Amendment to retrospective taxation

Why in news?

The government's move to scrap the retrospective tax law would act as a booster for the reviving economy

What is retrospective tax?

- Retrospective tax is a tax levied on a deal or transaction which was conducted in the past
- **Finance (Amendment) Act,2012** allowed to levy taxes retrospectively on deals that were executed after 1962 that involved the transfer of shares in a foreign entity that has its assets in India

What is the issue?

Vodafone case - The government in 2007 asked telecom giant Vodafone to pay capital gains tax after it bought a majority stake in the telecom operations of Hutch in India

- **Dispute with Cairn** - Cairn Energy was asked to pay 10,247 crore in 2014 because of its move to bring its assets under a single holding company
- Cairn claimed that the government violated the India-UK Bilateral Investment Treaty (BIT)
- Cairn and Vodafone both moved the Permanent Court of Arbitration in the Hague in the Netherlands
- The international court ruled in favour of Cairn and awarded it $1.4 billion in damages.
- The court maintained that India did not treat Vodafone in an 'equitable and fair' manner

What is 'The Taxation Laws (Amendment) Bill, 2021' about?

- The Bill proposes to amend the Income-tax Act, 1961
- It proposes to do away with retrospective taxation for any indirect transfer of Indian assets undertaken before May 2012

- The bill proposes to refund the amount paid in these cases without any interest thereon.

What is the significance of the move?

- Restore foreign investors' confidence on India's tax regime
- Promotes the canons of taxation - certainty, economy and convenience for a more efficient tax system
- Showcase India as an attractive destination for investors and making India into a manufacturing hub
- Laudable step from the point of Ease of Doing Business in India

Source: The Hindu, The Hindu Businessline

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