

Opinion | Will the Budget ensure there are fewer amendments to tax laws in future?

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Frequent changes in tax laws have been a deterrent for businesses and taxpayers

Topics

Budget 2020 Tax Laws

With the budget presentation less than a month away, and given the downturn in the economy, there are high expectations from the government. The finance minister has already announced that some of the proposals given by the committee set up for framing a new tax law would be incorporated in the existing tax laws. There have been demands from economists and others for reduction in the tax rates or increase in the tax slabs for individuals in order to boost consumption.

One significant change that one hears about is the possibility of change in the fiscal year (and the tax financial year) from April-March to the calendar year, which another committee had recommended. Another significant change that the finance minister should certainly consider is to do away with the practice of amending the tax laws through the budget each year, and to amend the tax laws only once every five years or so. One understands that this was also recommended by the committee for framing a new tax law. What are the implications of such possible changes?

The change in the tax year to the calendar year would benefit most businesses and individuals having overseas income. Tax paid on overseas income is adjustable against the Indian tax liability on such income since such income is also taxable in India. However, where the tax year in the foreign country is different from the tax year in India, recomputing such foreign income as well as foreign taxes paid for Indian tax purposes is a time-consuming and, at times, difficult task. Further, with the international sharing of information between various countries, regarding incomes of foreign citizens or residents, already operational, verifying that such income has been offered to tax in local tax returns is a difficult task for Indian tax officers, as most such incomes are given by other countries on a calendar year basis, while the Indian tax year is from April to March. Aligning the tax year with that of the majority of other countries would, therefore, also help in easier detection of tax evasion.

There would, of course, have to be a one-time adjustment for the fact that the first tax year after the change would be for only nine months, from April to December. A similar adjustment was provided for in 1989, when multiple tax years followed by different taxpayers were aligned into one tax year of April to March.

The frequent amendments in the tax laws have been a significant deterrent to Indian businesses as well as to individual taxpayers. Most business and taxpayers find it extremely difficult to keep pace with the large number of changes made each year, and often make mistakes because of not having taken into account some change or the other. The reason why so few taxpayers file their own returns is that they find that their knowledge of tax laws gained from past experience is often out-

of-date. Most students of law also find the taxation paper to be the most challenging part, as the tax laws vary from year to year.

Even tax officers find it difficult to keep pace with the frequent and many changes effected. The tax returns have to undergo significant changes each year, and the e-return formats and software have to be completely redone each year, as does the tax returns processing software. Every year, taxpayers have to suffer the problems of late availability of e-return formats and software, put up with the various mistakes in the software which do not allow them to file their returns correctly, and cope with incorrect orders and demands received after their returns have been processed electronically. A significant part of such chaos could easily be avoided if the tax laws remain stable for at least five years.

Of course, such phasing out of tax amendments from the budget will also have its share of losers, in the form of tax publishers, who will not be able to sell books on the budget amendments and new tax laws each year, and tax professionals like me, who regularly speak or write on the budget tax amendments. But that is a small price to pay, considering the significant advantage that would accrue to the larger forum of taxpayers in the form of reduced inconvenience, and to the tax department in the form of lesser hassles of rejigging the forms and software, and rectifying mistakes caused due to software errors.

One hopes that the finance minister, while proposing amendments, will consider the impact of these and other changes from the perspective of the taxpayers, particularly businesses, as there certainly is a need to improve taxpayer and business confidence. Unfortunately, overall revenue considerations will always be the limiting factor, as always, and this year, in particular, the budget deficit would certainly be on top of the mind.

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