an employee for the discharge of his official duties should be excluded, to avoid the hassles of record keeping for employees and

tax officials. Further, reimbursement for medical expenses and employer's contributions to provident fund should not be clubbed with salary income.

In contrast, the code has mooted that all perquisites should be included in salary income and proposed to do away with exemptions such as house rent allowance, leave travel concession, leave encashment and medical reimbursement.

Significantly, the committee has said retirement savings should not be brought under the exempt-exempt-tax (EET) regime as it will be 'unnecessarily harsh' on tax payers.

It has also called for reviewing proposals on international taxation, especially those relating to general anti-avoidance rules (GAAR). At present, the code proposes that under GAAR, the revenue department can make a presumption that an arrangement is entered into by two entities for tax benefit (tax avoidance) alone, unless it is rebutted by the taxpayer. It has suggested that specific provisions should say when such a presumption would be made.

The code, which seeks to replace the Income Tax Act, 1961, was earlier criticised by the National Academy of Direct Taxes—the training and education body for direct taxes—which had even questioned the basis of the draft legislation. It had said instead of a complete overhaul, the IT Act can be simplified by adding new circulars & notifications and recent judgments. It had also said the code was prepared without consulting field formations, trade and industry. ■