

## **PRE-BUDGET MEMORANDUM ON UNION BUDGET 2016-2017**

### **I. INTRODUCTION OF PERFORMANCE JUDGEMENT MECHANISM (ACCOUNTABILITY)**

We would like to stress upon the need of accountability regarding allocation of budgetary expenditure and actual funds under each head. The resources of funds are scare and requirements of funds are more because of developmental activities including infrastructure. The need of hour is optimum use of limited resources of funds. It requires plugging the loopholes, leakage of revenue generation and utilization and distribution of fund.

In the budgetary exercise future prospect and budgetary allocations are discussed at length and there is no scope of comparison of budgetary allocation of previous period with actual utilization and use of such budgetary allocations. There should be major thrust on performance along with future prospect. To judge the performance there is a greater need of **accountability**, which will require the information to Indian citizen about the budgetary allocation, made and actual amount spent under each budgetary heads. Similarly there is a scope of optimum use of limited resources of fund. It may be achieved by blocking the leakage of fund in the course of utilization and distribution.

### **II. THRUST ON EXPORTS**

The recent currency devaluation in China comes at a bad time since the volume of global trade has been in decline. The crude oil price decline continued and hits 11 years low. The reduction in Current Account deficit (CAD) resulting from the sharp decline in oil prices has begun to reverse due to spiked gold import and weakened Indian Merchandise Export growth.

Despite RBI taking measures to check the depreciation of INR against USD, the INR continued its slide. The present rate is around INR 66.80 per US dollar as against INR

63.66 around a year before. The situation is leading to trade deficit, **Solution is Thrust on exports**. PM's Economic Advisory Council in particular has always mentioned this as a policy concern. **Boosting exports and looking for more stable longer term foreign inflows have been suggested as ways to alleviate concerns on current account deficit. Without a more stable source of capital inflows, Rupee is expected to remain highly volatile shifting gears from an appreciating currency outlook to depreciating reality in quick time.**

### III. REVIEW OF PRESENT LEVY OF DUTIES AND TAXES UNDER DIFFERENT NEW AND DIFFERENT TAX LAWS

A number times difference of measures and opinions are flashed in media between the Ministry of Commerce and Ministry of Finance over **export development measures**. **It is, therefore, appealed that no measure or policy should be adopted by Ministry of Finance or in the budgetary exercise which put hindrance on the path of exports.** There are a number of **hurdles in tax refund procedures faced by exporting community**. The measures taken so far are half-hearted measures and it had not yielded desired results. **The refunds are claimed by exporters under excise, sales tax and exemption are claimed under Income Tax Law. Under each of these three heads there are practical problems which are required to be removed.**

### IV. GOODS AND SERVICE TAX (GST)

The Goods and Service Tax (GST) is proposed to be a comprehensive indirect tax levy and is a step in the right direction of reforms.

The Hon'ble Finance Minister has announced that the Goods and Service Tax is set to be implemented w.e.f. 01-04-2016 and released its working papers and other related details inviting suggestions. There are number of anomalies in the working papers which are expected to create complication rather than relief.

It is suggested that the suggestions made by various Chambers and other forums should be appropriately considered before finally the GST is enacted.

### V. TRANSPARENCY AND INTEGRITY

It is suggested that the steps should be taken to have a transparent tax regime. The Tax administration should create a friendly environment with the tax payers.

### VI. Non-adversarial and Conducive Tax environment

To provide a genuine non-adversarial and conducive tax environment the practice of the Finance Ministry of '**setting targets**' for tax collection turns the officers below, who are supposed to be watchdogs for revenue, into blood hounds and they act as tax extortionists instead of tax collectors.

Such practices leads to arbitrarily adjustment/additions, denial or delay in sanction of refunds and attracts unwanted litigation. Assessment orders, under such circumstances, reflect the revenue-biased approach taken by tax officers endeavoring to garner maximum revenue from the tax payers. To meet the revenue collection targets, very often tax officers adopt coercive measures which include attachment of bank accounts threats of arrest and prosecution.

**It is, therefore suggested that the Government should issue necessary directions to move away from aggressive revenue target approach and provide a genuine non-adversarial and conducive tax environment. Following measures are suggested by us to improve the conducive tax environment:**

- a) **Revenue targets should be arrived realistically following the state of economy of the country.**
- b) **Tax demands raised and revenue realized should not be the basis for evaluation tax officers performance, rather it should be evaluated on the basis of quality and quantity of work rendered including judicious decisions-cum-orders and facilitation.**
- c) **Tax deposit obtained in the course of investigation and survey under various threats should be stopped forthwith. Such deposits are never voluntarily.**
- d) **Targets of issuing Summons for making enquiry and/or collecting routine information should be discontinued.**
- e) **Every A.O.'s each assessment order should be rated and if he is promoted on merit, he should also be demoted if the ratings so indicate. This rating exercise should be controlled by such wing of officers who are not to directly report to the CCIT or CIT or officers below them.**

## **VII. NUMBER OF LEVIES, DUTIES ETC.**

The Indian trade and industry is overburdened with levy of taxes, duties, cess etc. under different heads, which are managed, by large number of Union Government's Acts.

A time has come to give a re-look on different types of levies under different Acts and to consolidate the existing laws under limited number of heads, it should not be more than 4 and 5 in all. It will bring simplicity and better compliance and governance.

## **VIII. REVIEW OF ADMINISTRATIVE EXPENSES ON COLLECTION OF REVENUE**

Year after year Government's revenue expenditure towards administration on revenue collection had gone up tremendously. Parliament should fix a ceiling beyond which administrative expenses for collection of revenue should not exceed. If at all, it is not possible to reduce the administrative expenses, it gives alarm to the Government. The time has come to review the entire system and if thought fit to bills such levy or piece of law which introduce such levy.

## Suggestion

**The above suggestion will reduce unhealthy revenue expenditure on administration cost and will provide extra front for infrastructure and other capital expenditure.**

## IX. BEHAVIOR OF VISITING TAX OFFICERS DURING SEARCH AND SEIZURE OPERATION

It is routine complaint of assesses that during search and seizure operation by tax department behavior of the visiting team officers is very rude and authoritative.

For example, they would not allow any normal help to the establishment. Even the employees in the office/residence are harassed, authorities will confiscate their phone and they are made to sit whole day not allowing them to do any work.

The establishments are not criminals all the time. There could be some laps on their part but this does not give them any authority of such behavior.

They will not even allow the establishment to call their legal advisor or any help in such situation and keep harassing/threatening them by so many things for the obvious reasons.

Although our Chamber is not against the principal of conducting search and seizure but the aggressive pattern of tax officers must be improved drastically and it should be mentioned in the Act or Rules itself that the entire operation should be conducted with normal behavior and officers should be courteous to the assesses.

## X. DIRECT TAX

### A. *Income Tax*

#### 1.a) BASIC EXEMPTION FROM PAYMENT OF INCOME TAX

There is a need to provide upward revision of basic exemption to medium income group citizens to provide relief against price rise in consumer products and facing pay cut and job insecurity in private sector.

Category	Present limit (Rs. in lac)	Proposed limit (Rs. in lac)
Super Sr. citizen	5.00	12
Sr. citizen	3.00	10
Women below 60 yrs	2.50	5.5
Others (Indv./HUF/AOP/BOI)	2.50	5

It is recommended that the age limit for Super Senior Citizen be reduced from 80 years to 70 years in order to make more senior persons eligible to avail the exemption limit of Rs. 5.00 lakhs and save themselves from hardship.

## 1.b) TAX RATE STRUCTURE

In the other Asian countries the prevailing maximum tax rate is 25%. It is, therefore, suggested that the tax rate should be brought down to 25%. We propose to reduce maximum tax rate from 30% to 25% to boost the economy, employment and overall tax collection which will give new economic scenario to the country.

<u>Rate of Tax</u>	<u>Proposed income structure</u>
10%	Up to Rs.15 lacs (above basic exemption)
20%	Rs. 15 lacs – Rs. 20 Lacs
25%	Above Rs. 20 lacs

The above measure will give relief to a large number of medium income group taxpayers and provide boost for small savings.

## 1.c) S.C., E.C. and HSEC

For a lay man, it is very difficult to understand the basic tax structure with SC, EC and HSEC and due to this starting point, Tax Payers face difficulties in compliance of the tax laws.

### **Suggestion:**

**For simplification of tax structure and to improve voluntary compliances, SC, EC and HSEC should be completely abolished.**

**Instead of collecting SC, EC and HSEC directly from general public, it would be better if Government makes internal arrangement for allocation of the revenue to the specified objectives of SC,EC & HSEC.**

## 1.d) Refund adjustment by the Centralized Processing Centre (CPC)

Allowing of TDS credit based only on filing of deductors details through quarterly TDS statements which form the basis of Form 26AS has brought with itself lots of worries and woes. The deductors are required to have a degree of decisions, in absence of which the deductee is denying the credit for anything of his faults. This leads to huge tax demands forced adjustments with refunds or recovers running into course of rupees in aggregate all over the country. Slightest mismatch in the data furnished by the deductors with a computerized data results in the complete denial of the credits enlist to the adjustment of the pending refunds against the fiscal demands. This mismatch arises either on account of unfamiliarity of the deductors to the computerized environment or on account of negligence on his part in furnishing the data. Some examples of the mismatch are PAN; TAN, Challan No., date, BSR code, rate etc. The errors also arise due to improper data fed by several bankers collecting direct taxes. In all such cases, the sufferer is not

deductee whose money is paid for which the government does not allow him credit for the same even after receiving the tax deducted at source (TDS) amount.

