

Budget – 2105 - Reform Agenda Missed: Indirect Taxes?

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The indirect tax proposals as per the BJP manifesto in 2014 promised the world to the voters with regard to corruption and administrative reforms. The fall in the oil prices coupled with the confidence generated on India being the dream business destination also led to substantial FDI flow. Rest of the world has a negative growth forecast.

Plans for productive spending without leakages and seriousness of government to govern have been demonstrated. The grand plan of Social Security for all is indeed laudable and necessary- though may require trillions to be infused. The speed in opening up stalled projects and 6 crore homes by 20122 means no dearth for the Real Estate sector.

It is a known and proved fact that industry is more concerned about the attitude and methods used for extraction of taxes with provisions for arrest and raising huge demands with no base. Higher taxes may not be what they fear. India is ranked very high among the worst tax administered countries in the world. Maybe more was to be done in this direction.

However as far as indirect tax reforms are concerned, the entire budget has been drafted by the tax administration to their advantage caring 2 hoots for the wish list of the industry and service providers.

General reforms sought by Industry and Service Providers were:

1. **Simpler Laws:** The revenue augmentation zeal of the past decade of rampant bureaucratic red tape was visible in the pruning of the negative list and adding several deemed services. Joint charge continues and all new provisions require to be read 3 times to get some idea.
2. **Certainty:** Tinkering with the negative list and consequent exemption for some has led to exemptions list increasing substantially. The only certainty appears to be that it is advisable to pay rather than fight even for tax payers who are right with power to recover being further tightened.
3. **Chain of responsibility:** Evident only for the tax payer and not for the administrators. Time that the **errant/ corrupt** among the tax administrators are made accountable when they raise frivolous issues and hold the tax payer to ransom.
4. **Chain of Accountability:** Not even 1 measure to make the tax administration accountable. Committee to give report, then discussion. Maybe implemented after of with GST in April 2017.
5. **Overhaul of Dispute resolution:** Nothing for cheer to the industry and for service providers the provision under Section 80 of waiver of penalty in case of bona fide is omitted!! This means that once an office raises a demand and one does not pay up then he would be penalized. This is not

right. Another revenue hastening exercise. Now assesses would pay and appeal. Under service tax disputes would increase by at least 50%. Advocates and other professional are pleased.

6. **Long Term Policy:** There were none except indication that accountability was a long time off and maybe unlikely to be implemented in India at all.
7. **Process driven:** Except registration of single premises none. Anyway there was no issue here practically as it was being done on line. *Nam kevaste* reform measure.
8. **Anti Corruption - Abolishing of Inspector Raj:** In the central tax department it is understood that corruption exists in a very big way- maybe 80%. Worse in the States the CTO/ VAT offices we understand is worse. Something drastic maybe needed.

Here also nothing other than words – not one indicative measure to assure trade and industry.

Note: The TARC Report of Dr. ParthasarthyShome – which has bought out many of the ills of the tax administration commissioned by Government does not seem to have been referred at all. In the report it mentions that taxes maybe collected in spite of the tax administration seems to have been archived. This was what happened to the Dr. Kelkar Report in the past.

Specific Reforms sought by industry and Service providers were:

- a. High rate of interest of 30% to be withdrawn
- b. Pre deposit even for frivolous cases of 7.5%/ 10% to be done away with as this only helps the tax evader to deposit minimum amount and wait for mistakes or close and run away in next 5 years it takes to fructify.
- c. Tens of thousands of crores in refunds stuck for 5-8 years to service exporters not a whisper- Make in India only for goods??? Without %age payment no refunds is the general rule.
- d. Bad debts leads to payment of service tax which is not due. Where partially received one gets a deduction!! For years only assurances received from the Chairman CBEC that they will look into the matter. This is a joke.
- e. Year by year cenvat credit restriction for eligibility increasing rather than making credit seamless. No change in this year. Abnoxious 6 months limit [10 years old rule 57G – reintroduced last year] now extended to 1 year. Should have been scrapped. Collecting revenue by unfair means.
- f. Income tax and Customs transfer pricing rules alignment to avoid different amounts to augment revenue.
- g. Special Valuation bench decision making process as per law – 3 months-reality decades.

- h. Taxing of re-imbursments settled by the Courts again unsettled. Accounting norms and best practices across the world need to be adopted to avoid alienation and cynicism from the tax payers at large.
- i. Adding deemed service in regard to betting, lottery, chits would further clog the courts.
- j. Taxing of the buildings be they colleges, hospitals, airports, ports may also be counter productive as these sectors are sought to be supported on one hand and cost increased on the other.
- k. Textile and other intermediaries who provide services to foreigners and earn foreign exchange taxed much against the best practices in Europe.
- l. Audit fears not allayed. Today audit is most times than not an extraction exercise. Also help the non compliant who willingly pay the demands, depriving just revenue to govt.

Conclusion: As far as IDT proposals are concerned very very little done. Even indication of the intent to do something here is clearly missing.

All promises/ talk no action on bringing accountability to the tax gatherers.

Hope you are listening FM.

The youth of the States which helped party to win, supported the AAP in Delhi from Maharastra and Karnataka would now have more to go on account of the lack of action or translation of big talk. Budget (2) 2014 – no time. Budget 2015 – enough time, enough representation, good time due to conducive economic situation there fore this time there can be no excuse to put reforms and accountability etc on back burner.