SUMMARY AND RECOMMENDATIONS

Reform of Tax Administration

10.1 The fundamental role of tax administration is, in order of priority:

1. To render quality taxpayer services to encourage voluntary compliance of tax laws; and

2. To detect and penalise non-compliance.

The extent of success of the tax administration in its role would be reflected in higher revenue growth.

(Paragraph 3.6)

10.2 Traditionally, the role of the tax administration has been to enforce the tax laws and provide at least minimal taxpayer service. Most employees unable to reconcile to their new role continue to resist this shift in the role perception from an enforcement officer to a facilitator.

(Paragraph 3.8)

10.3 Given the best international practice in the area of taxpayer service and the future programme for widening the tax base through voluntary compliance, the following measures should be undertaken to expand the present scope of the taxpayer service programme:

(i) The income tax department must expand, qualitatively and quantitatively, the present scope of taxpayer service. These should cover the range of taxpayer services indicated in Table–3.1 and, inter alia, include the introduction of a telephonic system (by voice message) to remind taxpayers of important dates and the provision of pre-formatted programmed floppy diskettes through retail outlets.

(ii) The expenditure on taxpayer service must be increased from the present level of about one percent of the total expenditure on tax administration to at least five percent. In this regard, an important start should be made by the establishment of taxpayers' clinic in different parts of the country to enable taxpayers to walk in for assistance. A better treatment of existing taxpayers has an important role in encouraging those outside the tax net to become taxpaying citizens.

(iii) The department should provide easy access to taxpayers through Internet and e-mail and extend facilities such as tele-filing and tele-refunds. It should design special programmes for retired people, low-income taxpayers and other such groups with special needs who cannot afford expensive services of tax consultants.

(Paragraph 3.11)

10.4 Given the ongoing and new initiatives by the Ministry of Home Affairs for issuing a Citizen Identification Number and by the Ministry of Labour for issuing a Social Security Number, PAN can be used to effectively integrate, on the lines of the US Social Security Number system, multiple tasks of tax and commercial enforcement, targeting government subvention, improving governance and enhance national security, both at the Central and State level. The Task Force, therefore, recommends that:

(i) The PAN should be extended to cover all citizens and therefore serve as a Citizen identification number. This will obviate the need for the Home and Labour Ministries to issue new numbers.

(ii) Given the manifold increase in the coverage of PAN, the responsibility for issuing should be transferred to an independent agency outside the income tax department. However, the income tax department should have online access to the database for tax enforcement like any other agency.

(iii) The requirement of quoting PAN may be expanded to cover most financial transactions.

(Paragraph 3.15)

10.5 In view of the extant method of collection of information and constraints in digitising the volume of information received by the tax administration, the Task Force recommends :

(i) Income Tax Act should be amended to provide for submission of 'annual information return' by third parties in respect of various transactions as may be prescribed. For this purpose, a proper format of the return also needs to be prescribed. Consequently, the flow of information will be continuous and the discretionary power with the CIB to collect information will be eliminated.

(ii) Such annual return of information (including returns relating to tax deducted at source) should be mandatorily required to be submitted on electronic format.

(iii) Many of the Departments involved in transactions specified in Rule 114B do not have any mechanism for obtaining the PAN of the concerned person. It is, therefore, necessary that the pro forma used by them for their departmental purposes, e.g., the application form for transfer of motor license, should have the necessary column requiring the applicant to disclose his Permanent Account Number (PAN).

(iv) The Department should set up a structure for Electronic Data Interchange (EDI) with some of the major departments and organisations involved in the transactions specified in Rule 114B, such as, Banks, Stock Exchanges, Telephone Companies, Regional Transport Authority etc.

(Paragraph 3.17)

10.6 In view of the diminition in the deterrence effect of search and seizure operations, –

(i) Special procedure for assessment of search cases in chapter XIV B (Block Assessment) which provides for tax at the rate of 60 per cent, be omitted. As and when concealment is detected and established, it should suffer full penal consequences of interest, penalty and prosecution.

