

Will Six Decades Income Tax Review Within Six Months?

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Abstract:

Government needs a money to run the economy and to make an expenditure on society. Such money pooled by government majorly by the way of levy and collection of taxes. To execute such function these is a greater need of proper and clear administrative law. In India such operation is executing by CBDT and CBIC. Entire direct tax laws are managed and controlled by CBDT through the act of Indian income tax act 1961 which is a six decades old act came into picture with a respective rule prescribed under income tax rules 1962. As time passed act modified various amendments and also some rules executing in current period also with outdated looks. Such outdated and blurred clauses or rules creating a complexity for the tax payer in this updated as well as in dynamic environment. Later it also ultimately leads to decrease the compliance level by them. Hence by looking at the present scenario government of India in discussion with CBDT come up with a conclusion to review the act in a simpler, lucid manner in order to increase a compliance level by the taxpayer and to increase the revenue to the government as well. Such work of review will be completing within the time frame of six months and such newly amended income tax act official announcement is targeted in union budget 2025 February by financial minister.

Keywords: Review of IT act, CBDT committee, Review report, Time frame to review, Sunset clause, Need for review, working progress on review.

1. Introduction

Collecting a tax from the citizens is like as honeybees collecting a nectar from the flowers, gently and without inflicting the pain as said by the Chanakya. Tax is the major source of income to the government. So, levy and collection of such tax from the assessee is the main task of both the central and state government. To execute such activity of collecting taxes from the citizens in a proper manner there is a huge need of statutory rules and procedures which is managed and controlled by CBDT in India. There are various assessees who are earning a profit from their business or profession, they should pay tax to the government on the basis of their income as prescribed by the law and which is progressive in nature popularly known as income tax. These set of rules and procedures towards a levy and collection of income tax is prescribed under a statutory act named as Indian income tax act 1961. And rules are discussed under income tax rules 1962.

During 2024, by looking at the technological upgradations, dynamic environment and complexities of taxpayers, union government has taken a decision to review the income tax act 1961 within a period of six months' timeframe in a simpler manner.

2. Income tax act 1961

Albert Einstein said that “the hardest thing in the word is to understand the income tax.” The Indian income tax 1961 is a cornerstone of India’s taxation system. It outlines the rules, regulations and procedures governing the levy, administration, collection and recovery of income tax in the country. The act prescribes the comprehensive framework for taxation in India by covering various aspects like heads of income, charge of income tax, tax rates, deductions and exemptions, assessment and collection, rebates and refunds, TDS and TCS, advance taxes and penalties and interests.

3. History of Income Tax Act 1961

- Originally, the concept of Income tax initiated during the British period by a financial minister James Willison on 7th April 1860 as a part of union Budget.
- Later during 1886 separate Income Tax was passed by dividing Incomes into 4 Schedules and which are taxed separately.
- During 1918, For the first time Respective Income tax Authorities came into picture and their Organizational structure also properly defined.
- During 1922, Income Tax Act 1922 repealed the Income Tax Act 1886.
- During 1939, Income Tax Act has begun to contribute 20 Percent of Total Tax Revenue procured by the Government.
- In 1947, Concept of More You Earn, the More you Pay implemented in the name of Progressive Tax.
- In 1961, Income Tax Act 1961 came into effect from 1st April 1962 and it is the charging ‘Statute of Income Tax’ in India. Income Tax Act 1961 introduced various New Concepts like Revenue Audit, Work of Income Tax Officers....
- While During 1962, Various Additions and Deletions of Sections, Schedules and Chapters has been Taken Place in Respect of Income Tax Act 1961.
- During 1975, Concept of Self-Assessment of Income Tax Returns Implemented.
- In 1991, Tax law Simplified and Tax rates reduced because of Welcoming Liberalization Concept.
- In 2005, Fringe Profit Tax introduced on Companies.
- In 2012, to Simplify and Consolidate Existing Tax Laws Direct Taxes Code (DTC) Implemented.
- In 2017, Uniform Indirect Taxation System with Slogan in “One Nation One Tax” GST Introduced.
- In 2020, New Tax Regime proposed and Special Concern Taken on Crypto Currency by Levying 30 Percent Tax on Such.
- In 2023, Tax Limits increased to Rs.7 lakh from Rs.5 Lakh and made New Income Tax Regime as Default Tax Regime.
- In 2024, Union Government taken a Decision to replace the Income Tax Act 1961.

4. Reasons behind the reviewing of act

Even though Indian income tax act passed in 1961, it started its journey in 1922. It contains 298 sections, 23 chapters and other provisions in its current form of 1961. It has been undergone with several amendments over the period of years to cope-up with dynamic social, economic and technological environment. These amendments taken a shape in the form of new provisions or revised version to smooth functioning of existing tax procedures and as well as administrative procedures.

During 2024, while at the time of presentation of union budget, financial minister Nirmala Sitaraman announced that “the direct tax law of the country would be reviewed to make it simple, lucid form and such job would be completing in six months”.

