Indian Direct Taxes Bulletin

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Several path-breaking reformative changes have taken place in the Indian Income Tax Department in terms of substantial legislation, organisational structure and procedures over the recent years. Together these changes seek to bring in efficiency and transparency in the functioning of the Department. These have resulted into reduction in tax complexity, tax rates and litigation, there has been increase in transparency, trust in taxation system and tax compliance.

Rationalisation of tax rates

Through Taxation Laws (Amendment) Act, 2019, an option has been provided to the corporates to pay tax at concessional rate of 22% (plus applicable surcharge and cess) if they do not avail any exemption or incentive. Further, new domestic manufacturing companies (set up after 1st October, 2019 and starting manufacture on or before 31st March, 2023) has been provided an option for paying tax at 15% (plus applicable surcharge and cess) without claiming specified exemption and incentive. Further, such companies are not required to pay MAT as well. Finance Act, 2020 has provided an option to individual taxpayers for paying income-tax at lower slab rates if they do not avail specified exemption and incentive

Simplification of direct tax laws and bringing down litigation

a. Direct Tax Vivad se Vishwas Act, 2020 to provide for resolution of pending tax disputes (under which declarations for settling disputes are being filed currently)

b. Monetary thresholds for filing of departmental appeals in various appellate Courts have been raised

Changes of Special Interest to Foreign Investors

Several legislative amendments have also been carried out in order to attract foreign investment. Some of the measures taken in this regard by Finance Act, 2020 are as under:

(a) ***Abolition of Dividend Distribution Tax (DDT):*** The Finance Act, 2020 abolished the DDT. In case of a foreign investor, any tax deducted on the dividend can now be availed as credit. Further, such investors can also opt for treaty benefit if such investors are the residents of a country having a Double Taxation Avoidance Agreement (DTAA) with India.

(b) ***Exemption to Sovereign Wealth Fund (SWF)/ Pension Funds*:** In order to promote investment of notified Sovereign Wealth Fund (SWF) and notified Pension funds, the interest, dividend and capital gains income of such funds has been exempted from Income-tax subject to fulfilment of certain conditions in respect of investment made in the infrastructure sector. Further to broaden the scope of investment undertaken by these funds, the list of infrastructure has been aligned with the Harmonised Master List of Infrastructure.

(c) ***Incentive for Offshore Borrowing:*** The concessional rate of TDS at 5% on interest paid to non-residents on foreign borrowings/bonds and on interest paid to Foreign Institutional Investors (FII) and Qualified Foreign Investors (QFI) specified securities/bonds has been extended to 30th June 2023. Moreover, the concessional rate of TDS has been further reduced to 4% on interest payable in respect of specified bond listed on International Financial Services Centre (IFSC) Stock Exchange.

Procedural Changes

a. Introduction of Document Identification Number (DIN) wherein every communication of the Department would carry a computer generated unique document identification number to bring in transparency in official communication.

b. Prefilling of income tax returns to make compliance more convenient for individual taxpayers.

c. Promote digital transactions and electronic modes of payment

d. Relief to taxpayers during the Covid times by extending statutory timelines for filing returns as also releasing refunds expeditiously to increase liquidity in the hands of taxpayers.

<u>Transparent Taxation – Honoring the Honest</u>

The above changes have been followed up with major reforms launched by the Prime Minister on 13 August 2020. Some of the salient aspects about the most recent changes are as follows:

I. **Faceless Assessment Scheme** – All income tax assessments or scrutiny proceedings except cases of serious frauds, money laundering, cases will done in faceless manner without any physical interface. The older territorial system of tax administration and assessment is now replaced by a system of assessment by randomly chosen virtual teams with dynamic jurisdiction. Assessment is completed through a coordinated effort of various teams viz. Assessment unit, Verification unit, Technical unit and Review unit. Dynamic jurisdiction implies that a taxpayer can be assessed by an officer located anywhere in the country irrespective of his geographical location The taxpayer is not required at any stage to appear either personally or through authorised representative before any income-tax authority. The underlying premise for faceless proceedings is the minimisation of personal discretion or bias.

II. A **Taxpayers' Charter** reflecting certain principal commitments of the Income Tax Department towards the taxpayer has been launched. It will go a long way in strengthening the trust between the taxpayer and the tax administration.

III. **A fully faceless procedure for appeals** to Commissioner (Appeals) under the Income-tax Act is to be implemented from 25th September, 2020 and will allow the taxpayers to file their appeals in an electronic mode and thereby save them from the hassles of physically visiting the Income Tax Department.

IV. **Limiting the intrusive powers of territorial officers to visit business premises**- The territorial formations of the Income Tax Department shall no more be permitted to carry out any intrusive action such as surprise visits to the business premises of taxpayers.

Farhat Khan
27.08.20
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First Secretary (Economic)