(ii) Power of Settlement Commission to grant immunity from interest, penalty and prosecution may be restricted to cases other than those where the assessee

admits of tax evasion consequent to search and seizure action taken by the department in his case.

(iii) The scheme of rewarding officers engaged in search and seizure activity be abolished.

(iv) The stocks found during the course of search and seizure operation under the Income Tax Act may only be inventorised but not seized. This can be done by issuing administrative instruction.

(Paragraph 3.26)

10.7 The Central Board of Direct Taxes must issue immediate instructions to the effect that no raiding party should obtain any surrender whatsoever. Where, a taxpayer desires to voluntarily make a disclosure, he should be advised to make so after the search. As a result, the taxpayer will not be able to allege coercion and successfully distract investigations. All cases where surrender is obtained during the course of the search in violation of the instructions of the CBDT, the leader of the raiding party should be subjected to vigilance enquiry. All statements recorded during the search should be video recorded. This will, indeed, add to the confidence of the taxpayer in the impartiality of the system.

(Paragraph 3.27)

10.8 The Task Force took note of the recent amendments conferring power to seize books of accounts during a survey operation. Accordingly, it recommends -

(i) A survey should be authorised after recording the reasons in writing and the power of authorization should not be vested in any officer below the rank of a Joint Commissioner of Income Tax.

(ii) The books of accounts impounded by the survey team should not be retained beyond a period of seven days since it has the potential of disrupting the business of a taxpayer. Where it is felt that the books need to be retained beyond the period of seven days, the department may obtain photocopies duly attested by the taxpayer for further investigation.

(Paragraph 3.28)

10.9 In line with our view that the tax department should concentrate on its core functions, the department should be allowed to outsource data entry work and clear the backlog of returns (which number 2.8 crores as on 30th September, 2002) by end February 2003. Similarly, all returns must be processed within four months of receipt. For this purpose, it would be necessary for the department to either hire additional personnel on a temporary basis during the peak period for filing returns, or, outsource data entry work, as is done routinely by national tax administrations all over the world. Further, we must emphasis that outsourcing of such data entry work relating to processing of returns should be done only to supplement the efforts of the departmental staff and officers and not as a substitute. The cost of hiring additional personnel or outsourcing data entry work would be far less in comparison to the benefit from reduced interest burden on refunds and taxpayer satisfaction.

(Paragraph 3.30)

10.10 The existing discretion based system of selection of returns should be immediately abolished. The department should progressively develop an audit selection system for risk analysis and assessment, which forms a scientific (and, therefore, objective) basis for identifying cases of potential tax evasion for in-depth scrutiny. However, before an audit selection system can be driven by risk analysis, good quality data has to be obtained over a number of years. Risk analysis will help to rank taxpayers and any local knowledge and intelligence must be factored to make a risk assessment. This will provide the most efficient and effective means of targeting tax officials to areas of greatest risk. It is important that cases for audit are selected on the basis of perceived risk and not simply by intelligence or speculation since intelligence would be available for only a few taxpayers. Further, selection of cases based on risk analysis and assessment must be combined with a certain small percentage of random audit, and carrying out issue- specific audits, such as refund audits. In the interim, we recommend the identification of cases through a random non-discretionary centralised method deploying the PAN database. The current practice of issuing guidelines for selection of cases for scrutiny, which eventually finds its way to the public, must be given up.

(Paragraph 3.32 to 3.34)

10.11 Once a case is selected for scrutiny, it should be fully investigated, covering investments, accretion to assets, expenses incurred, savings, transactions entered and profits made, turnover etc. The scrutiny assessment will then serve its purpose of deterrence against

tax evasion and contribute to revenue realisation. The present practice in scrutiny assessments is mostly to make statutory disallowances of exemptions, deductions and other claims made in the return to achieve zero error assessments from the point of audit objections. Since hundred per cent policing is not possible, the number of cases selected for effective scrutiny should be on the basis of available manpower, their number and capability.