The situation has deteriorated into national chaos on account of machines that are not endowed with the human character and by the authority with the inhuman approach. It forced the Hon'ble Delhi High Court to take cognizance of the rampant abuse with a view to being an end to the prevailing circumstances in the Public Interest Litigation

(PIL). The Hon'ble Delhi High Court has issued an interim order and issued a number of directions with the Government of India.

In view of the above circumstances, our Chamber feels that the procedure prescribed under 16-45 requires to be elaborately redrafted so that there is no room for anomalies and problems of the tax payers. At this stage it is important to adjust the fact that the denial of the credits for TDS or grant of refund hurts the assessee and put him to manner less inconvenience and harassment, besides bringing the bad name for the government.

As per the Hon'ble Delhi High Court, the problem is real and enormous and has escalated on account of failure of administration, absence of fairness and presence of arbitrariness and also of the governance.

### **Suggestion**

The need for the hour is:

- **Re-draft Section 245.**
- **Specify detailed rules instead of issue of different batch of circulars/instructions which would away mandate of law.**
- **Without affording opportunity to the assessee to explain their claims and credits, no demand should be raised and/or refund should not be adjusted. The above suggestion along with human approach alone shall set to rest the enormous difficulties faced by tax payers on a very large scale.**

**In view of the current chaotic situation, it is suggested that so long the TIN and TDS systems are not full proof, TDS Certificates issued by the deductors, which are furnished by the deductees in the tax assessment, should be given due cognizance and refund claims based on such TDS Certificates submitted in original in the office of the Assessing Officers should be disposed off on a time frame basis to remove tax payers grievance. CBDT Circulars issued sofar on this issue had not brought desired result.**

## **2. RATIONALISATION AND SIMPLIFICATION**

Under the head of rationalization and simplification every year there are few proposals and it is the feeling of general public that the tax laws are being made more and more

complicated year after year. In fact there has been no simplification of law under the head of rationalization and simplification; rather people are facing difficulties in understanding the real requirement and provisions of the laws. It creates lot of difficulties to tax payers as well as tax gatherers. Commitment for not to make retrospective amendments is the step in right direction to gain confidence of the investors and tax payers. It is suggested that frequent amendments during the year especially at the fag and of the year should be avoided. The major amendments should be made through the budget proposals only.

### **3. SECTION 14A OF THE INCOME TAX ACT**

Method for determining amount of expenditure in relation to income not includable in total income.

The principle of disallowing the expenditure incurred by the assessee in relation to exempt income is acceptable. But the mode of its implementation and bringing indirect expenditure into the network of disallowance is clearly contrary to the main principle for which this provision was enacted. The Central Board of Direct Taxes had provided Rule 8D in exercise of its power given U/s 14A(2) of the Act.

A number of controversies has arisen resulting spate of litigations and appeals pending before different authorities including ITAT and High Courts. This is a result of faulty drafting and lack of clarity and injustice. Recently a circular dt.11.02.2014 issued by CBDT had overturned the High Courts' & ITAT Judgments on nil exempt income whereas as per Judicial hierarchy High Courts & ITAT are holding above position over CBDT. Following the recent circular, the A.O. have started considering disallowances in the cases where there are no exempted income. Thus there exists total chaos on this provision of the Act.

#### **Suggestion**

**It is suggested that all present controversies should be settled in a judicious and balanced manner and provisions should be made simple and effective so that there is no injustice and there is no scope of litigation. Therefore, section 14A and Rule 8D requires a total overhaul.**

**The following suggestions are being made in this respect :**

- a) **The disallowances should be restricted to the claim of exempted income.**
- b) **Share of profit from partnership firm, LTCG and STCG from share transactions etc are taxed at the first stage and therefore should not be treated as exempted income for the purpose of disallowances.**
- c) **No disallowances should be made in cases of claim of exempted income from investments at NIL.**
- d) **Mandatory provisions contained in Rule 8D of the I.T. Rules should be removed.**
- e) **The Circular No. 5/2014 dated 11-02-2014 issued by CBDT should be withdrawn.**

#### 4. CAPITAL GAINS – SHARES & SECURITIES

Income arising out of sale of shares and securities is a Capital Gain or Income from Business or Profession requires clarifications.

Under the present law, the LTCG on sale of Shares and Securities are exempt from tax provided transactions are routed through Recognized Stock Exchange and STT paid thereon. The STCG are chargeable to tax a special rate of 15%.

An issue is being raised as to whether the transactions of buying and selling of shares are assessable as capital gains or assessable under the head profits and gains from business or profession. This has created a lot of confusion among the Assessing Officers, the investors, the assessee and the tax advisors. This has also given a lot of discretionary power to the Assessing Officers and because of such discretionary power, the assessee as well as the tax advisers strongly feel that the Assessing Officers may unjustly interpret the Instruction No. 1827 dated 31-08-1989 and frame whimsical and arbitrary assessment orders which would result in a lot of litigation and complicate the issue further instead of simplifying the same. Circular No. 4 of 2007 issued by the CBDT has instead of clarifying the issue further complicated the issue.

Therefore, it is felt by all concerned that a clear cut instruction which is judicious and within the four corners of law is required on this count in order to avoid unnecessary litigation and arbitrary assessments and promote transparency, faith of the tax payer towards the intent of the Hon'ble Finance Minister and the harmonious relationship between the assessee and the income tax department.

##### **Suggestion**

- **Where an assessee has regularly been treating its buying and selling of shares together with delivery as investing activity and also classifying the shares in hand at the year end as investments, the assessing officer should accept the profit or loss on such transactions as profit or loss under the head capital gains.**
- **In case of non corporate assessee, where the annual accounts are not drawn as per schedule II of the Companies Act, 2013, if in the past the assessee has been treating any profit or loss arising out of purchase/sale of shares as capital gains/loss, any profit/loss arising out of pending assessments should be assessed under the head capital gains.**
- **For fresh purchases to be made, it should be made mandatory on the part of the assessee to declare at the time of purchase whether such purchase has been made for investment purpose or trading purpose to his share broker. An additional**



**column should be added to the contract note issued by the broker which should mention either I (investment) or T (trading) and such contract note declaration should be treated as final for deciding whether any profit on sale of such shares is assessable under the head capital gains or under the head business or profession.**

## **5. CAPITAL GAINS – PROPERTIES**

The Capital Gains Tax (CGT) on properties has not been rationalized for a long time. The reason being, it is not a regular kind of tax for the tax payer and happens to them almost once in their lifetime. Therefore, it is not highlighted.

- i) The base year taken is 1980, when larger portions in most of the transactions were in cash. Hence the real value was also not properly registered with the Registrar.
- ii) Comparatively, the present day market, larger portions in most land deals are in cheque (many of them in full cheque also).
- iii) Therefore, the indexing taken on the base price of 1980 as per 1 above, is not correct, therefore, does not reflect the current true index price.
- iv) In recent times, the property rates have sky-rocketed and the incidence of 20% capital gain has become very high for the tax payer. We must keep in mind that the tax payer, who buys new property against this sale, is also paying States' Stamp Duty/Registration Charge (though to the States exchequer). He also has to pay brokerage, legal expenses on both purchase and sale.
- v) A tax payer sells his old property out of some compulsion e.g. family getting large needing larger accommodation, separation in the family, cash needed for business, education. It is prudent; a good amount should remain in his hand so that he can utilize it to buy not only another property but also putting the balance in productive work.
- vi) Deduction is allowed U/s 54 or 54F of the Act for buying another house property within two years. The present real estate scenario of building condominium does not allow a new flat to be possessed within two years. This time, should be increased of four years.
- vii) At times the paternal properties are sold when the families increase in size and more tenements are needed. In that case the tax payer sells his high value property, move to a lower value location where he requires higher number of tenements for his extended family. But as per law, he cannot do so. He has to go in to one single tenement only and the balance tenements become CGT taxable.

**Our Suggestions:**

- a) **Shifting the base year 1980 to 2005**
- b) **Indexing be made more realistic i.e. based on CPI and not WPI**
- c) **The gain arising on transfer of house property being long term asset should be only @10% along with benefits of indexation.**
- d) **Repurchase be allowed to the extent of 4 years**
  
- e) **Tax payer be allowed to build his house with multiple tenements for his family and at times to put on rent which is also an economic activity.**

The above will give boost to real estate sector and also reduce incidence of cash in the economy.

