

# Reforms needed in the Income tax law

## Relevancy

- GS Prelims, GS Mains paper III
- Economy, Income tax law
- Special task force
- Reforms in Income tax law

## Recently

- The Central Board of Direct Taxes has set up a new task force to draft Direct tax legislation again.

## What is the need for this taskforce?

- The present income tax law requires radical re-adaptation.
- But every attempt at simplification results in the law getting more complicated that is why special task force has been set up.
- The law has to march with the times.
- It is set up to review the following:
  - Simplification of the tax law
  - the direct tax system prevalent in various countries
  - international best practices
  - the economic needs of the country
  - and any other connected matter

## What are some desired changes to current laws?

- **Search and seizure provisions:**
  - Search of the residential and business premises of the taxpayer involves an invasion of his privacy.
  - The provisions for search and seizure lead to harassment of the taxpayer on a large scale.
  - Also the final results are not known till many years.
  - Today, with the help of information technology, the I-T department can choose to use without resort to search and seizure.
- **Ending tax terrorism:**
  - There is a need to drop the provisions in the I-T law to resort to searches, surveys and seizures using the IT revolution.
  - This will end all accusations of tax terrorism.
  - It will also prove Prime minister's principle of less government and more governance.
- **Taxable entities simplification:**
  - Current Income tax law has divided the PAN category of taxpayers into sections like:
    - the Association of Persons
    - Body of Individuals
    - Company
    - Firm
    - Government
    - Hindu Undivided Family

- Artificial Juridical Person
  - Local Authority
  - Limited Liability Partnership
  - Trust
  - Individual
- Tax collection data from these entities shows that the work related to most of them is not fruitful.
- The task force should examine if the PAN category should be limited to corporate and non-corporate entities and abolish the rest.
- This will lead to simplification of the tax law.
- **Hindu undivided families:**
  - Special status of HUF should be done away with because this leads to artificial tax planning and splitting of incomes.
  - Recently Hindu law has enabled daughters to be coparceners along with sons.
  - The abolition of HUF can help in uniform tax-code applicable to all persons without reference to religion and faith.
- **Agricultural income:**
  - The task force should consider taxing income from agriculture.
  - A small minority in the millionaire and the billionaire group of taxpayers uses the facility in law to offer income otherwise taxable as agricultural income.
  - Even if it demands amending of the constitution, this should be thought of.
- **Tier of appeals:**
  - Presently we have appeals from the assessing officer to:
    - the CIT (appeals)
    - the ITAT
    - the High Court
    - the Supreme Court
  - In between we also have the Settlement Commission and the Authority for Advance Ruling.
  - Task force should examine all the appealing authorities.
  - Example a murder accused can only go from the Sessions Court to the High Court and the Supreme Court.
  - But a rich taxpayer can fight on many forums with no results/punishments for about 15 years.
- **Abolishing certain appeals:**
  - The task force should consider abolishing the post of CIT (appeals) which is not independent.
  - CIT's (Appeals) are all under the Ministry of Finance.
  - Also the Settlement Commission needs to be abolished.
- **Charitable trust:**
  - The provisions of exemptions and deductions in the I-T law creates many complications.
  - There have also been claims of charitable trusts for exemptions.
  - Task force should consider whether the tax law should promote philanthropy at the expense of the taxpayer.
  - Charitable deductions and incentive deductions should be done away with.
  - Removal of these will simplify the tax law and reduce the number of sections in the law.

## Conclusion

- Demonetisation and GST have provided opportunities for the I-T department to widen the tax base.
- It will investigate tax frauds rigorously in coming years and this opportunity must be fully utilised.
- The I-T department should take maximum benefit of digitalisation and Information technology for the greater good.

## TOPIC 2

# **Famers bear the brunt of droughts and cyclone in South India**

### Relevancy:

- GS Prelims, GS Mains paper III
- Environment, Sci-tech, Cyclone Ockhi

### Recently:

- Cyclone **Ockhi** hit the Indian coastline. Presently categorized as 'very severe', the cyclone is likely to be reduced as a 'severe' category cyclone.
- Last year, southern India suffered from a severe drought.
- The cyclone is expected to hit the coasts of Maharashtra and Gujarat soon.

### Effect on Agriculture:

- The farmers of cash and crop plantations were expecting good yields for their December harvests, but with the arrival of the cyclone, cold waters were poured over their hopes.
- The cyclone has laid waste acres of banana farms.
- Rubber, a major crop in the area, has been devastated, with trees thousands of uprooted.
- Ploughed land, ready for planting, now lies under water.
- Fishermen are also suffering due to the cyclone.
- Though coconut trees have fared better in this cyclone, they were badly affected by the drought.