(Paragraph 3.35)

10.12 Section 275 of the Income Tax Act should be suitably amended to provide that the penalty order should be passed within one year from the end of the financial year in which the first appellate order is received. Consequently, the delay in passing the order-levying penalty for concealment would be considerably reduced to about two years.

(Paragraph 3.37)

10.13 The tax department should be allowed to concentrate on its core functions – an increasing emphasis on assessment and enforcement duties, rather than logistics and support services – which will surely lead to increased effectiveness of the tax administration. In this context, rapid and progressive outsourcing of many tasks of the tax department is not only feasible, given the significant pool of talent in the Indian software industry, but it is also desirable. In order to make IT infrastructure commensurate with the requisite processing tasks, the Task Force would like to explicitly put on record that implementation of this enhanced integration-software requires considerable investment in upgrading associated IT hardware and sufficient access to high-capacity bandwidth for implementing the network.

(Paragraph 3.40)

10.14 To speed up the process of modernisation, -

(i) The Government should establish a national Tax Information Network (TIN) on a build, operate and transfer basis. This will comprise of a world class (common carrier) network system and have access to state-of-the-art IT infrastructure. A requisite in-built feature of the system is that it should be scalable to offer ease of access across tax administration and taxpayers. The network that is envisaged will facilitate transactions, akin to securities markets, and establish secure and seamless logistics of tax collection through integration

of primary information, record keeping, dissemination and retrieval. It should be a repository of information, with a database of all tax payments and refunds. Data mining software associated with such relational databases will allow a quick and systematic identification of non-compliance and abuses, thereby helping to improve compliance. The existing facilities of the National Securities Depository Ltd. (NSDL) can be relatively quickly deployed to make a systemic improvement in processes and reduce transaction cost.

(ii) TIN will receive, on behalf of the tax administration, all TDS returns and other information returns for digitisation. The information would be received either online, or through magnetic media or in printed format. The digitised information will be downloaded by the National Computer Centre / Regional Computer Centres of the income tax department for further processing.

(iii) TIN will also receive online information about collection of taxes from the banks. The information could be downloaded by the income tax department as and when required.

(iv) The taxpayer will have the facility of accessing the TIN system through a secure and confidential Permanent Account Number (PAN)-based identification to ascertain tax payments credited to his/her account and the status of returns and refunds.

The TIN will therefore serve as a gateway to the National Computer Centre of the Income Tax Department. It will help overcome the paucity of technical manpower and inadequate technical infrastructure.

(Paragraph 3.42)

10.15 Firms and individuals whose total sales, gross receipts or turnover from the business or profession carried on by it is less than the monetary limits specified under clause (a) or clause (b) of section 44AB should continue to be exempted from the liability of deducting tax at source. However, once the TIN, which has been recommended by this Task Force, is

fully operationalised, the requirement to issue TDS certificates to the payee can be dispensed and the scheme can be extended to the smaller taxpayers.

(Paragraph 3.45)

10.16 Where a payee receiving salary fails to furnish his PAN, tax should be deducted at a flat rate of 30 percent. In all other cases of such failure, tax should be deducted at twice the normal rate or 30 percent, which ever is lower. Further, -

(i) Tax should be required to be deducted at source irrespective of the amount of payment.

(ii) A payee should be allowed to claim exemption from TDS if she/he furnishes a self declaration to the payer that the tax on her/his estimated total income in which the income is to be included will be NIL and quotes her/his Permanent Account Number (PAN) on such.

(iii) The present system of obtaining a certificate from the assessing officer for deduction at lower rate should be abolished so as to minimize the interface between the taxpayer and tax authorities.

(Paragraph 3.46 & 3.48)

10.17 In view of the recommendation for the establishment of TIN, a revised procedure for collection of taxes and their accounting may be designed along the following lines :-

(i) A taxpayer will be required to fill up only one copy of the challan while making payment of taxes in the bank. The present requirement of filling up four copies of challan for payment of any tax will be given up.

