The Idea of Gross Receipts Taxation

What is the issue?

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- In India there no similar mechanism is followed in taxing an Indudival and a corporate entity.
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- India need to tax corporate revenues instead of taxing profits.
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How an Indudival is taxed in India?

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- In India income tax is a direct tax levied on the income earned by individuals, apart from few approved deductions for some savings, mortgage interest and pensions.
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- The Income Tax Act provides that in respect of the total income of the previous year of every person, income tax shall be charged for the corresponding assessment year at the rates laid down by the Finance Act for that assessment year.
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- But Indudival tax collections represents only less proportion of the Government’s revenues.
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How a corporate entity is taxed in India?

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- Depending upon the type of company, domestic or foreign and depending upon the income earned in one financial year, corporate tax rates vary for different companies.
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- In order to compute corporate tax on the income of a company following factors are considered
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1. Profits from business
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2. Income from property
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3. Capital gains
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4. Income from other sources such as foreign dividends, interests etc.
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- A flat rate of 25% corporate tax is levied on the income earned by a domestic corporatethat has its base location in India and is of Indian origin.
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- A foreign company means an enterprise that has operations and origin in any other country except India.
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- Corporate tax on foreign companies depends a lot on the taxation agreements made between India and other foreign countries.
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What are the discriminatory structures of taxation?

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- There is a basic problem with Indian Tax strategy by defining income incorrectly and indiscriminately.
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- The definition of income for a salaried employee is the total income earned during a tax year which is on a payslip.
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- But Companies attracts taxes for every imaginable expense, including those that are normally required for operations such as the cost of indirect labour, rent, utilities, travel expenses, information technology, advertising and legal.
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- Corporations which benefit from government contracts pay for government services regardless of whether they make a profit or not which has serious

implications on ease of doing business.
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- Which also makes few companies to carry over its losses to future years to further lower its tax bill.
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How gross revenue taxes will be a viable solution?

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- Corporate income should simply be redefined as a company's gross revenue, a number that is easy to obtain.
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- Public companies needs to report their revenues to SEBI for better accountability.
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- For private companies, it is simple to compute the top line revenue from the new GST system.
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- Once a company's gross revenue number is known, tax laws should be changed to simply require companies to pay a flat tax on revenue.
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- These "Gross Receipts" taxes are simple, effective, transparent, fair and efficient which would eliminate the need for corporate tax departments.
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- A tax on revenue would also rid of an important source of corruption and would control CBDT officials from "exaggerated" tax demands which was recently pointed out by CAG.
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Click here to know more about exaggerated demands

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Source: Business Line

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