PRESS RELEASE

Growth Trajectory of Direct Tax Collection & Recent Direct Tax Reforms

There are reports in a certain section of media that the growth of direct taxes collection for the FY 2019-20 has fallen drastically and buoyancy of the direct tax collection as compared to the GDP growth has reached negative. These reports do not portray the correct picture regarding the growth of direct taxes. It is a fact that the net direct tax collection for the FY 2019-20 was less than the net direct tax collection for the FY 2018-19. But this fall in the collection of direct taxes is on expected lines and is temporary in nature due to the historic tax reforms undertaken and much higher refunds issued during the FY 2019-20.

This fact becomes more apparent if we compare the gross collection (which removes anomalies created by the variation in the amount of refund given in a year) after taking into account the revenue foregone estimated for the bold tax reforms undertaken, discussed below, which have a direct impact on the direct taxes collection for FY 2019-20. It may also be noted that in FY 2019-20, amount of total refunds given was Rs. 1.84 lakh crore as compared to Rs. 1.61 lakh crore in FY 2018-19 which is a 14% increase year-on-year.

I. Reduction in corporate tax rate for all existing domestic companies: In order to promote growth and investment, the Government has brought in a historic tax reform through the Taxation Laws (Amendment) Ordinance 2019 which provided a concessional tax regime of 22% for all existing domestic companies from FY 2019-20 if they do not avail any specified exemption or incentive. Further, such companies have also been exempted from payment of Minimum Alternate Tax (MAT).

II. Incentive for new manufacturing domestic companies: In order to attract investment in manufacturing sector, the Taxation Laws (Amendment) Ordinance 2019 has drastically reduced the tax rate to 15% for new manufacturing domestic company if such company does not avail any specified exemption or incentive. These companies have also been exempted from payment of Minimum Alternate Tax (MAT).
III. **Reduction in MAT rate:** In order to provide relief to the companies which continue to avail exemption/deduction and pay tax under MAT, the rate of MAT has also been reduced from 18.5% to 15%.

IV. **Exemption from income-tax to individuals earning income up to Rs. 5 lakh and increase in standard deduction:** Further, to provide complete relief from payment of income-tax to individuals earning taxable income up to Rs. 5 lakh, the Finance Act, 2019 exempted an individual taxpayer with taxable income up to Rs. 5 lakh by providing 100% tax rebate. Also, to provide relief to the salaried taxpayers, the Finance Act, 2019 enhanced the standard deduction from Rs. 40,000 to Rs. 50,000.

2. The revenue impact of these reforms have been estimated at Rs. 1.45 lakh crore for Corporate Tax and at Rs. 23,200 crore for the Personal Income Tax (PIT). Tax buoyancy on gross direct tax collection after adjusting the revenue foregone for the above mentioned tax reforms is as under:

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</thead>
<tbody>
<tr>
<td>Corporate Tax</td>
<td>7,69,301</td>
<td>6,78,398</td>
<td>1,45,000</td>
<td>8,23,398</td>
<td>7.03</td>
<td>7.20</td>
<td>0.98</td>
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<tr>
<td>Personal Income Tax (PIT)</td>
<td>5,28,373</td>
<td>5,55,322</td>
<td>23,200</td>
<td>5,78,522</td>
<td>9.49</td>
<td>7.20</td>
<td>1.32</td>
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<tr>
<td>Total</td>
<td>12,97,674</td>
<td>12,33,720</td>
<td>1,68,200</td>
<td>14,01,920</td>
<td>8.03</td>
<td>7.20</td>
<td>1.12</td>
</tr>
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3. Therefore, by removing the effect of the extraordinary and historic tax reform measures and higher issuance of refunds during the FY 2019-20, the buoyancy of total gross direct tax collection comes to 1.12 and almost 1 for Corporate Tax and 1.32 for Personal Income Tax. These buoyancies indicate that the growth trajectories of both the arms of direct taxes, i.e., Corporate Tax and PIT are intact and are rising steadily. Further, the higher growth rate in direct taxes as compared to growth rate in the GDP
even in these challenging times proves that recent efforts for the widening of the tax base undertaken by the Government are yielding results.

4. Furthermore, the assertion that in spite of the tax reforms, the investment has not been picking up is not correct and is without appreciation of the reality of the business world. The setting up of new manufacturing facilities requires various preliminary steps like acquisition of land, construction of factory sheds, setting up of offices and other infrastructures, etc. These activities cannot be completed in just a few months and the manufacturing plants cannot start manufacturing goods from the next day of the announcement of reforms. The tax reforms were announced in September, 2019 and the results are expected to be visible in the next few months and in years to come. The outbreak of COVID-19, may further delay this process but the growth in production due to these tax reforms is bound to happen and cannot be stopped.