(ii) The banks will be networked to the TIN and receive payments online. The banks will be required to issue a computerised receipt to the taxpayer instantaneously. The date of presentation of a cheque will be treated as the date of payment. If a cheque bounces, the bank will reverse the receipt online, and the department would then be expected to prosecute the delinquent taxpayer.

(iii) With instant accounting of tax collection, the requirement of enclosing a copy of the challan as evidence of tax payment, along with the annual return of income could be done away.

(iv) Since the TIN will digitise all TDS returns, the requirement to file TDS certificates along with the return of income will also be dispensed with.

(v) At present, taxes are collected through approximately 10,500 bank branches. Since the proposed procedure requires banks to receive online payment, those banks that do not have adequate infrastructure for establishing online connectivity will be debarred from collecting taxes. Accordingly, the Government, in consultation with the Reserve Bank of India, should also consider paying higher charges for services rendered by banks.

The process outlined above will facilitate real-time accounting of TDS, Advance Tax and Self-Assessment Tax, and help the tax administration to swiftly identify non-compliance. Furthermore, the new procedure of tax accounting will facilitate electronic filing of tax returns.

(Paragraph 3.54)

10.18 The existing cumbersome and manually-operated procedures for issue of refunds must be replaced by a more efficient IT-based system. Under the new system the department will prepare a separate file of all refunds daily which will be downloaded by a payment intermediary, i.e., a designated bank. The designated bank will be authorised to issue computerised refunds as is the current practice for issuing dividend and interest warrants by companies. The designated bank will be required to transmit the information relating to the issue of refunds to the TIN, which will also allow a taxpayer to verify the status of his/her refund claim.

(Paragraph 3.55)

10.19 The present requirement of obtaining a tax clearance certificate before leaving the country must be abolished. However in order to protect the interest of revenue, we can continue to allow the income tax authorities to notify the immigration/custom authorities to prevent any particular person from leaving the country if such person is considered to be a proclaimed offender. As a result only a handful of notified persons will be subjected to the

process of tax clearance as against the present practice of requiring all and sundry to comply with the requirement of obtaining tax clearance before leaving the country.

(Paragraph 3.60)

10.20 The system of issuing Income Tax Clearance Certificates to contractors and others should be eliminated forthwith. However, to help in enhancing effective tax enforcement, all government agencies should be required to obtain the PAN of entities participating in tenders, being designated as vendors to the government, etc., and periodically submit (pre– specified) relevant information to the tax administration.

(Paragraph 3.65)

10.21 On the issue of dispute resolution, the Task Force recommends the following:-

(i) the Income tax Act should be amended to provide that all orders/intimation imposing any additional burden should be made appealable.

(ii) The institution of Ombudsman should be established in the top ten-taxpaying cities and all state capitals along the lines of that in the banking sector. This institution will provide an independent system to assure that tax problems, which have not been resolved through normal channels, are promptly and fairly handled. It will also identify issues that increase burden or create problem for taxpayers, and bring those issues to the attention of the Central Board of Direct Taxes (CBDT). The Ombudsman will also enquire into, should a complaint be filed, the practices and performance of all classes of tax professionals. Where necessary, it will also make appropriate legislative proposals. This institution will be independent of the local tax office. Its goal will be to protect individual taxpayer rights and to reduce taxpayer burden. A consolidated annual report of the Ombudsman system will be tabled in Parliament.

(Paragraph 3.66 & 3.67)

10.22 Central Board of Direct Taxes (CBDT), which is responsible for administering the direct tax laws, should be given the requisite autonomy in the following manner so that it is made more accountable :-

(i) The control of the Central Government over the tax administration be exercised through a Memorandum of Understanding (MOU) between the Central Board of Direct Taxes and the Central Government (we understand that there is already a Cabinet decision to this effect). The Central Board of Revenue Act provides that the two boards (CBDT and CBEC) must function subject to the control of the Central Government, but the mechanism and the extent of control still remains unspecified.

