Report Summary

Committee on Income Tax Simplification

The Committee on Income Tax (IT) Simplification (Chairperson: R.V. Easwar) released its draft first round of recommendations on January 18, 2016. The terms of reference of the Committee includes study of provisions of IT related laws that: i) give rise to litigation, ii) impact the ease of doing business, and iii) affect predictability of application of income tax.

Key observations and recommendations made by the Committee include:

- **Income from sale of shares and securities:** Currently, the IT Department may apply either capital gains tax or business income tax on income raising from sale of shares/securities on a case to case basis. The Committee highlighted that there is uncertainty in application of the appropriate tax on such income. To simplify such application, the Committee has recommended that capital gains tax should be applied on such income if: i) shares are held for more than 1 year by the taxpayer, or ii) shares are held for an amount up to Rs five lakh.
- **Expenditure on exempt income:** Currently, certain kinds of income are exempt from levy of tax, known as exempt income. The Finance Act, 2001 requires the taxpayer to specifically report the expenditure incurred in earning such exempt income. The Committee noted that there is uncertainty in calculation of such expenditure as defined by the provisions of the Act. The Committee also noted that the uncertainty is resulting in 15% of the total income tax litigations. The Committee recommended that the Central Board of Direct Taxes should makes administrative provisions to clarify and simplify these provisions presented in the Act.
- The Committee noted that in certain cases, current provisions allow the taxpayer to report more expenditure on earning exempt income than the total expenditure. The Committee recommended that the Finance Act, 2001 should be amended to address such cases.
- **Tax deducted at source (TDS):** TDS is a primary way of collecting taxes and is collected at the source of income. The Committee noted that the current thresholds above which TDS is collected on one's income are very low. The Committee noted that the thresholds should be raised to simplify administrative proceedings related to TDS.
- The Committee noted that TDS is currently collected at a higher rate. This is resulting in administrative burden as a consequence of sizable tax refunds. The Committee recommended that TDS rates for individuals should be reduced from 10% to 5% to avoid such burden.
- **Audit of book of accounts:** Currently, the Income Tax Act, 1961 requires taxpayers whose turnover is above a certain threshold to get their books audited. The Committee recommended that the threshold should be raised.
- **Presumptive scheme for small businesses:** The Income Tax Act, 1961 provides for presumptive income tax scheme. Under this scheme, small businesses with total turnover over Rs one crore declare their income at a tax rate of 8%. The Committee recommended that the threshold be raised from Rs one crore to Rs two crore.
- **Income Computation and Disclosure System (ICDS):** ICDS is a set of tax standards introduced for the computation of certain kinds of income under the Income Tax Act, 1961. It is expected to increase consistency in computation of taxable income and reduce litigation. The Committee noted that the taxation system has changed recently, through changes in the Companies Act, 2013 and the proposed Goods and Services Tax. In this context, the Committee recommended that the implementation of ICDS should be deferred to ease the burden on the taxpayer.
- **Non-residents:** Currently, taxes are deducted at a higher rate for taxpayers who do not have a Permanent Account Number. The Committee noted that this provision of the Income Tax Act, 1961 impedes the ease of doing business of non-residents with India. The Committee recommended that non-residents who do not have a PAN should be allowed to use a tax identification number from the country of their residence to lower their tax deduction.

Aravind Gayam
aravind@prsindia.org

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