Play in spirit of all-rounders to win tax tests

The FM Must Record High Batting Strike Rate For Meaningful Incentives And Register Low Economy Rate In Bowling Mischievous Levies

Mukesh Patel

It is high time the FM took a look at some age-old limits of deductions and exemptions under the Income Tax Act that need revision to keep pace with rising inflation and the cost of living. In fact, as is prevalent in many tax systems of the world, such key limits in respect to savings, health, education and housing should be linked with the cost inflation index in a manner that they get periodically revised on their own, rather than the taxpayer being required to plead with the FM every year with a begging bowl!

With nearly 65% of the personal income tax collection in India being raised through tax deducted at source (TDS) — an onerous task which has been cast on taxmen — the TDS provisions need to be more friendly and not as "tedious" as they have remained over the years. It is indeed pathetic that a number of annual threshold limits in respect to TDS have just not come to be revised over the years.

Moreover, the dire need for rationalization of TDS rates, with the restructuring of the income tax rates over the past few years, has also been sadly overlooked. To illustrate, in FY 2004-05, taxable income of Rs 5,00,000 attracts income tax of Rs 1,24,000 at an average rate of tax 24.8%, whereas in FY 2014-15, the same income of Rs 5,00,000 attracts income tax of only Rs 25,000, with the average tax rate working out to just 5%. Even under this changed scenario, the rate of TDS on interest has continued to remain at 10%.

Today, the average tax rate of 10% is attracted only by taxable incomes beyond Rs 7,50,000. As a result, the majority of investors having interest incomes below this limit are required to claim allowable income tax refunds and the income tax department is also required to collect taxes in a very large number of such cases, merely to refund a substantial chunk along with the interest therein.

If the TDS rate on interest paid to individuals and HUFs is scaled down to 5% in place of the prevailing rate of 10%, it can go a long way in avoiding a lot of unproductive work and waste of time and money. The FM can effectively address an agenda for procedural and administrative reforms in his Budget by making suitable legislative provisions in line with the recommendations of the Tax Administration Reforms Commission (TARC).

This would be an entirely win-win situation, since the FM would undoubtedly earn immense taxpayer acclaim and goodwill, without losing a single rupee.

Pad up for GST

Jay Narayan Vyas

Currently, small-scale industries enjoy excise exemption up to Rs 1.5 crore of turnover. This needs to be revised to at least Rs 3 crore per annum. Similarly, the service tax limit which is currently Rs 10 lakh needs to be hike to cover those with an annual turnover of Rs 25 lakh. Likewise, industry would be happy to see the cess rate limit of six months totally scrapped. The cess introduced by the government is a temporary measure. It is therefore expected that this Budget will scrap appendages like education cess.

Similarly, with declining oil prices and gold imports, the import duty currently at 10% on gold is expected to be halved. The fiscal deficit within the budget estimate of 3.4% of GDP or Rs 5.3 lakh crore has already overshoot the runway. The target was crossed in the month of December 2014 itself. In the meanwhile, the government augmented revenue collection by raising duty four times on petrol, diesel and also on crude oil. Still, a shortfall of around Rs 70,000 crore is apprehended.

The recommendation for the introduction of unified goods and service tax in India dates back to 2004. Once implemented, it is expected to expand the tax base and add between 0.9 and 1.7% to the GDP. The flaws in the present indirect tax system can be effectively addressed by warding off the cascading effect of the taxes. The government of the day has come closest ever in introducing the GST — it may happen by April 2016. But for that to happen, a lot of groundwork needs to be completed. The Modi government has revised the expectations of the GST being introduced. This will be a dream come true. However, till this happens it will remain a distant dream!