(ii) The MOU should, inter alia, specify the financial commitment of the Central Government for tax administration. It should provide for full financial autonomy and control over deployment of human resources to the CBDT. The Central Government should only specify the general guidelines for financial expenditure and deployment of human resources. The CBDT should have exclusive power for designing the enforcement strategy, subject to the condition that it is non-discriminatory and transparent. The MoU should be for a period of five years specifying observable performance indicators for CBDT and the financial resources that would be made available to CBDT on a year-to-year basis.

(Paragraph 3.69 & 3.70)

10.23 The rules for appointment of Members should provide for selection on criteria of merit-cum-seniority from amongst those who have a minimum period of two years of service before retirement as on the date on which the vacancy arises. Further, an officer once appointed as member of the Board should be debarred from any appointment either in the ITAT or Settlement Commission. Similarly, the Chairman, CBDT should be selected on criterion of merit cum seniority and once appointed should have a minimum tenure of two years.

(Paragraph 3.71)

10.24 Expressing deep concern at the lack of accountability, the Task Force considers it necessary to reiterate the direction by the Honorable Supreme Court that disciplinary action must be taken in the following cases:

(i) Where the officer had acted in a manner as would reflect on his reputation for integrity or good faith or devotion to duty;

(ii) If there is prima facie material to show recklessness or misconduct in the discharge of his duty;

(iii) If the officer has acted in a manner which is unbecoming of a Government servant;

(iv) If the officer has acted negligently or that he omitted the prescribed conditions which are essential for the exercise of the statutory powers;

(v) If the officer has acted in order to unduly favour a party;

(vi) If the officer has been actuated by corrupt motive, however small the bribe may be because Lord Coke said long ago 'through the bribe may be small, yet the fault is great'.

(Paragraph 3.73)

10.25 As a confidence building measure, the Central Board of Direct Taxes should release annual information (giving Chief Commissioner-wise break-up) of number of complaints received from the public or acts of omission or commission identified through internal mechanism or by external agencies and the result of official enquiry into such complaints. The information must be provided separately for officers and staff. Such information may relate to tax payer profiles, returns received, headwise breakup of income, number of appeals filed and disposed of, penalty orders, rectification applications, reopening of assessment, refund orders, refunds issued, returns selected for scrutiny assessment and their results, break up of collection, etc.

(Paragraph 3.74)

10.26 With a view to further enhancing accountability of (and transparency in) tax administration, it is important that the CBDT publishes an annual report of its own, along the lines of the UPSC/CVC, that is tabled in Parliament and put on its web site. The annual report must separately provide for performance achievements of each Chief Commissioner/ Commissioner. In addition, the quarterly progress of achievement must be displayed on the web site, so that taxpayers have an opportunity to respond. While defining a stricter accountability structure, however, care must be taken to eschew an excessive and regimented accountability system which over-burdens AOs with onerous and fragmented oversight that ultimately only serves to reduce its overall effectiveness.

(Paragraph 3.75)

10.27 Lack of financial autonomy was identified as an important constraint in the functioning of the CBDT. Therefore, The Task Force is of the view that the position should be immediately rectified through adequate delegation of financial powers to bring in synergy and effectiveness in management functions.

(Paragraph 3.81)

10.28 The absence of control over human resources has further undermined accountability. Therefore, it is recommended that the Central Government should delegate to CBDT full authority and responsibility regarding staff of the income tax department and its secretariat. The CBDT should, however, exercise such delegated powers in a transparent manner within the framework of rules and guidelines framed for this purpose. Such rules and guidelines should be framed with the approval of the government.

(Paragraph 3.82)

10.29 To institute changes for modernization of the tax administration –

(i) CBDT should request Chief Commissioners to identify the shortcomings in their offices by 1st April 2003 and send their proposals to CBDT for creating model tax offices.

(ii) By 1st August 2003 a model Commissionerate including the offices at the range, circle and ward levels should be established in each zone.

(iii) CBDT should seek the requisite financial sanction to replicate the model offices by either upgrading existing offices or, where necessary, by purchasing new premises, etc. The entire exercise should be time bound so that by January 2005 modern offices are in place in all Commissionerates.