**6. CAPITAL GAINS – ZERO COUPON BONDS**

Under section 48 read with 3<sup>rd</sup> Proviso & Rules there is controversy and no consensus decision is available as to whether indexation benefits is available on transfer or not. Although the term Zero Coupon Bond is defined u/s 2 (48) of I-T Act, the term Bonds and Debentures are not defined in the Act. Moreover Proviso to Section 112(1)(d) of the Act mentioned Zero Coupon Bond separately and on the other hands Bonds and Debentures are included in the listed securities.

**To remove this ambiguity and controversy it is suggested that Zero Coupon Bonds should be excluded from Bonds & Debentures and Zero Coupon Bonds should also be excluded from 3<sup>rd</sup> Proviso of the Sec. 48 like Capital Index Bonds issued by Government.**

**7. TAX ON CAPITAL GAINS (SEC.50C) OR SALE OF PROPERTY43 CA**

Section 50C provides that the consideration amount of sale in land or building or both shall be deemed to be the value on which the stamp duty is charged by the state government for the purposes of transfer. This amendment is made as a prelude of deletion of Chapter XXA, regarding acquisition by Government, in case of understatement of consideration by more than 15%. Similar provision proposed by Finance Bill of 1998 clause 25 providing amendment to Section 48 by insertion of a provision, by which the transfer consideration shall be deemed to be the value on which the Stamp Duty is paid. These proposed provisions were in view of the facts that the state government fixes the Stamp Duty Value at a high pitch devoid from market value for registration on the basis of Local Authorities demarcated blocks/wards and not on the basis of Prime Property, Secondary Property, Residual Property etc. The Stamp Value fixed for a property at 120ft. wide road is the same as that for 80ft. or 40ft. wide road in the block/ward. Likewise, the Stamp Duty Value for the corner plot is the same as that for a plot with small opening on the road or a tandem plot or a large road facing the plot. The value for a vacant property and an old tenanted property is also the same and no consideration is made of any restrictive rent laws or the amount of rent. At present, the valuation of Stamp Duty is illogical, irrational and unscientific.

The middle class is badly hit, who sell off properties as a last resort in case of unavoidable need. Real Estate dealers have also brought into the net by inserting new provisions as Sec. 43CA.

Section 56(2)(VII)(b) provides that where the immovable property by an individual or HUF is received for a consideration which is less than the value assessed for the purpose of stamp duty by an amount exceeding rupees fifty thousand, the stamp duty value of such

property as exceeds such consideration shall be taxable as income from other sources in the hands of person received such property.

Thus, it seems that there is double taxation i.e. in the hands of the transferor as well as the transferee of the immovable property, to the extent of difference between consideration of transfer and value determined for the purpose of stamp duty.

### **Suggestion**

**The provisions of Section 50C as well as 43CA for taxation of capital gains on transfer of immovable property or sale of immovable property respectively on 'Notional basis' are draconian in nature. Reintroduction of an illogical concept has unleashed the era of irrationality and there is necessity to restore rationality and simplification in the administration of the tax laws. It is suggested that Section 50C /43CA be repealed forthwith with retrospective effect. The double taxation on the same amount in the hands of two different persons is against the principle of natural justice and therefore provisions u/s 56(2)(VII)(b) be amended suitably.**

### **8. TIME LIMITS**

There are several provisions of Income Tax Act wherein no time limit has been prescribed, so it is suggested that the law should prescribe the time limit for passing orders under the Income Tax Act. The examples of such provisions are –

- **S. 171:** Claiming partition of a Hindu Undivided Family.
- **S.179:** Dealing with recovery of taxes from directors of a private company – period should be linked to the date of order determining the company's tax liability.
- **S.195:** order for deducting no tax or tax at a lower rate than prescribed. In our opinion, the law should prescribe a maximum period of 30 – thirty days, within which the application should be disposed of and in case the application is rejected, the Assessing Officer should pass a speaking order after providing a reasonable opportunity.
- **S.80-G:** Issue of certificate on receipt of the application for grant of a certificate in favour of Charitable Trusts.

- Issue of appeal order by CIT (Appeals).

### **Suggestion**

- **For giving effect to the order of an Appellate Authority i.e. CIT(A), Tribunal, High Court or the Supreme Court, the assessee has to continuously keep knocking at the door of the Assessing Officer. The law, in our opinion, should make it obligatory on the Assessing Officer to pass an order within three months of the receipt of the order, either from the Appellate Authority or the assessee whichever is earlier.**
- **At present, no time limit has been prescribed for assessment of TDS Return submitted by the assessee. Accordingly, such return is taken up for scrutiny**
- **After expiry of 6-8 years period and in many cases even beyond the above referred period. Since there is time limit for completion of income tax and wealth tax assessment, which is 21 months from the end of relevant assessment year, similar time limit should be fixed for completion of assessment of TDS Return / statements also.**

## **9. PROCESSING OF RETURN AND ISSUING REFUND**

Under the provisions of Sec 143(1D), the processing of return shall not be necessary where a notice has been issued under sub Section (2).

CBDT vide its instruction No.01/2015 dated 13-01-2015 clarifies that processing of refunds cannot be undertaken after notice u/s 143 (2) has been issued and the case has been selected for scrutiny.

These provisions is creating undue hardship to the tax payers as the entire refund is held up till the completion of the scrutiny u/s143(3) which is normally completed after 3 years from the end of the Financial Year. In other words, the working capital fund is blocked in refunds for a longer period especially in cases of large refunds, causing financial crises. The tax payer arranging working capital paying interest @ 12% to 15% where he gets interest @6% u/s 244A on refunds.

The blocking of working capital adversely effects the business and unnecessarily increases borrowing costs.

### **Suggestions**

- a) The provisions of Section 143(1D) should be used sparingly and under extra ordinary circumstances only.**
- b) The tax payer should get the refund under normal circumstances by timely processing the return.**

## **10. PROSECUTION UNDER THE TDS CHAPTER**

Under the existing provisions, the tax payer is treated in default if he fails to deduct tax at source, Deducts Tax at Source but fails deposit to the credit of Central Government within stipulated time, Fails to file TDS return within specified period or fails to issue TDS Certificate in time etc. and such defaulter tax payer is subjected to prosecution.

Until recently, the prosecution proceedings were initiated only when the amount involved were exceeding Rs.1.00 lakhs and the default continued for period exceeding one year.

However, after atomization of processing of TDS returns, it has been seen that the prosecution notices have been issued irrespective of amount involved and period of default.

There are provisions for disallowance of expenses for failure to deduct tax or charging interest, late fee and levy of penalty for delay in compliances of provisions under the chapter of TDS.

Further initiating prosecution proceedings and tax payer subjected to compounding for default involving negligible amount or insignificant delay is causing hardship to the tax payers.

### **Suggestions**

**It is suggested that the prosecution proceedings should only be initiated if the amount involves exceeds Rs.10.00 lakhs and the default continues for a period exceeding one year.**

## **11. CREDIT FOR TAX PAID / TDS**

Sometime, the tax deducted at source escape the attention of the deductee as the amount of TDS is not reflected in 26AS. It may be due to the fact that the deductor has not deposited TDS amount or not filed its TDS return or furnished wrong PAN of deductee or not given TDS Certificate or due to some other reason. As a result, the assessee fails to claim credit of amount of TDS so deducted. The tax payer unable to file the revised return and claim credit of such TDS as it was a belated return or time for filing revised return is over.

The Assessing Officer denies to allow credit of TDS on the ground that there are no provisions to allow credit of TDS if not claimed in return of income.

The result, the tax payer has to suffer.

### **Suggestions**

**The Assessing Officer should be empowered under the provisions of the law to allow credit of tax paid not claimed in return of income in the genuine cases.**

## **12. CLUBBING PROVISIONS U/S 64(1A)**

Under the existing provision u/s 64(1A) the income earned from the property movable or immovable given to daughter-in-law is subjected to clubbing in the hands of the donor. Contrary, under the provisions of sec. 56(2), the gift to a relative as defined exceeding Rs. 50,000/- is not treated as income in the hands of the donee.

Thus, the provisions are contradictory and require to be amended.

## **B. NEW PROPOSALS**

### **1. ACCOUNTABILITY OF THE ASSESSING OFFICER**

#### **Suggestion**

**It is suggested that the Assessing Officer should be made accountable for delay in granting refunds, giving effect to Appellate Orders, carrying out rectification, issue of certificates for lower deduction of tax, preparation of survey reports.**

### **2.a) PERSONS REGISTERED UNDER VALUE ADDED TAX SHOULD FILE RETURN OF INCOME**

Several State Governments have passed VAT legislations. Many of such legislations contain basic exemption limit. Generally, traders are not liable to VAT if their turnover does not exceed Rs.5 lakhs. Further, composition schemes have been devised by various States in respect of traders having turnover up to Rs.50 lakhs.

It is suggested that dealers who are liable to pay VAT under various State legislations may be required to furnish returns of income wherein full details of the turnover disclosed under State VAT Legislations should also be furnished.

