A new Income Tax Act

Why in news?

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The Indian government has constituted a task force for overhauling its existing ‘Income Tax Act, 1961’ to make it consonant with the present economic needs.

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What it the mandates for the task force?

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- The country needs to widen its tax base, since the number of taxpayers is still low when compared to the overall population.
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- Hence, the task force has been mandated to prepare a suitable ‘draft direct tax legislation’ and submit its report to the government within six months.
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- It is expected to study direct tax systems prevalent in various countries, international best practices and the country’s economic needs.
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- The broad idea till now is to establish moderate tax rates and also reduce the number of tax exemptions that are presently available.
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- The envisioned draft is also intended to ensure simplicity and clarity to reduce litigation and provide stability to local as well as global business.
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What are the concerns?

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- The government has already taken several steps in line with Direct Tax Code, 2010 (DTC) under the Income Tax Act.
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- Eliminating the Minimum Alternate Tax (MAT), which most countries have already done away with, is also being considered but there isn’t consensus.

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- The new law should be in sync with India’s bilateral tax treaties and should be conducive for foreign investments.
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- There are reservations against the 2017 update to the “OECD Model Tax Convention and Commentary” is not in line with international best practices.
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- It would be challenging to draft an entirely new income tax law in such a short time of 6 months, as broad stakeholder consultations are required.
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How does the future look?

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- The new committee should involve all stakeholders and should give the rationale of each provision clearly before finalising its draft.
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- As India wants to become a manufacturing hub, it important to critically analyse the effectiveness of corporate tax cuts on the fiscal and the economy.
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- Also, to avoid long-drawn-out litigation, it should be ensured that the proposed law is legally compliant and its administration is smooth.
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Source: Business Standard

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