(Paragraph 3.83)

Personal Income Tax Reform

10.30 At the beginning of the 21st century, some truths about taxation have become self-evident. Even so, they bear repetition.

(i) First, the design of tax policy is of paramount importance for tax administration.

(ii) Second, if the objective is to have a transparent, efficient and feasible tax administration, then the structure of all taxes should comprise common elements. These are low rates, few nominal rates, a broad base, few exemptions, few incentives, few surcharges, few temporary measures. And in the rare instances where there are exceptions, there should be clear guidelines.

The Task Force is unanimously in favour of these overarching fiscal principles. The numerous recommendations derive from these objectives.

(Paragraph 4.12 & 4.13)

10.31 The Task Force endorses the following principles identified in the Report of the Advisory Group on Tax Policy and Tax Administration for the Tenth Plan, for designing the rate schedule:

(i) The basic exemption limit must be at a moderate level — an appropriate balance between the tax liability at the lowest levels, administrative cost of collection and compliance burden of the smallest taxpayers. The ability of the tax administration to render quality services to taxpayers will also significantly affect the choice of the exemption limit.

(ii) The number of tax slabs should be few and their ranges fairly large to minimise distortions arising out of bracket creep.

(iii) The maximum marginal rate of tax should be moderate, so that the distortions in the economic behaviour of taxpayers and incentive to evade tax payment are minimised.

(Paragraph 4.14)

10.32 In view of the principles endorsed above, –

(i) the imposition of a single individual income tax rate is rejected in preference for a reformed system of personal income tax with more than one rate. The Task Force believes that the alternative lies in a multiple rate schedule, but with very little spread between such rates;

(ii) and in view of the distortionary impact of multiple slabs, the Task Force opts for a two rate personal income tax schedule;

(iii) and if the full effect of lower tax rates has to be realised, it is not only necessary to have an optimal enforcement strategy but also ensure that the benefits of a tax cut apply to all class of taxpayers — rather than be restricted to a handful of taxpayers at the top end. This is possibly achieved by broad basing the tax slabs.

Accordingly, the Task Force recommends the following personal income tax rate schedule :

Proposed Personal Income Tax Structure.

Income level	Tax rates
Below Rs. 1,00,000	Nil
Rs. 1,00,000-4,00,000	20 percent of the Income in excess of Rs. 1,00,000/-
Above Rs. 4,00,000	Rs. 60,000/- plus 30 percent of the Income in excess of Rs. 4,00,000\-

Further, the revenue gain from levy of surcharge is generally illusory since such a levy has the effect of increasing the marginal rate of tax, which adversely affect compliance. Therefore, the present surcharge of 5 per cent on taxpayers with incomes above Rs. 60,000/- must be eliminated.

(Paragraph 4.21, 4.23 to 4.26)

10.33 If compliance is to be fostered and nurtured and economic incentive sustained, it is necessary to move towards a comprehensive tax regime by reviewing the various exemptions, deductions and rebates.

(Paragraph 4.38)

10.34 Tax payers who are residents but not ordinarily residents must be subjected to tax on their global/world-wide income at par with residents. To do so, this unusual category of resident but not ordinarily resident taxpayers must be deleted. This will not only enhance the income tax base, but also remove an antiquated anomaly and simplify the law.

(Paragraph 4.42 & 4.43)

10.35 The standard deduction under Section 16(1) of the Income Tax Act should be eliminated. However, the exemption of conveyance allowance subject to a ceiling of Rs. 9,600/- should be continued. This should serve as a reasonable deduction for employment related expenses. The additional liability of a taxpayer on this account will be more than met by the reduction in rates of personal income tax proposed by the Task Force.