### **2.b) PERSONS REGISTERED UNDER SERVICE TAX SHOULD FILE RETURN OF INCOME**

Presently service tax provider is required to get registered if its receipts from the services are more than Rs.9 Lac and is required to pay service tax if the gross receipt exceeds Rs.10 Lac in order to ensure that each service provider pays income tax on its income. It is suggested that this service providers who are registered under service tax be required to

file return of income under section 139(1) of the Act. The government on its part can collect details of the service providers registered with the Service Tax Department and

match the same with the return filed. Matching of the data with the return actually filed is important as against matching the data with the PAN may not be filing return of income.

### 3. **PRESUMPTIVE TAXATION OF PROFESSIONAL INCOME**

Presently under the Income Tax Act profit and gains on carrying of business having turnover not exceeding Rs. 1 crore are subject to computing on presumptive basis. A sum equal to 8% of the total turnover or gross receipt from such business is deemed to be the profit and gains. It is suggested that a similar presumption basis be prescribed in respect of profit and gains on profession where the gross receipt does not exceed Rs. 25 Lakhs. In the case of the profession a sum equal to 20% of the gross receipts may be deemed to be the income from such profession.

### 4. **SECTION 143**

In practice the Assessing Officers make unwarranted, uncalled for additions to the returned income or disallow claims made in the return of income. On many occasions the assesseees have no opportunity to make proper representation. This results into unnecessary litigation.

#### **Suggestions:**

- ◆ **It is, therefore, suggested to enjoin upon the Assessing Officers to communicate the nature and quantum of additions/disallowances to the assessee, Finance Act 2002 had introduced a concept of limited scrutiny in which, the Assessing Officer, if has reason to believe that an assessee has made a claim of any loss, exemption, deduction, allowance or relief which is inadmissible, is empowered to issue notice specifying claims and calling upon the assessee to produce evidence and particulars in support thereof and making an assessment of total income of loss limiting himself to the claims set out to verify.**

**The Assessing Officer has enough power to verify the correctness of the claims made by the assessee in the return of income. Further, such additional discretionary powers to the Assessing Officer are unwarranted and cause unnecessary harassment to the assesseees. It would also open doors for unhealthy practices and protracted litigation.**

**The Assessing Officer should also disclose the grounds for selection of scrutiny in notice issued u/s 143(2) or 142(1).**

- ◆ It is, therefore, suggested that provision introducing the concept of limited scrutiny be dropped by a further amendment to Section 143.

## 5. INCOME TAX APPEALS (SEC.246A)

- ◆ As per existing rule, appeal filing fees is based on the assessed income. It is suggested that appeal filing fees should be determined on the basis of the difference between Returned income and Assessed income. The appeal fees incase of penalty orders should be linked with income figures. The time limit is prescribed for disposal of appeals but if the appeals are not disposed of within the time allowed, then what course is to be taken is not clear.

### Suggestion

**It is suggested that specific period should be given for disposal of appeals.**

- ◆ Section 246A introduced with effect from 01.10.98 has denied right of appeal against order under Section 201 and also does not provide right to appeal against levy of interest under Section 234A, 234B, 234C and 220(2).

### Suggestion

**It is suggested that the right of appeal should be granted against all orders passed under the Act whereby the right to levy or refusal is challenged.**

## C. AMENDMENTS IN THE EXISTING PROPOSALS

### 1. LEVY OF SURCHARGE AT 10%

Surcharge is levied on domestic companies @5%, where income exceeds Rs.1 crore as against 2% on foreign companies, where income exceeds Rs.1 crore. This is highly unjustified on domestic companies.

### Suggestion

**It is suggested that surcharge on domestic companies should be reduced to Nil, since the levy of Education Cess and Higher Secondary Education Cess is additionally charged on the levy of tax.**

### 2. DEDUCTION U/S 80C



In order to boost savings and investments present provision allows deduction from income up to a maximum of Rs.1.50 lakhs. Considering the inflationary effects had minimized its effect, and it includes repayment of principal housing loan amount. **It is suggested:**

- **The limit U/s 80C should be enhanced to Rs. 3 lacs.**
- **Housing loan repayment amount should be separately provided for deduction in order to boost housing sector which is of great importance on date.**

### 3. DEDUCTION U/S 80D

In order to ensure proper health care and provision on medical facilities, presently deduction is allowed for payment of medical insurance premium upto a limit up to Rs.15000/-. In the last 3 years all Insurance Companies have hiked medical insurance premiums into three folds or more. The said limit of Rs.15000/- was last fixed by Finance Act 2007. There is a need to revise it upward to cope up with the present scale of health insurance premium charged by all Insurance Companies. Therefore **it is suggested that-**

- **The limit of Rs.15000/- should be enhanced to Rs.40000/-.**
- **Where insurance is made for a senior citizen, the limit should be Rs.50000/-.**
- **Where insurance is made for a super senior citizen, the limit should be enhanced to Rs.60000/-.**

### 4. DIVIDEND DISTRIBUTION TAX

#### **Suggestion**

**Dividend Distribution at present is taxed @15% plus SC, EC & SHEC. In order to boost investment scenario and industrialisation and corporatisation of business entities, it is suggested that stage has come where Dividend Distribution Tax should be abolished, or alternatively it should be slashed to 5%.**

### 5. INCOME DEEMED TO ACCRUE OR ARISE IN INDIA – SEC 9(1)(VII) BY WAY OF FEES FOR TECHNICAL SERVICES

The foreign lawyers and foreign law firms are presently not allowed to practice in India and or able to establish office or a branch in India. To get around this situation and the present position of law, the foreign law firms have primarily adopted two different routes- (a) Visiting India and operating from hotel rooms (using the hotel facilities such as conference rooms and business centers), (b) Establish good relationship with Indian firms and the foreign lawyers sit in the offices of the Indian law firms attending to the client and/or to the clients work.

When question of billing comes the invoices are issued by the Foreign Firms or Lawyers from its home country i.e. foreign country. While issuing such invoices they issue

certificate that they do not have a place of business or a branch office in India. This enables them to receive the whole of the invoiced amount without any withholding tax or payment of taxes.

The Foreign Law Firms thus are not taxed on the income they earn in India or from Indian clients, which would otherwise be taxable as income deemed to accrue or arise in India as per Sec. 9(1)(vii) of The Income Tax Act.

### **Suggestion**

**We suggest that the foreign law firms should not be allowed to be paid any fee payment without deduction of tax and the Government should impose tax to be deducted at source at the rate of 30% for any payment made to any foreign law firms/lawyers.**

**This would enable the govt. of India to increase tax revenue in India, while the foreign law firms would not suffer any loss, as they would have credit under the DTAA.**

### **6. ENHANCEMENT OF EXEMPTION LIMIT FOR MINOR'S INCOME CLUBBED WITH THE PARENT**

S.10(32) provides for an exemption of clubbed income to the extent of Rs.1,500 per child. This limit was set by the Finance Act, 1992. This limit is too meager and an upward revision upto Rs. 30,000 per child is over due. The limit should be linked with inflationary index to take effect of inflation.

Alternatively, a deduction for educational and medical expenses incurred by parents on minors be allowed upto Rs.30,000 per child. This deduction/exemption could be limited to two children.

### **7. MINIMUM ALTERNATE TAX (MAT) U/S 115JB**

On introduction of MAT the rate of tax was 7.5% of book profit which was increased to 10% from A/Y 2007-08. The rate was increased to 15% later brought to 18% from Assessment year 2011-12 and again to 18.5% from Assessment year 2012-13.

**It is proposed that tax rate should be brought back to 7.5% without surcharge, E.C. & SHEC thereon.**

### **8. DEEMED DIVIDEND [Sec 2(22)(e)] Income Tax Act: Payment of closely held company by way of loan to the shareholders.**

Under the above provision loans by a closely held company to specified share holders are treated as dividend distributors to the extent of accumulate profit of the company subject to fulfillment of certain condition. This provision was enacted basically to overcome the situation where the share holders, who are liable to pay tax on dividend received, would avoid payment of tax liability by not receiving the share profit from the closely held

company by way of dividend, but they would prefer loan to avoid tax liability. At present the dividend is exempted from tax in the hands of shareholders u/s 10(34) of the Income Tax Act, where the company has paid Dividend Distribution Tax U/s 115-O. The closely held company is a glorified partnership. A partnership firm has no tax liability on distribution of profits amongst the partners.

Thus the basic scenario and presumption has changed as on date from the date, when the provision was enacted. Considering the present position there are two alternative suggestions made by us.

**Suggestion No. 1: If the loan is provided by the closely held company to its share holders carrying interest not less than rate charged by SBI prime lending rate (PLR), dividend should be exempted in such cases. OR**

**Suggestion No. 2 : The company providing loan to the share holders should be charged dividend distribution tax in the place of the share holder paying tax at full rate of tax.**

#### 9. **DEDUCTION ON ACCOUNT OF INTEREST UNDER THE HEAD INCOME FROM HOUSE PROPERTY**

While computing taxable income of an assessee under the head income from house property, a deduction is allowed for payment of interest on period for purchase or construction of house property. In case of self occupied house property the limit of allowance of interest is Rs.2.00 lakhs. Considering the present cost of LIG and MIG housing schemes and the cost of a flat, the home loan amount are in the range of Rs.50-70 lacs, where the interest rate is around 10.5%. Considering the present scenario the current limit of Rs.2.00 lakhs is too meager and it requires further enhancement.

