Tax Policy in Trying Times - Rewriting India's Tax Laws

What is the issue?

- As a result of the pandemic-induced lockdown, India's GDP contracted consecutively for two quarters from April to September 2020.
- However, some have gained from the pandemic, and this highlights the need for a relook at India's archaic tax laws.

Who have gained during the pandemic?

- India's super rich only became richer in the first half of 2020 - in some instances by over three times.
- Between January and June 2020, 85 new Indians were added to the list of High Networth Individuals (with a net worth of more than $50 million).
    - While this happened, the economy was on the verge of plunging into recession.
- Those dealing in stock exchanges also gained.
- When the GDP is contracting, some stocks are surging to phenomenal heights.
- The third set of gainers comprises corporate houses, Internet service providers, laptop makers and scientists engaged in medical research.
- The fourth set comprises manufacturers of masks and Personal Protective Equipment.

- **Downsides** - For most of the country, the pandemic led to unemployment and an increase in poverty levels.
- The migrant crisis revealed how thousands struggled to make ends meet.

What was the government approach?

- Pure economics dictates a big fiscal stimulus at the time of falling GDP and unemployment.
- But the government chose to rely more on monetary policy like credit easing and liquidity flow.
- The fiscal stimulus was provided in stages.
    - It stood at merely 2% of the GDP compared to Japan's fiscal stimulus (21% of the GDP), Brazil's (10%) and China's (7%).

How has tax structure favoured corporate growth?

- Corporate profits have risen sharply at the expense of wages and small and medium enterprise profits.
- Corporate tax rates have been lowered to moderate levels but multilateral corporates have found an easy way to make big money in the time of COVID-19.
- Digitalisation and e-commerce have made their job simpler.
- The tax administration is struggling with the implementation of the equalisation levy.
    - Non-resident e-commerce operators were brought within the scope of this levy by the Finance Act of 2000.
    - Online sales of goods and services will be taxed at 2%.
    - Clarity is required in implementation.
- **Taxing MNCs** - The taxation of multinational corporations has become a perennial problem.
- The nexus rule versus residence rule haunts tax administrations in all countries where multinational corporations operate.
- Tax avoidance by global web companies has become acute because of digitalisation.
- Digital taxation has to be amended in accordance with the UN Model Convention.
- There is need for India to act in sync with the OECD (Organisation for Economic Co-operation and Development).
- E.g. Canada plans to levy new taxes on foreign technology companies to increase government revenues.
- **Indirect taxes** - In the field of indirect taxes, the government has been vigorously following whether MNCs are passing on the benefits of tax reduction to consumers.
- As per the GST law, any reduction in the tax rate on the supply of goods or services has to be passed on to the consumer by way of commensurate reduction in prices.
- But companies are prone to benefit from GST rate reduction without passing on the benefits to the end consumers.
- To address this, the Anti-Profiteering Rules have to be implemented vigorously.

What is the way forward?

- **Dispute resolution** - India’s direct tax law needs to keep pace with fast-changing events.
- The government recently announced a new scheme of faceless assessments and faceless appeals.
- But at the same time, the dispute resolution mechanism needs change.

- The International Court of Arbitration ruled that the Indian government's move to seek taxes from Vodafone using retrospective legislation was against the fairness principle.
- It is necessary that a mechanism is found to negotiate a settlement in connection with tax disputes between the tax-paying companies and the Central Board of Direct Taxes.
- It could be through mediation and conciliation or, if necessary, arbitration.
- **Rewriting tax law** - The Income Tax Act was framed in 1961. It has been amended several times.
- The government constituted the Akhilesh Ranjan Task Force in 2017 to rewrite the Income Tax Act.
- The report is with the government but has not yet been made public.
- The report should be made public and going ahead, India's archaic laws should be modernised and made compatible with international tax laws.

Source: The Hindu

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