(Paragraph 4.53)

10.36 Individual myopia, particularly amongst the smaller taxpayer and the non-taxpayer may result in sub-optimal investment in the housing sector – a necessity for providing social security. This problem would not be resolved through the existing scheme of tax treatment of mortgage interest for owner occupied dwelling which is targeted to taxpayers alone. Therefore, the first best policy option would be to incentivise borrowings for housing by providing 2 per cent interest subsidy on all loans below Rs. 5 lakhs. This subsidy should be granted by the Government through the National Housing Bank. This will indeed target such loanees who suffer from individual myopia. The second best policy measure for this purpose would be to continue with the tax treatment of mortgage interest for owner occupied houses. However, given the average size of the home loan (around Rs. 3.5 lakhs), we recommend that the

ceiling on the amount of mortgage interest deductible for taxable income purposes should be reduced from the existing level of Rs. 1,50,000/- to Rs. 50,000/- only.

(Paragraph 4.66)

10.37 With a view to encourage the States to tap the full potential of their taxing powers and to prevent laundering of non-agricultural income as agricultural income, the Task Force recommends –

(i) A tax rental arrangement should be designed whereby States should pass a resolution under Article 252 of the Constitution authorising the Central Government to impose income tax on agricultural income. The taxes collected by the Centre would however be assigned to the States.

(ii) Tax from agricultural income for the purposes of allocation between States will be the difference between the tax on total income (including agricultural income) and the tax on total income net of agricultural income.

(iii) Where a taxpayer derives agricultural income from different States, the revenues attributable to a State will be in the ratio of the income derived from a particular State to the total agricultural income.

(iv) A separate tax return form should be prescribed for taxpayers deriving income from agriculture.

These recommendations will help mobilise additional resources for the States without the attendant problem of administering the agricultural income tax. Further, given our recommendations on increasing the exemption limit to Rs.1,00,000 per individual, most agricultural farmers would continue to remain out of the tax net. The proposed rental arrangement with the States could be packaged with the rental arrangement for taxation of services.

(Paragraph 4.68)

10.38 The tax incentives for savings under Section 88, Section 80L, Section 10(15)(i), Section 10(15)(iib), Section 10(15)(iic), Section 10(15)(iid), Section 10(15)(iv)(h) and Section 10(15)(iv)(i) of the Income Tax Act must all be eliminated. These benefits must be withdrawn with immediate effect and not through a sunset clause.

(Paragraph 4.98)

10.39 Further, with a view to overcoming the problem thrown up by individual myopia, we also recommend the continuation of the deduction under section 80CCC for contribution to the pension fund of LIC or any other insurance company. The ceiling on the deduction should, however, be increased from the existing levels of Rs. 10,000/- to Rs. 20,000/-. This income-based deduction u/s 80CCC be converted to a tax rebate at the minimum marginal rate of 20 per cent. Consequently, the ceiling on tax rebate for contribution to the pension fund should be Rs. 4,000/-. The new ceiling has been proposed keeping in view the needs of the smaller taxpayers with income below Rs. 2 lakhs. The scope of section 80CCC may also be extended to a larger number of pension/annuity schemes within the overall ceiling of Rs. 20,000/-. Since savings in these pension funds will be taxable at the withdrawal stage, the tax benefit for such savings will be consistent with the EET method of tax treatment.

(Paragraph 4.99)

10.40 In view of the International practice and the fact that education is one of the basic amenities of life, generating positive externalities, it is necessary to provide continued support to education under the tax law. However, on grounds of equity, we also recommend that the income based deduction under Section 80E should be converted to a tax rebate at the minimum marginal rate of personal income tax. The maximum amount of tax rebate should be restricted to Rs.4,000.

(Paragraph 4.102)

10.41 Since health is also one of the basic amenities in life, support under the tax law will continue to be provided under section 80D of the Income Tax Act for contribution to the mediclaim insurance schemes, subject to a ceiling of Rs. 15,000/-. However, the tax support would take the form of a tax rebate at the minimum marginal rate of 20 percent subject to a ceiling of Rs. 3,000/- in tax relief. Similarly, the income based deduction for medical expenses under section 80 DDB is proposed to be restricted to senior citizens subject to a reduced

ceiling of Rs. 20,000/-. The deduction would take the form of a tax rebate at 20 per cent subject to a maximum of Rs. 4,000/-.

