Task Forces on Direct and Indirect Taxes

2.50 While presenting the first batch of supplementary demands for grants to Parliament in July, 2002, the Finance Minister had proposed setting up of two task forces to recommend measures for simplification and rationalisation of direct and indirect taxes. Accordingly, two task forces were set up in September, 2002 under the Chairmanship of Dr. Vijay L. Kelkar, Adviser to Minister of Finance and Company Affairs. The setting up of these task forces was an attempt to demystify the process of budget making and to make it transparent and to facilitate an informed discussion.

2.51 As per the terms of reference, the Task Force on Direct Taxes was required to submit a consultation paper to the Government containing its recommendations on rationalisation and simplification of direct taxes, improvement in tax payer services and redesigning procedures for strengthening enforcement. The Task Force on Indirect Taxes was mandated to make recommendations on simplification, reduction in the cost of compliance of customs and central excise duties, automation of tax administration, simplification of statutory returns, records, procedures for time-bound disposal of matters and different aspects of legal provisions to facilitate tax payers and to improve tax compliance.

2.52 The Task Force on Direct Taxes presented its consultation paper to the Government on November 2, 2002. The discussion paper on indirect taxes was presented on November 25, 2002. These consultation papers were made public to facilitate an informed discussion on tax policy. There was an overwhelming response from trade and industry associations, and from people from all walks of life. The purpose of bringing transparency in the formulation of tax policies was more than served by these discussion papers. After taking into account the response on the discussion papers and holding discussions with trade and industry associations and a cross section of people, the Task Forces submitted their final reports to the Government in December, 2002. These Task Forces have made important recommendations on toning up tax administration to put in place a system that is simple, effective and at par, if not better, than international standards. The main recommendations on direct taxes relate to raising of exemption limit of personal income tax, rationalisation of exemptions, abolition of concessional treatment to long-term capital gains, abolition of wealth tax, etc. In respect of indirect taxes, the main recommendations relate to widening of the tax base, removal of exemptions, expansion in the coverage of service tax, etc. The major recommendations of the Task Forces on Direct and Indirect Taxes are presented in Boxes 2.3 and 2.4 respectively.

Disinvestment & strategic sale of public sector undertakings

2.53 Disinvestment of Government equity began in 1991-92. However, till 1999-2000 it was done primarily through the sale of minority share holding in small lots. It is only from 1999-2000 that emphasis of disinvestment changed in favour of strategic sale. The primary objective of disinvestment, especially through the strategic sale route is that with the transfer of management control into private hands, private capital and management practices would be used effectively to increase the operational efficiency of the company. Evidence suggests that there has been an improvement in the efficiencies of PSUs after disinvestment.

2.54 In the Budget for 2002-03, receipts from disinvestment of PSUs are estimated at Rs.12, 000 crore. During the period April-December 2002, a sum of Rs.3,122 crore was realised by way of such receipts. In the current financial year strategic disinvestment by way of sale of Government of India equity has taken place in 13 PSUs up to December 2002. These PSUs are Hindustan Zinc Ltd., IPCL, 10 hotels under the ITDC and one hotel of Hotel Corporation of India. Apart from this, the Government of India received a control premium from Maruti Udyog Limited of Rs.1,000 crore. The remaining 26 percent

Box 2.3 : Major recommendations of the Task Force on direct taxes

Tax Administration

- Expansion of taxpayer services both qualitatively and quantitatively. Easy access to taxpayers through internet and E-mail and extension of facilities such as Tele-filing and Tele-refunds.
- Extension of PAN to cover all economic agents/citizens.
- Abolition of block assessment of search and seizure cases.
- Outsourcing of data entry work relating to certain activities of the tax administration, so as to clear the back log.
- Processing of all returns and issue of refunds within four months.
- Introduction of transparency and objectivity in the process of selection of cases.
- Establishment of a Tax Information Network on a build, operate and transfer basis to speed up the process of modernisation and consequent simplification and rationalisation of the scheme of tax deduction at source.
- Outsourcing the preparation and dispatch of refunds.
- Abolition of the requirement of obtaining a tax clearance certificate before leaving the country. Restriction of this requirement to proclaimed offenders.
- Enhance accountability of officers and staff.
- Empowering CBDT with appropriate administrative and financial powers.

