Reviewing Income Tax Act

Why in news?

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Union government has decided to set up a panel to review the Income Tax Act, 1961.

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What is Income Tax Act 1961?

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- The Income-tax Act, 1961 is the charging Statute of Income Tax in India.
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- It provides for levy, administration, collection and recovery of Income Tax.
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- The Government of India brought a draft statute called the "Direct Taxes Code" intended to replace the Income Tax Act,1961 and the Wealth Tax Act, 1957.
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- However, the bill was later scrapped because of wealth tax act being repealed.
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What is a need for review of the act?

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- There is a controversial section in the Income Tax Act in India which states the Special provision relating to incomes of political parties.
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- By which any income of a political party which is chargeable under the head,
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- “Income from house property" or" Income from other sources" or any income by way of voluntary contributions received by a political party from any person shall not be included in the total income of the previous year of such political party.

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- Recently, there has been lot of uproar by the civil society against this act, as Political parties have deposited huge cash after demonetization.
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- The current law is unwieldy, and multiple court rulings over the past five decades have made Indian tax law confusing and opaque.
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What are practical difficulties with review panel?

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- The recommendations of panel will go through close scrutiny by all stakeholders, it is unlikely that the new Direct Tax Code Bill can take final shape before 2019, which is an election year.
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- This means the next government will have to take a call on piloting the Bill, leading many to question the timing of the constitution of the committee.
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- Previous governments diluted several of recommendations by earlier panels, notably in terms of ignoring the proposals to reduce exemptions, and the added complication of multiple cesses.
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- There is a critical demand from trade and industry is for a sea change in the nature of the tax administration, from being enforcement-oriented to focusing on simplicity and clarity.
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Source: Business standard

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