**It is suggested that the limit of interest on self-occupied house property U/s 24 of the Act should be enhanced from the current rate of Rs.2.00 lakhs to Rs.5 lakhs.**

#### 10. **SECTION 30 & 31**

Amendment made to Sections 30 & 31 by Finance Act, 2003, which governs allowance of current repairs of buildings, machinery, plant and furniture etc. By way of adding the words "*shall not include any expenditure in the nature of capital expenditure*" is not going to serve the purpose for which the amendment has been proposed. None of the courts have held that the expenditure allowed under these two Sections, although in the

nature of Capital Expenditure, are still allowable rather they have held it to be a revenue expenditure. The amendment in the present form will be generating lot of litigation.

**Suggestion:**

**Hence the amendment should be re-worded in a manner that the intent for which the amendments have been made could be achieved. The following is suggested to be added as an Explanation. "For this section, Capital Expenditure shall mean to include "any expenditure "incurred for enhancing substantially the life or the capacity or the performance of the building, plant, machinery and Furniture in respect of which such expenditure has been incurred".**

**11. SECTION 36(1)(iii)**

A provision has been added under the existing provision to disallow interest paid on capital borrowed for acquisition of new assets for expansion of existing business or profession. In other words, the said amendment is discouraging capacity expansion and extension of services by the persons who are in business. Under the existing law as interpreted by several decisions of Hon'ble Supreme Court & High Courts, interest is allowable in respect of capital borrowed for new assets for expansion of existing business.

**12. RESTRICTION ON REMUNERATION AND INTEREST TO WORKING PARTNERS IN ASSESSMENT OF PARTNERSHIP FIRMS (SECTION 40(B))**

A ceiling has been placed on interest payable to partners but no such conditions or ceiling appears in case of company assessee. While on payment of interest by a company assessee, the company need not pay any tax but the partnership firm is liable to tax at 30%+surcharge, where rate of interest is more than 12% p.a. and at the same time receiving partners pay tax thereon in their personal taxation. Remuneration payable to working partners is subject to restriction as provided under Section 40(b) of the Act.

**Suggestions**

**It is suggested that such restriction should be modified as per company law as is applicable to remuneration to Directors in case of closely held company which is far more than the existing provision of Section 40(b) of the Act.**

**13. Sec.56(2) and deemed income:**

It is felt by our Chamber that because of deemed income provision introduced under Sec. 56(2) of the Act, middle class tax payers would be hardly hit much because of the fact that the market value normally rise after agreement to purchase a flat is executed and during the construction period of 2-3 years and the conveyance deed is registered on the basis of market value on registration date and not on the date of agreement to purchase. Under these circumstances all the flat purchasers would be liable to pay tax on artificial deemed income due to the said tax proposal. We are sure that this is no the intention of Government. **This anomaly must be removed.**

**Definition of the term “relative” should be enlarged and words should be taken from the definition of the same term under the Companies Act, 2013.**

#### **14. SECTION 72**

At present under the provisions of section 72 of the Act, carried forward business loss can be set off against profits and gains of business or profession carried on by an assessee in subsequent assessment years upto 8 years. Where the capital asset forming part of block assets in respect of which depreciation has been allowed is sold and there is any surplus (either because the block of assets ceases to exist or because the consideration received exceeds the value of block), such surplus is at present regarded as “short-term capital gain”.

#### **Suggestions:**

◆ **It is suggested that the carried forward business loss should be set off against such short-term capital gain in subsequent assessment years.**

#### **15. PROVISIONS ON GENERAL ANTI AVOIDANCE RULE (GAAR)**

A new chapter 10A was introduced by Finance Act 2013 w.e.f. Assessment Year 2016-17. These provisions are very harsh in nature and it requires total review. On this subject a Parliamentary Committee had detailed discussion and it appears that the recommendations of the Parliamentary Committee are being considered by Ministry of Finance.

It is suggested that the entire provisions require a relook and a practical approach. Therefore, the provision as it stood on the Act today which will effect from Assessment Year 2016-17 should be totally modified.

#### **15.A) EXCLUSION FOR LONG-TERM CAPITAL GAINS AND DEDUCTION U/S 80IA/80IB WHILE COMPUTING BOOK PROFIT UNDER MAT**

MAT is payable by companies even on long term capital gain, though the same might not be taxable because of indexation or investment in approved securities in accordance with the provisions of sections 54EC/54ED of the Act. Earlier, profits and gains derived by an industrial undertaking from the generation/distribution of electricity were excluded in

arriving at the income liable to minimum alternative tax u/s 115JA of Income Tax Act. As a result of the new provisions contained in Sec.115 JB of the Act, Companies operating windmills and deriving income from generation/distribution of electricity are affected adversely.

### **Suggestions**

- ◆ It is therefore suggested that profits derived by an industrial undertaking from the generation/distribution of electricity and other infrastructural development project be excluded from the computation of "book profit" as defined u/s 115 JB of the Income Tax Act.
- ◆ Section 115JB should be amended to provide for exclusion of long term capital gains and deduction allowable under section 80-IA/80-IB in computing Book Profit for the purposes of levying MAT.
- ◆ Effect of long term Capital Gain in MAT calculation should be removed, since it is discriminatory between corporate and non-corporate assessees.
- The benefit to any undertaking, which develops, develops & operates or maintains & operates an Industrial Park is available where the Industrial Park is notified upto 31/03/2009 only. The period should be extended further upto 31/03/2018
- The procedural norms for obtaining approval/notification from Commerce Ministry & CBDT should be done simultaneously.
- Under the Automatic Route of Approval, the minimum number of Industrial Units should be reduced to 10 Units from present requirement of 30 Units.
  - More activities should be covered in the list of eligible activities as provided in the National Industrial Classification, 1987 Code issued by CSO.

### **15 B. Section 115JB (Minimum Alternate Tax) and Weighed Deduction u/s 35 & u/s (2AA)**

To promote the scientific research activities/programme, weighted deduction u/s 35 and u/s 35(2AA) are being allowed in computation of taxable income. But in case company is paying MAT u/s 115JB, deduction is allowed only to the extent of actual amount of contribution which defeats the basic objective of section 35 and 35(2AA). Present provision of Section 115JB discourages the tax payer in making contribution to scientific research programmes as MAT increases the cash outflow of the taxpayer.

**\*Suggestion – to encourage scientific research and development programmes, weighted deduction u/s 35 and u/s 35(2AA) should be considered while computing book profit u/s 115JB.**

**16. MAT CREDIT AND INTEREST UNDER SECTIONS 234A, 234B, 234C**

- a) The Department is not taking into account the tax credit available to companies under section 115JAA, while calculating interest payable under sections 234A, 234B and 234C of the Act. The tax credit allowed under section 115JAA is certainly in the nature of advance tax and due credit should be given for the same while calculating interest payable under sections 234A, 234B, and 234C for alleged shortfall in payment of advance tax. In the alternative, MAT credit should go to reduce the 'tax payable on total income' or the 'assessed tax' and only thereafter the calculation of interest should be made. Although the Assessing Officers are adjusting the MAT Credit to determine the tax payable or refund due, they are not adjusting the same for calculation of interest. This has led to avoidable litigation.

**Suggestions**

- ◆ **The credit of MAT paid in earlier years and allowable for setoff u/s 115JAA should be allowed as advance tax paid for computing interest payable u/s 234A, 234B, 234C of the Act. Alternatively the amount of MAT credit should be reduced from tax payable to determine assessed tax for levying interest under aforesaid sections.**
- ◆ **Where a corporate assessee is not required to pay tax under normal computation but tax liability is established under MAT provision, no interest under Section 234B and 234C should be levied. It is, therefore, suggested that the charging provision should be amended accordingly.**

**17. TAX ON CAPITAL GAIN - S.112**

The reduction in the rate of tax on long term capital gain on listed securities and units to the lower of 10% on the gain before giving effect to cost indexation or 20% on gain computed after giving effect to cost indexation is welcome (Excluding STT paid gains which are exempted). **However, the applicability of this provision should be extended to gains arising from all assets, and should not be restricted only to units and listed securities. The tax rate of 20% on long-term capital gains was introduced at a time when the maximum marginal rate of tax was 50% With the adoption of lower tax regime and the reduction of maximum marginal rate of tax to only 30%, it is desirable to reduce the tax rate on long-term capital gains from 20% to 10% in all**

categories.

**18. SECTION 147, 148, 149**

Under the existing provisions of Section 147 of the Act, an Assessing Officer can reopen the assessment at any time within a period of 4 years from the end of the relevant assessment year, even where the assessment u/s 143(3) or u/s 147 of the Act has been for

the relevant assessment year. If the assessee has made full and true disclosure of all material facts necessary for the purpose of assessment of his income, the Assessing Officer should not be allowed to reopen the assessment u/s 147 of the Act without bringing on record any fresh facts, evidences or reasoning in support.

