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## New direct tax code to benefit corporates, income tax payers

The proposed direct tax code, the draft of which will be ready by July, will extend 25% corporate tax rate to all firms over time and provide relief to individual income tax payers

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Demonetisation and GST have helped the government increase the number of direct tax payers in India. Photo: Pradeep Gaur/Mint

**New Delhi:** Businesses and low-income earners will stand to gain the most from the new direct tax code that the government is working on, two people familiar with the

matter said.

The proposed direct tax code, the draft of which will be ready by July, will take forward the government's agenda of lowering corporate tax rate to 25% for all businesses and seek to give further relief to individual income tax payers.

The idea is to moderate tax rates for assesseees without squandering the recent gains in revenue growth and tax base. Therefore, the proposed tax rate cuts will be incremental over a period of time as compliance and revenue collections grow. Between fiscal 2014 and fiscal 2018, income tax returns filed have risen over 80% to 68.4 million.

The highest personal tax slab of 30% for individuals, will, however, stay at current level as it is considered among the lowest in the world, one of the two people cited above said on condition of anonymity. Relief to small taxpayers could prove to be electorally rewarding for the ruling National Democratic Alliance government as the country goes to polls next year.

The intention is to make businesses more competitive with a lower 25% corporate tax rate, the second of the two people cited above said on condition of anonymity.

Reducing corporate tax to make Indian firms more competitive has become a policy priority as nations such as the US and UK are wooing investments with lower tax rates.

“In most advanced economies, individuals are taxed at a higher rate than companies to promote investments and job creation,” said Amit Maheshwary, partner, Ashok Maheshwary and Associates Llp.

The benefit of a lower corporate tax rate of 25% was first offered to companies with annual revenue less than Rs50 crore in the 2017-18 budget. It was extended to businesses with annual sales up to Rs250 crore in 2018-19. The direct tax code will spell out the roadmap for eventually extending the rate to all companies.

The new direct tax code will seek to further reduce tax evasion and improve compliance so that the ratio of direct tax to GDP goes up from the present level—5.9% in fiscal 2018 and a projected 6.1% in the current fiscal year—to at least 9% over the next three to four years.

There could be room for further improvement on this count eventually as the tax-to-GDP ratio of comparable economies (including state taxes) is about 24%, roughly half of which should be from direct taxes, said the first person cited earlier.

The two structural changes in recent years—demonetisation in November 2016 and the rollout of the goods and service tax (GST) in July 2017—have helped the government increase the number of direct tax payers. With increased cross-references between the tax return filings of both GST and corporate taxes, understating revenue is set to become more difficult for businesses.

Taxation of digital economy, reducing frivolous litigation and making the corporate tax rate more competitive are expected to be the focus areas of the new code, said Girish Vanvari, founder of advisory firm Transaction Square.

“Industry is also looking for certainty so that it can plan five years ahead. For instance, the 25% rate for industry was announced but it still comes with many riders and keeps out many companies,” said Riaz Thingna, director, Grant Thornton Advisory Pvt. Ltd.

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