5. The Government is committed to provide a hassle free direct tax environment with moderate tax rate and ease of compliance to the taxpayers and also to stimulate the growth by reforming the direct taxes system. Some of the recent steps taken in this direction, apart from those discussed above, are as under:

I. **Personal Income Tax** - In order to reform Personal Income Tax, the Finance Act, 2020 has provided an option to individuals and co-operatives for paying income-tax at concessional rates if they do not avail specified exemption and incentive.

II. **Abolition of Dividend Distribution Tax (DDT)** - In order to increase the attractiveness of the Indian Equity Market and to provide relief to a large class of investors in whose case dividend income is taxable at the rate lower than the rate of DDT, the Finance Act, 2020 removed the Dividend Distribution Tax under which the companies are not required to pay DDT with effect from 01.04.2020. The dividend income shall be taxed only in the hands of the recipients at their applicable rate.

II. **Vivad se Vishwas** - In the current times, a large number of disputes related to direct taxes are pending at various levels of adjudication from Commissioner (Appeals) level to Supreme Court. These tax disputes consume a large part of resources both on the part of the Government as well as taxpayers and also deprive the Government of the timely collection of revenue. With these facts in mind, an urgent need was felt to provide for resolution of pending tax disputes which will not only benefit the Government by generating timely revenue but also the taxpayers as it will bring down mounting litigation costs and efforts can be better utilized for expanding business activities. Direct Tax Vivad se Vishwas Act, 2020 was
enacted on 17th March, 2020 under which the declarations for settling disputes are currently being filed.

IV. **Faceless E-assessment Scheme** - The E-assessment Scheme, 2019 has been notified on 12th September, 2019 which provides for a new scheme for making assessment by eliminating the interface between the Assessing Officer and the assessee, optimizing use of resources through functional specialization and introducing the team-based assessment.

V. **Faceless appeals** - In order to take the reforms to the next level and to eliminate human interface, the Finance Act, 2020 empowered the Central Government to notify Faceless Appeal Scheme in the appellate function of the department between the appellant and the Commissioner of Income-tax (Appeals).

VI. **Document Identification Number (DIN)** - In order to bring efficiency and transparency in the functioning of the Income Tax Department, every communication of the Department whether it is related to assessment, appeals, investigation, penalty and rectification, among other things, issued from 1st October, 2019 onwards are mandatorily having a computer-generated unique document identification number (DIN).

VII. **Pre-filling of Income-tax Returns** - In order to make tax compliance more convenient, pre-filled Income Tax Returns (ITR) have been provided to individual taxpayers. The ITR form now contains pre-filled details of certain incomes such as salary income. The scope of information for pre-filling is being continuously expanded by pre-filling more transactions in the ITR.

VIII. **Encouraging digital transactions** - In order to facilitate the digitalisation of the economy and reduce unaccounted transactions, various measures have been taken which include reduction in rate of presumptive profit on digital turnover, removal of MDR charges on prescribed modes of transactions, reducing the threshold for cash transactions, prohibition of certain cash transactions, etc.

IX. **Simplification of compliance norms for Start-ups** - Start-ups have been provided hassle-free tax environment which includes simplification of assessment procedure, exemptions from Angel-tax, constitution of dedicated start-up cell etc.

X. **Relaxation in the norms for Prosecution:** The threshold for launching prosecution has been substantially increased. A system of collegium of
senior officers for sanction of prosecution has been introduced. The norms for compounding have also been relaxed.

XI. **Raising of monetary limit for filing of appeal** - To effectively reduce taxpayer grievances/ litigation and help the Income Tax Department focus on litigation involving complex legal issues and high tax effect, the monetary thresholds for filing of departmental appeals have been raised from Rs. 20 lakh to Rs. 50 lakh for appeal before ITAT, from Rs. 50 lakh to Rs. 1 crore for appeal before the High Court and from Rs. 1 crore to Rs. 2 crore for appeal before the Supreme Court.

XII. **Expansion of scope of TDS/TCS** - For widening the tax base, several new transactions were brought into the ambit of Tax Deduction at Source (TDS) and Tax Collection at Source (TCS). These transactions include huge cash withdrawal, foreign remittance, purchase of luxury car, e-commerce participants, sale of goods, acquisition of immovable property, etc.

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