**Suggestions**

- ◆ **If there is no change in facts and circumstances in the case and it is the case of mere change of opinion, the Assessing Officer should not be allowed to reopen the assessment u/s 147 of the Act after expiry of one year from the end of the assessment year. Inserting second proviso to Section 147 of the Act may make the amendment to this effect. Section 148 has been amendment doing away with the minimum period of 30 days within which an assessee is required to submit his return of income for the purpose of reassessment. With this amendment the period within which an assessee is required to submit his return of income for the purpose of reassessment will be left to the discretion of the assessing officer.**
- ◆ **Time limit of not less than 30 days should be provided for filing return of income. Printed form of notice under Section 148 should be amendment in line with this section.**

**19. SECTION 154 (RECTIFICATION OF MISTAKES)**

Section 154 has made it obligatory for the concerned income-tax authority to pass an order within a period of six months from the end of the month in which an application for rectification is filed by assessee. Nothing has been stated about what is the remedy available to the assessee if such authority does not pass any such order within the stipulated time. It may create lot of problems and confusion if nothing is spelt out about the fate of the application in such circumstances.

**Suggestions**

**It is suggested that suitable explanation/clarification to section 154 may be provided in the Act to remove the doubt/confusion about the fate of the petition under Section 154 which remains indisposed beyond six months.**

**20. TDS ON BANK INTEREST u/s 192A**

Under the existing provisions, the banks are required to deduct TDS on the interest paid



on Term Deposit exceeding Rs.10,000/-. This limit was fixed long time back and requires revision upwardly.

It is suggested that the limit be increased to Rs.50,000/- so that the small savings by large number of tax payers having non taxable income or nominal taxable income can be saved from complications of furnishing 15G/15H forms or claiming refunds.

## 21. TDS FROM FEES FOR PROFESSIONAL OR TECHNICAL SERVICES U/S 194J

Section 194J of Income Tax Act, 1961 deals with tax deduction at source (TDS) from fees for professional or technical services. Vide Finance Act, 2012 clause (ba) was inserted to sec. 194J sub-section (1), with effect from 1<sup>st</sup> July, 2012. It deals with TDS on remuneration to directors, which is not in the nature of salary.

Prior to amendment, the said section 194J prescribed threshold limits for applicability of said TDS provision (under first proviso of sub sec. (1) – clause (b). But while inserting clause (ba) to said sub section, no such threshold limit was inserted in the first proviso for the services rendered to in clause (ba).

As a result of the above anomaly, small amount payees (directors) are not at level playing field with the payees of other categories, where threshold limit of Rs.30,000/- or Rs.40,000/- had been prescribed.

The above has created difficulties to small tax payers who are below taxable limit and drawing remuneration of sitting fees etc. in the range of Rs.5,000/- to Rs.30,000/-. Many of such payees belong to senior citizen category earning income below the taxable limit. Such discrepancy in the tax provision would lead to harassment to taxpaying citizens, who are directors of small company drawing small amount of remuneration. It will lead to a situation where such small remuneration receiver would tender resignation from the company from directorship, which would result scarcity of independent directors. It would not be out of place to mention here that already there is a scarcity of independent directors and companies are finding it difficult to appoint independent / non promoter directors.

**It is, therefore, proposed and suggested that a threshold limit of Rs.30,000/- should be provided in the case of such remuneration or fees or commission by whatever name called to directors of a company to keep small amount payees outside the purview of above TDS provision.**

## 22. CAP ON INTEREST UNDER THE DIRECT TAX LAWS

Under the Act, the assessee is liable to pay interest for shortfall in payment of advance tax and late filing of return of income. The interest liability is computed based on the assessed tax. At the time of assessment, the assessing officer may make an addition to the

returned income resulting in difference between the returned income and the assessed income. Such additions to the income are disputed additions and agitated by the assessee. There are instances of assessee succeeding in the first/second appeal and losing before the Courts. Finally, if the assessee does not succeed before the Courts, the interest burden under S .234B is heavy. At times, it is more than the amount of addition or income earned by the assessee. Therefore, **it is suggested that the law should provide for a cap on the amount of interest payable by the assessee upto a maximum of 50% of the tax liability.**

### 23. INTEREST UNDER SECTION 234A

Under section 140A of the Act, an assessee is liable to pay tax on self-assessment. If there is any delay in furnishing the return of income, interest is payable on the amount of tax. In cases where the tax on self-assessment is paid under Section 140A before the due date for filing return on income, but return has been filed after the due date, such tax on self-assessment is not considered as item of deduction for the levy of interest under Section 234A. Advance tax and TDS are not subject to this levy of interest under Section 234A. As tax on self-assessment is also similar to the advance-tax and TDS as far as revenue is concerned, interest under Section 234A should not be levied on tax on self-assessment paid within the due date.

#### **Suggestions**

**Section 234A of the Act should be amended to give credit for the tax paid under section 140A within due date, while calculating the interest payable by the assessee.**

### 24. INTEREST PAYABLE ON SHORTFALL IN LAST INSTALLMENT OF ADVANCE TAX. - SECTION 234C

By an amendment to sub-section (1) of Section 234C made by the Finance Act, 1994 it is now provided that interest shall be payable if the aggregate advance-tax paid by 15th March, of the financial year falls short of the full amount of the assessed tax. In consequence of the new amendment, assuming that an assessee is late in payment by one day, he would have to pay additional 1% of the shortfall as interest under Section 234C. In other words, he would be paying 1% for a day's delay, which works out to an interest rate of 456.25% per annum. This could not have been the intention of the legislature.

In contrast to the above, it may be pointed out that for purposes of Section 234B, the assessee is allowed a tolerance margin of 10% and time upto the end of the year since the interest under this section is charged only from the following 1st April.

#### **Suggestions**

**In the circumstances, it is suggested that this provision be amended by providing that interest shall be payable for shortfall in the 15th March installment only if the**

**last installment is not paid within the end of the Financial Year and only if the advance tax paid before the financial year falls short of 90% of the assessed tax.**

## **25. LATE FEE FOR DEFAULT IN FURNISHING TDS/TCS STATEMENTS**

The levy of late fee introduced by Finance Act 2012 has drawn great controversy and constitutional validity of the same had been challenged before several High Courts and more than four High Courts have stayed the operation of this provision. It provides for levy of late fee @Rs.200/- per day for delayed submission of statements. There is no

option to explain reasonable cause for the delay or hearing the assessee before levy of the late fee. In other words this provision is a draconian step on the Indian tax payers.

**It is suggested that this provision should be abolished with retrospective effect to give proper justice to the taxpayers, since there exist other provisions to levy interest on penalized the assessee for default under TDS/TCS chapters.**

**It is further suggested that the due date of furnishing TDS/TCS statement should be enhanced from 15 days to 30 days after each quarter ending as the present time limit of 15 days is too short.**

## **26. ALLOWABILITY OF INTEREST PAID UNDER INCOME TAX ACT, 1961**

Today, interest paid by the Government to an assessee is chargeable to tax. However, interest paid by the assessee to the Government under various sections is not allowed as deduction while computing the total income. Interest paid by the assessee is for the use of money by him and is compensatory in nature.

Hence, interest paid by the assessee to the Government under various sections of the Income Tax Act should be allowed as deduction in computing total income. If the assessee does not have business income, interest should be allowed under the head 'Income from other Sources'. Alternatively, the interest received by the assessee should be exempt from tax.

## **27. INCOME TAX REFUND (SECTION 244 & 245)**

### **a) Accountability:**

#### **Suggestions**

**While introducing the accountability of IT officers, it is necessary to introduce a code of ethics for the IT administration apart from the code of conduct laid down in civil service conduct rules. This will improve the quality of administration.**

### **b) Income Tax Refund (Section 244 & 245)**

- i) The chamber welcomes direct credit of refunds in the bank of the assesseees. It is suggested that IT refunds should automatically accompany the assessment order. In specific cases, where refunds are not accompanied with assessment order, there must be a speaking order stating the reason for withholding the refund and such order should be appealable. On appeal, the refund is allowed then. ITO passing such order should be made accountable to the government for loss of interest due to delayed payment of refund or for negligence with an intention to harass the assessee. Unless concerned ITOs are made accountable for their lapses, it may breed corrupt practices and affect the confidence of the public, which is contrary to the government desire to promote voluntary compliance.

It is a common experience of an assessee that in many cases refunds due for 8 to 10 years are not refunded by the IT department on some pretext or other and this is not only causing harassment to the assessee but also encouraging corruption and loss of interest to the exchequer because of neglect and lethargy of the officers concerned.

- ii) Though Section 245 empowers the Income Tax authorities to set off any Refund due to an assessee against any sum payable by the concerned assessee under the Income Tax Act, an assessee does have any authority to adjust any refund due to him against any tax payable by him.