During 165th year of income tax in India CBDT chief, Ravi Agrawal said “we have important task on hand, and that is comprehensive review of the income tax act 1961. The purpose is to make act concise, lucid and easy to read and understand. This exercise is aimed to reduce litigation and provide certainty to taxpayer”. -we have taken this assignment in a mission mode.

The government in consultant with regulatory authority, undertaken this activity of reviewing income tax act 1961, in order to address:

- litigations and disputes
- ease of compliances
- global best practices
- increase tax revenue
- foster a more conducive business environment.
- make more user-friendly and efficient act.

5. Committee to review income tax act

CBDT chairman, Ravi Agrawal has framed a committee to work upon reviewing of IT act 1961 laws, such committees are constituted with IT officials from across the country and they already started a work of identifying areas of improvements IT act 1961. And such activity of review is conducted under a central government-mandated comprehensive review of law.

Also, such internal committee of IT department will review the act, direct laws to eliminate redundant/repetitive clauses and will adopt a best global practice to make act simple for the taxpayer for better compliance.

Agrawal also said that” committees looking at the problem statement given to it in recent budget and CBDT put more officers within next ten -fifteen days to expeditiously clear the substantial number of appeals pending at IT department level. And finding those clauses that have reached their sunset, and hence, can be eliminated”.

6. Work-in-progress towards review of IT act

The revenue department is seeking to fast-track the comprehensive review the IT act 1961, as it aims to complete it by January 2025.

The committee under the chairmanship of V.K. Gupta is extensively undergoing with issues and challenges of six decades old IT act in order to bring most simpler and compliances manner act.

He said that “Nearly up to 120 sections, sub-sections and clauses are expected to be eliminated from the existing act. And also, those sections, exemptions, deductions especially related to SEZ, capital gains and telecom will be eliminated.

He finally gave the statement as “our main focus will be on simplifying the current act. However, exercise is going, it is not yet decided whether there will be a fresh draft that replace the existing act or whether we will revise the act by bringing in amendments”.

7. Will committee submit review report by October?

Government has planned to review existing IT act 1961 within six months and for such it is expected to

submit review report by committee by October, according to two officials.

The officials of the committee said that, our main focus is on simplify the existing tax laws, without changing its case content. Hence, their suggestions will be the part of pre-budget discussion. They also replied that, nearly 25%-30% of the acts volume is likely to be omitted for conciseness.

As per the committee statement “our suggestion is to modify the existing law instead of replacing it, and such work of review is likely to be complete and report will be submitted by October”.

The review is being conducted through 15 specified sub-committees to address various chapters and issues under IT act 1961. Such each sub-committee is headed by a principal commissioner of IT, with over 80 officials involved in the review process. Recently, a central conclave of all the sub-committees was held in Nagpur. During such time, one of the official of the committee said that we are also focusing on removing archaic provisions.

The review report will be submitted to the finance minister Nirmala Sitaraman before being analyzed by the CBDT and sent for further discussion. During mid of September committee held a discussion with stakeholders including the members of ICAI, FICCI and online portal also opening soon for the public comments and suggestions on such. One of the official also said that, an official announcement regarding this new tax law is likely to be made during the union budget, 2025 scheduled for February.

Along with such, in October SBI research in their report recommended for faster review of IT act. Such revised act should be introduced as money bill, so that can be passed and implemented within 75 days. Report also advocated that. Revised act should not only restrict to simplify taxation system but also it should align with economic growth and inclusivity.

They also recommended to raise the TDS threshold limit on the bank interest payments from Rs. 10 thousand to at least Rs. 1 lakh, allowing annual issuance of TDS certificate instead of quarterly, aligning it with form 16 for salaries.

Further, the SBI's research report headed by chief economic advisor Soumya Kanti Ghosh said that, during assessment year 2024, the contribution of direct tax to total tax revenue is reached to 56.7%, the growth of personal income tax is increased by 6% and it has faster than corporate tax against 3% growth. And also, nearly 79% number of income tax returns with value of Rs.6.89 crores are filed within a due date in 2024 and it is expected to be jumped to the value of Rs. 9crores by the end of march 2025.in totally, contribution of direct taxes to GDP ratio is raised up to 6.64% in assessment year 2024.

8. Conclusion:

As we know that an existing Indian income tax act 1961 is too outdated and old with various amendments. As it went with more amendment's year-by-year it modified itself as an ocean. Along with such lengthy, there are many laws relating to direct taxes are creating a confusion to the taxpayer as because of no clarity and sometimes act also viewed as blurred. Hence, it has been identified by government and they come up with a decision to make a law concise and simpler. For that, our financial minister Nirmala Sitaraman officially announced Indian income tax act 1961 will be reviewed within a next six months in a most modified way. There are various discussions has been taken place between government and CBDT regarding the same. Finally, CBDT also suggested to modify the existing direct taxation system by forming a different experts committee to work on such review. Those committees are rigorously working on review of the act and likely to be submit their report by the end of October by reducing nearly 1/4th of existing and outdated laws. Later union government likely to be announce officially such modified IT act during union budget 2025 February.

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