

Opinion | Will increase in compliance for individuals and businesses boost economy?

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The government's announcement to reduce [tax rates for corporates](#) has been made in the hope of giving a boost to the economy. There are rumours that tax rates for individuals will be cut significantly as well. Also, enhanced depreciation rates have been announced for purchase of new vehicles till 31 March 2020. The question is: will all this revive the economy? Or are there other factors at play which are deterring businesses?

There is no doubt that profitable companies would now have more post-tax profit. However, such companies may choose to distribute the additional amount as dividends, in the absence of an expected increase in demand for their products and services. But, given the current slowdown, the small increases in dividends may not be sufficient for customers to increase spending.

The increase in depreciation rates for new vehicles is substantially diluted by the fact that if you buy a car now, you would get depreciation this year not at 30%, but at 50% of 30%. Therefore, the real increase in depreciation rates is just 7.5% (from 7.5% to 15%), and not 15% (from 15% to 30%). Of course, in subsequent years, you will continue to get the benefit of the higher rate of 30%. To some extent, this is offset by the fact that you would now be buying a car compliant with BS IV emission norms, whereas from March 2020, all new cars would be BS VI compliant. So, if you buy now, your car would soon be outdated in terms of emission norms.

The new tax rates may attract foreign companies looking to shift their China manufacturing operations. However, such companies look not just at direct tax rates, but also at factors such as availability of skilled labour and managerial personnel, electricity and water, good transport, and ease of doing business in the form of simplified compliance. India takes a beating on infrastructure and compliance. The government has made substantial changes to various laws and procedures in the last few years. While many of these are in the right direction, compliance has increased manifold for taxpayers and businesses. Here are a few examples.

GST is definitely a step in the right direction. The procedures are, however, back-breaking, particularly for small and medium businesses, which generate more employment. Filing monthly returns accurately with details of each invoice takes up a lot of time, and so does computing the claim of input credit. Fortunately, the system of matching input credit with invoice has not yet started. Once that starts, getting GST credit will take up that much more time.

Individual as well as corporate tax returns this year require so much more information. Individuals have to give details of all unlisted shares (even companies that were once listed, but

are now no longer listed). The corporate tax returns, however, take the cake in terms of overkill. Besides details of each immovable property, an unlisted company has to give details of each individual investment, each vehicle with registration number, each loan and advance given, details of loans and advances, and so on. One shudders to think how much time and effort will be required to fill in a tax return by a company having 100 or more vehicles and immovable properties acquired long ago. What's the purpose of seeking so much detail? Should compliance be the focus of businesses, or should the focus be on their expansion?

Prosecutions have also been launched indiscriminately for small defaults, with commissioners having prosecution targets to meet. Shouldn't large and regular evaders be targeted and not unintentional or occasional defaulters? A recent circular would hopefully reduce the incidence of such prosecutions.

The tax collection targets set for tax officers is the biggest cause of some other problems—assessments which invariably result in large demands and consequent appeals by taxpayers, and the difficulty in getting large refunds when such appeals are decided in favour of taxpayers. The insistence on online linking of bank accounts by taxpayers has resulted in the refund pipeline getting clogged, particularly where the taxpayers' accounts are with a bank whose systems are not linked to the tax department's.

On the tax front, easing such excessive compliance is critical and needs to be addressed. While one understands the need for improved compliance, it has to be a gradual process, and cannot be thrust upon taxpayers overnight. While computerization and improvement of tax systems is essential, the systems should be robust and tested before being implemented in a rush with inherent flaws. Today, taxpayers struggle with their online tax compliance, due to such flaws.

Of course, there are non-tax factors such as lack of funding and liquidity due to the [NBFC crisis](#) which have affected businesses. As can be seen, tax rates is just one of the factors affecting business sentiment; addressing the other multiple factors is equally, if not more important, if businesses are really to be given a boost.

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