### **Suggestions**

**Hence, it is suggested that in Section 245, a new sub Section provision may be made by which an assessee, who is entitled to get a refund from the Income Tax Department either on the basis of any order/intimation passed by any Income Tax authority or on the basis of any Appeal Effect to be given by an Income Tax Authority or on the basis of Return filed by him in respect of which the prescribed time limit under Section 143(2) has already been over, to reduce any of his income tax liabilities whether by way of regular demand or advance tax or self assessment tax, by the due Refund. For this purpose a suitable Form may be prescribed in which the necessary details should be filed by the assessee concerned at the time of adjustment or refund by him. To prevent any misuse of the proposed provisions, levying of interest and/or penalty at a rate higher than the others already existing in the Act may be prescribed in the proposed sub-Section of Section 245 itself. It is felt that if such a new provision is brought, then not only the assessee would save time from running to the Income Tax Department repeatedly for getting the refund but also the job relating to the collection and recoveries required to be performed by the Income Tax Authorities would be reduced substantially.**

### **28. SECTION 244A**

Under Section 244A (1)(a), an assessee is entitled to receive interest on refund out of any tax collected at source, tax deducted at source or advance tax paid from the 1st day of April of the assessment year to the date on which the refund is granted. Clause (b) of

Section 244A(1) provides that in case the refund is out of any other amount, interest shall be calculated for the period from the date of payment of the tax or penalty to the date on which the refund is granted. Accordingly, the assessee is entitled to receive interest on amounts paid either by way of self-assessment tax or in pursuance of a notice of demand. The explanation below of the above clause reads as under:

'Explanation - For the purpose of this clause, "date of payment of tax penalty" means the date on and from which the amount of tax or penalty specified in the notice of demand issued under section 156 is paid excess of such demand.' The aforesaid Explanation instead of clarifying the meaning of 'date of payment' speaks of the amount being paid in

excess of the amount demanded. Further, this Explanation creates an impression that only a tax or penalty paid in pursuance of a notice of demand, if paid in excess of the demand, is entitled to interest under Section 244A and no other payment is eligible to the said interest. However, as the intention of the legislature is to grant interest to assessee for money remaining with the Government as is clarified in the aforesaid circular, there is no reason why such a restricted meaning should be taken especially since clause (b) grants interest on refunds of any other amount due to assessee. The aforesaid Explanation is being used by many Assessing Officers to deny interest on refunds out of self-assessment tax paid by the assesseees although it is not the intention of the legislature to do so.

#### **Suggestions**

◆ **Explanation below clause (b) of Section 244A(1) be deleted since no clarification is required for the date of payment of the tax or penalty. Provision to clause (a) of sub section (1) of Section 244A provides that no interest to be payable if the amount of refund is less than 10% of the tax as determined. However, in certain circumstances the amount of tax determined may be very high and even 10% of such amount would result in a high figure. The refund is normally granted after an assessment is completed or intimation is issued, which is normally issued just before the expiry of one year from the end of the financial year. The assessee in such cases would lose interest of almost a year, which otherwise he could have earned by making investment.**

◆ **Aforesaid proviso to section 244A be deleted.**

#### **29. INTEREST ON DEMANDS & REFUNDS**

On refunds the assessee is entitled to interest at the rate of 0.5% per month whereas the Government charges interest on @ 1% per month.

#### **Suggestions**

**Principles of equality and natural justice require that the rate of interest on demands and refunds should be uniform.**

**30. PENALTY UNDER SECTION 272A(2) AS APPLICABLE TO CHARITABLE ORGANIZATION.**

In case of a Charitable or religious trust, a return of income is required to be furnished under section 139(4A) if the total income of the trust exceeds the maximum amount which is not chargeable to income-tax. For this purpose, the total income is required to be computed without giving effect to the provisions of Sections 11 & 12. Therefore, practically, in most of the cases, the gross donation and other receipts will become the base and if the same exceeds the maximum amount which is not chargeable to income-tax, such trust becomes liable to furnish return of income, though, actually such trust may not have taxable income. If the return of income, in such cases, is not furnished within the

prescribed time limit, then, the trust becomes liable to pay penalty under Section 272A(2). The amount of such penalty is not linked with the taxable income of the trust. Accordingly, even if the trust does not have taxable income, it will be liable to pay penalty under this section. Defaults covered by the provisions of Section 272A(2) are of technical nature. These happen genuinely due to lack of information on the part of charitable organizations, as they do not normally have access to professional assistance. Penalties prescribed under Section 272A(2) are extremely harsh. Such penalties for technical defaults cause tremendous hardships to charitable organization.

**Suggestions**

**It is, therefore, suggested that the provisions of Section 272A(2) should not apply charitable organizations. In any event, penalty should be nominal for technical defaults, having no significant revenue impact.**

**31. DISALLOWANCE OF EXPENDITURE IF TAX NOT DEDUCTED/PAID AT SOURCE**

The Finance (No.2) Act, 2004 has extended the scope of provisions of section 40(ia) whereby any i) Interest ii) Commission & Brokerage iii) Fee for Professional Services or Fee for Technical Services iv) Amount paid to contractor or sub-contractor which is payable to a resident on which tax has not been deducted or after deduction it has not been paid within the time prescribed under section 200(1) in accordance with the provisions of Schedule XVIIB, the same shall not be allowed as deduction while computing income under the head 'Profit and Gains of Business or Profession'. This provision is already there in respect of payment to non-residents. However, this provision has been extended in respect of payment to residents also. It has been further provided that in any subsequent year if tax is deducted and paid on such sum, the same shall be allowed as deduction in computing income of the year in which such tax has been paid. The objective stated for introducing this provision is to enforce compliance of provision of TDS. However, this provision is too harsh and going to cause lot of problems to the tax deductors. Firstly, there are enough provisions under the Act to enforce compliance of the provision of TDS. (i) Under Section 201(1) on failure to deduct or failure to pay after deduction the person is treated as an assessee in default and the amount is recoverable from him. (ii) Under Section

201(1A), such person is liable to pay interest for the period of the default. (iii) Under Section 271C such person is liable for penalty which can be equal to the amount of tax involved. (iv) Section 28 to Section 44D are meant to compute the profit of the business or profession and should not be used to enforce compliance in respect of tax liability of other persons.

The applicability of Section 40(a) in respect of payment to a non-resident may be justified because such non-resident is not easily traceable and as such the tax liability of such persons gets compensated by denial of the benefit to the deductor. In case of residents, the traceability is not a problem. Moreover, there can be a practical problem where the deductor has failed to deduct tax and in such a situation and the deductee has paid tax on

such income either by way of advance tax or by way of self assessment tax and in such a situation the deductor cannot deduct tax again from the deductee and the benefit of deduction of such expenditure shall be lost forever as the condition of the proviso of claiming the deduction in the subsequent year when tax is deducted and paid shall never be fulfilled.

It has been further stated that if the tax has been deducted and not paid in time or within financial year or for the year end, if the payment has not been made on or before 31<sup>st</sup> May, the last date for payment of Taxes for the year ended 31<sup>st</sup> March or if paid in the month of June in next year, such deductions or expenses claimed will not be allowed.

Amendment on this account include relaxation for deposit of TDS amount of March only within return filing due date.

This provision has been substituted by Finance Act, 2010 to read as “...such tax has not been deducted or after deduction tax has not been paid on or before due date specified in section 139(1)”. Thus the time limit for payment of TDS deductible in any month during the previous year has been paid before the due date of filing of return of disallowance u/s.40(a)(ia) is to be made. It should have been made effective from the date of original introduction of this provision i.e. Asst Year 2005-06, following the principle of amendment curative in nature, as accepted by the Ho’nble Apex Court in CIT vs. Alom extrusions Ltd. (319 ITR 306).

### **Suggestion**

- i) The amendment made to section 40 be dropped as enough deterrent provisions already exist to ensure compliance with TDS provisions. Hence, there is no justification for denial of deduction of genuine business expenditure for failure to deduct or deposit TDS.**
- ii) Amendment brought in this provision by Finance Act 2010 should be declared clarificatory provision as such with retrospective effect from 1.4.2005. It is already**

**been held so by Hon'ble Kolkata High Court & several benches of Income Tax Appellate Tribunal, as suggested in this proposal.**

## **32. TAX PROPOSALS**

### **(i) DEFINITION OF "CHARITABLE PURPOSE"**

It has been proposed to amend the definition of the term Charitable Purpose u/s 2(15) of Income Tax Act so as to provide that "the definition of any other object of general public utility" shall not be a charitable purpose if the definition is carrying on (A) any activities in the nature of trade, commerce or business and or (B) any activities of rendering of any service in relation to trade, commerce and business.

This proposal will affect adversely genuine charitable activities of different trusts, Chambers of Commerce etc. Refer following examples:

Medicine shops in Charitable hospitals.

Seminar, conference organised by chambers of commerce or federation for a fee from delegates.

Renting of meeting halls by chambers of commerce to other organisations.

Trust providing marketing facility to villagers for their handicrafts products.