Personal income tax

- Increase in exemption limit to Rs.1 lakh for the general categories of taxpayers. A higher exemption limit of Rs.1.50 lakh for widows and senior citizens.
- Introduction of a two rate personal income tax schedule-20 percent up to an income of Rs.4 lakh and 30 percent for income exceeding Rs.4 lakh. Elimination of surcharge on personal income tax.
- Elimination of standard deduction.
- Incentivise borrowings for housing by providing 2 percent interest subsidy on all loans below Rs.5 lakh. The second best option is to continue with the tax treatment of mortgage interest for owner occupied houses but with a reduction in the amount of mortgage interest deductible from the existing level of Rs.1,50,000 to Rs.50,000 only.
- A tax rental agreement whereby States would authorise the Central Government to impose income tax on agricultural income and assign the proceeds to States.
- Deduction under Section 80CCC for contribution to pension funds to be increased from Rs.10,000 to Rs.20,000. The scope of the Section to be enlarged to cover a large number of pension/annuity schemes within the ceiling of Rs.20,000.
- Elimination of tax incentives under Section 88, 80L and interest income under section 10.

Corporate tax reforms

- Reduction in corporate tax rate to 30 percent for domestic companies. Foreign companies to be taxed at 35 percent. Exemption from tax on dividends and capital gains from listed equity.
- The general rate of depreciation for plant and machinery to be reduced to 15 percent from the existing level of 25 percent.
- Elimination of minimum alternate tax.
- Long-term capital gains to be aggregated with other incomes and subjected to taxation at the normal rates. Exemption to continue if the long-term capital gains are invested in a house or in the bonds of National Highway Authority of India (NHAI) until completion of the Golden Quadrilateral and the North-South and East-West corridors.
- Removal of exemption under Section 33AB, 33AC, 33B, 35, 35AC, 35CCA etc.
- Income of mutual funds derived from short-term capital gains and interest to be taxed at a flat rate in the hands of the mutual funds.
- Merger of tax on expenditure in hotels with service tax.

Others

- Abolition of wealth tax.

Box 2.4 : Major recommendations of the Task Force on indirect taxes

Tax Administration

- Customs clearance to be based on trust and to be uniformly applied to all importers and exporters. A system of self-assessment of bill of entry by the importer to be introduced.
- Inter-agency issues to be resolved by a high level inter-Ministerial Committee.
- Time limit for processing an import or export document.
- Levy of central excise to be progressively based upon value addition up to processing stage.
- Guidelines on determination of cost of production to be issued at the earliest.
- MRP based levy to be expanded.
- CENVAT credit rules to be amended to abolish the distinction between capital goods and inputs.
- All Customs and Central Excise Commissionerates to fully automate their processes by January, 2004.

Customs Tariff

- Multiplicity of levies to be reduced to three, viz., basic customs duty, additional duty of customs and anti-dumping duties. Removal of SAD to be linked to implementation of State level VAT.
- Zero percent duty on items like life saving drugs and equipments, sovereign imports and imports by RBI. 10 percent duty on raw materials, inputs and intermediate goods and 20 percent duty on consumer goods by 2004-05. 5 percent duty on basic raw materials like coal, 8 percent duty for intermediate goods, 10 percent duty on finished goods other than consumer durables and 20 percent on consumer durables by 2006-07. Duty reduction to the level of 5-10 percent to start only after the introduction of State level VAT.
- A duty of 8 percent on crude oil and 15 percent on petroleum products from 2003-04. A duty of 5 percent on crude oil and 10 percent on petroleum products from 2004-05.
- A higher duty rate up to 150 percent on specified agricultural products and demerit goods.
- All exemptions to be removed except in the case of life saving goods, goods of security and strategic interest, goods for relief and charitable purposes and international obligations including contracts.

Central Excise

- All levies to be reviewed and to be replaced by only one levy, i.e., the CENVAT.
- Zero excise duty on life saving drugs and equipments, security items, food items and agricultural products, 6 percent for processed food products and matches, 14 percent standard rate for all items not mentioned against other rates, 20 percent on motor vehicles, air-conditioners and aerated water. Separate rates for tobacco products.
- A uniform rate of 16 percent on all fibres and yarns, by raising duty on cotton yarn from 8 percent to 14 percent and bringing down duty on polyester filament yarn to 14 percent in four instalments.
- All exemptions to be removed on the textile sector except for fabrics woven handlooms, handloom fabric certified as khadi, etc.
- Duty exemption in respect of small scale sector to be extended to only small units with turnover of Rs.50 lakh. Duty exemption limit for larger SSI units to be brought down gradually to Rs.50 lakh.
- Uniformity in all State legislations, procedures and documentation relating to VAT.
- Extension of service tax in a comprehensive manner leaving out only a few services by including them in a negative list. A separate legislation on service tax to be integrated finally with the Central Excise Law.

shareholding of Government of India in Modern Food Industries (India) Limited has also been disinvested through exercise of a put option for Rs.44.1 crore. While the quantum of receipts so far by way of disinvestment of PSUs is less than the target, it should be viewed in the context of the need to develop a consensus around the key issues. A statement was made by the Minister of Disinvestment on December 9, 2002 outlining the consensus that emerged on the policy of disinvestment.