In respect of the above a long list will go on. It is not the intention of the Parliament to tax the activities like above, but the proposal in its form in the Finance Bill shall definitely affect all above and similar other activities. Therefore, the proposal should be reviewed, reconsidered and redrafted to limit the intent of the amendment.

The Board has issued the circular No. 11/2008 dated 19.12.08. This provision is affecting adversely to large number of Chambers of Commerce in India. A Chamber of Commerce is a representative body and is very unlike an industrial/business unit. It interacts with various government bodies and agencies as also non-government for promotion of the sector it caters to. It also promotes of its opinion in the larger interest of the economic development of the concerned sector / region for country. It interacts with members and non-members on issues of economic interest to the trades and businesses while organizing workshops, seminars, and conferences. It charges higher fees from non-members in lieu of annual subscription from members. Since it collects fees in such activities are not outside the exemption categories having first three limbs of section 2(15) of Income Tax Act, 1961. It would be hard hit by the recent amendment where definition of charitable trust had undergone drastically.

#### **Suggestion:**

**Specific exemption provision should be added in the definition of charitable trust whereby Chambers of Commerce and like bodies would be exempted from the purview of amendments made in Sec. 2(15) of the Act and the said circular No. 11/2008 dated 19.12.08 should be clarified, as not applicable to the Chambers of**



**Commerce and like bodies. Since, otherwise it is considered to be a counter productive and it will harm the national interest.**

**33. STAY OF DEMAND BY ITAT**

It has been proposed that even if the appellant assessee had cooperated in appeal proceedings before ITAT, the power to grant stay by the ITAT for a period exceeding 365 days in aggregate had been withdrawn. It is most unfair for the appellant assessee. It is, therefore, suggested that where the appellant assessee has not cooperated with the ITAT for disposal of appeal, the ITAT should not extend the period of stay grant against the disputed demand exceeding 365 days. But, where the appellant assessee has cooperated in the appeal proceedings before the ITAT, no such restriction of 365 days should be imposed or extending the stay of demand.

**34. SHORT TERM CAPITAL GAIN TAX – INCREASE IN THE TAX RATE –MARGINAL RELIEF REQUIRED.**

In order to promote the capital market and the investment community at large, the proposal of increase the rate of tax from 10% to 15% should be withdrawn.

If at all, such suggestion is not accepted, at least a provision of marginal relief should be added where the taxable income of an assessee including short term capital gain exceeds Rs.1.5 lacks / Rs.1.80 lacs for women assessee / Rs. 2.25 lacs for senior citizens. In other words, where the tax slab rate for other income is 10%, the assessee should not be asked to pay tax @15% on short term capital gain.

**35. TAXATION ON COST INPUT**

- (i) The building industry is facing very high rate of levy of stamp duty, assessment tax, octroi charges,
- (ii) Presently there is multilayer taxation on the cost input of building materials from local body, State Government & Central Government. In effect the costing of the final product becomes too high because of high costing of input materials. The levy of taxation on cost input should be made on single point basis on not multi level.
- (iii) It is respectfully submitted that the various soaps given in Income Tax act for facilitating affordable housing and real estate. The government should look into reducing various level of taxations at centre, state and local governments. Moreover the multiplicity of taxes at various transaction levels such as procurement of land, material, labour, services, octroi, various development charges etc., should be reduced and one point taxation should be levied, so that the heavy burden of this multiplicity of taxes is reduced and automatically the cost of construction of flats, will come down drastically and in turn the buyers will get affordable housing automatically and vast majority of population will be able to afford residential housing on their own.

It may be noted that the sum of all the taxes/duties/levies, etc. as a percentage of the cost of a flat is inversely proportionate to the value of real estate which means high value real estate in metro cities pays a lesser percentage towards these levies than the low value real estate in the Tier II & Tier III cities where the impact is far more. Since the prices are exorbitantly high, the developer in metro cities are able recover the high amount of taxation at various levels whereas in Tier II and Tier III cities the sale price is not so high to recover the burden of high amount of tax. Hence the impact of high tax is far more in Tier II and Tier III cities as compare to metro cities.

If the levy of taxation at various levels are reviewed and can be consolidated in fewer categories of taxation, it will automatically serve the purpose of affordable housing.

**36. MAJOR CONCESSIONS FOR MASS AFFORDABLE HOUSING**

- (i) Exemption from excise, customs, vat and service tax on building material and services.
- (ii) Exemption on income tax for all such projects for ten years.
- (iii) Treating such projects as priority under infrastructure projects and finance to be freely available at lowest possible interest rate.

**37. PROMOTION OF RENTAL HOUSING TO CREATE SUPPLY FOR DIGNIFIED ACCOMMODATION TO MASSES WE NEED TO PROMOTE RENTAL HOUSING**

- (i) All income on rental from houses below 150 sq mtr houses to be exempted from income tax and service tax.
- (ii) No ceiling on holding houses for the purposes of long term capital gains tax
- (iii) No tax on long term capital gains.

## VII. INDIRECT TAX

### A. Central Excise

#### 1. BASIC EXEMPTION FROM PAYMENT OF EXCISE DUTY FOR SSI UNITS :

Nil excise duty for turnover up to Rs. 1.5 crore was fixed long back. Considering the inflationary effect, the basic exemption turnover limit applicable for SSI units should be suitably revised upward, which may be around Rs. 5 crore.

2. Interest payable by the assessee to the Government under Central Excise and Service Tax had been enhanced from 13% p.a. to 18% p.a., while the interest payable by government for delayed refund has been kept at 6% p.a. only.

**It is, therefore, suggested that the difference between the interest receivable and interest payable should not be more than 5-6% and the interest payable and receivable rates should be modified accordingly.**

### B. Service Tax:

1. **Threshold exemption** up to Rs.10 lacs was w.e.f. 1<sup>st</sup> April 2008. Because of the inflationary effect it is proposed that such **limit should be raised to Rs.25 lacs** and similarly threshold for opening Registration Certificate should be raised from **Rs.9 lacs to Rs24 lacs.**

#### 2. LEVY OF SERVICE TAX ON CONTRIBUTION MADE BY OWNERS TO ASSOCIATION OF FLAT OWNERS FOR MAINTENANCE OF COMMON AREA OF RESIDENTIAL COMPLEX

At present the Service Tax is levied for monthly maintenance charges contributed by each flat owner to a body of flat owners (commonly known as Flat Owners Association). Following the mutuality the person making contribution and association of person receiving the contribution are same and there cannot be any rendering of services within a group of same persons.

**It is suggested that the levy of Service Tax on such monthly maintenance of contribution should be exempted from the levy of Service Tax without any monetary limit.**

3. **Mega Exemption Notification** No. 25/2012 provide services exempted from taxation. As per Sl. No. 29 services rendered by specified persons are exempted. In view of the Sub Clauses (a) & (h) sub brokers and sub contractors terms are used, but no clauses (c) & (d) sub brokers (Registered with AMFI) to a mutual fund distributor are not included. Since now present marketing system of mutual fund the role of sub brokers are essential and important. The Notification of the Government is not to levy Service Tax on services rendered by such persons.

**Therefore, it is suggested that the services rendered by sub brokers in the distribution of mutual fund units should also be included in the mega exemption list as per Sl.No. 29 for clarity of the law.**

#### **C. PAYMENT OF DOUBLE STAMP DUTY ON SALE OF APARTMENTS/OFFICES**

We have for the last several years, been highlighting the issues relating to payment of stamp duty on purchase of land and on sale of apartments. Presently, Stamp Duty is required to be paid on purchase of land; again after the apartment/offices have been constructed on the same piece of land, they are sold and once again Stamp Duty is required to be paid on the market value of such apartments comprising of the value of land itself (on which Stamp duty is already paid) and also on the value of construction of apartments/offices. Therefore, this tantamount of payment of Double Stamp Duty. Moreover at every transaction of sale by one flat holder to another stamp duty is leviable which further aggravates the situation and the state government is collecting stamp duty exorbitantly on one residential unit over a period of years from various persons.

The payment of stamp duty on the purchase of the land is required to be set off against the payment of stamp duty paid at the time of conveyance of Apartments/Offices.

**We suggest that the Government should introduce “VALUE ADDED STAMP DUTY (VAS)” for the Housing Industry. In this system, any Stamp Duty paid towards the purchase of land will adjusted from the Stamp Duty paid at the time of conveyance of the apartments/offices.**

#### **D. SERVICE TAX ON CHAMBER OF COMMERCE**

It has been proposed that the membership fees collected by the Associations and Chambers of Commerce shall be exempted from Service Tax for the period from 16.2.2005 to 31.3.2008. The rationale of keeping the date of 31.3.2008 is not known.

It is suggested that the period should be **up to 31<sup>st</sup> March 2012 in place of 31<sup>st</sup> March 2008** to mitigate past period liability.

**CALCUTTA CHAMBER OF COMMERCE**

# PRE-BUDGET MEMORANDUM

## ON

## UNION BUDGET

### 2016-17

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