(Paragraph 4.104)

10.42 With a view to providing a human face to the tax reform, we recommend that the basic exemption limit for senior citizens should be Rs. 50,000/- more then the exemption limit for the general class of individual taxpayers. In other words, the exemption limit for senior citizens should be Rs. 1,50,000/- as against Rs. 1,00,000/- for the general category of individual taxpayers recommended by us in Table-4.1. The exemption limit for senior citizens should be revised as and when the exemption limit for the general category of individual taxpayers is revised. We also recommend that this benefit of higher exemption limit should also be extended to widows.

(Paragraph 4.106)

10.43 Given the personal circumstances of handicapped, the Task Force recommends the continuation of the personal deductions under Sections 80DD and Section 80U. However, on grounds of equity between handicapped taxpayers, we also recommend that the income-based deduction under these provisions should be converted to a tax rebate at the minimum marginal rate of personal income tax.

(Paragraph 4.108)

10.44 Further, in view of our recommendations for increase in the exemption limit to Rs. 1,00,000/- and deduction of medical expenses for senior citizens and widows, we recommend that the personal deductions in the form of tax rebate for senior citizens (Section 88B) and women (Section 88C) should be deleted.

(Paragraph 4.109)

10.45 The policy measures for the reform of personal income tax therefore comprises of the following elements:-

(i) Increase in the generalised exemption limit from Rs.50,000/- to Rs.1,00,000/- for all individual and HUF taxpayers. The exemption limit for senior citizens and widows would, however, be at an enhanced level of Rs. 1,50,000/-.

(ii) The existing three slabs in the personal income tax rate schedule will be replaced by two slabs. Incomes between Rs.1,00,000/- and Rs.4,00,000 will be subjected to tax at the marginal rate of 20 per cent. All incomes above Rs.4,00,000/- will be subjected to tax at the marginal rate of 30 per cent.

(iii) Dividends received from Indian companies will be fully exempt.

(iv) Long term capital gains on listed equity will be fully exempt.

(v) The standard deduction for salaried taxpayers will be reduced to NIL. However, exemption for conveyance allowance subject to a ceiling of Rs. 9,600/- will continue.

(vi) The income based deduction under Section 80D subject to a ceiling of Rs. 15,000/- in respect of payment of medical insurance premium will be converted to a tax rebate at the rate of 20 per cent subject to a maximum of Rs.3,000.

(vii) The benefit of deduction under Section 80DDB will be withdrawn in so far as it relates to the general category of taxpayers. However, consistent with international practice and in view of the special circumstances of senior citizens, deduction for medical expenses may continue to be allowed in the form of a tax rebate at the rate of 20 per cent of the medical expenses, subject to a maximum rebate of Rs.4,000.

(viii) The income based deduction under Section 80E for repayment of educational expenses will continue to be allowed. However, on grounds of equity, the same should be allowed as a tax rebate at the rate of 20 per cent subject to maximum of Rs.4,000.

(ix) The tax rebate schemes under Sections 88 for savings will be eliminated.

(x) The rebate under Section 88B for senior citizens will be eliminated in view of the enhanced exemption limit for them.

(xi) The rebate under Section 88C for women taxpayers below the age of 65 years, will be eliminated.

(xii) The income based deduction for handicapped under Section 80DD and 80U will however continue.

(xiii) The income based deduction under Section 80L for interest income and dividends will be eliminated.

(xiv) The exemption under Section 10 in respect of interest income from bonds, securities, debentures etc. will be eliminated.

(xv) The deduction for mortgage interest in respect of loans for acquiring a owner occupied dwelling will be reduced to Rs. 50,000/-.

(xvi) The residential status of "Resident but Not Ordinarily Resident" will be eliminated.

The Task Force would like to place on record that the various recommendations relating to personal income tax in this report are interwoven and therefore indivisible. The recommendations must be seen as a package and piecemeal implementation must be avoided at all cost.

(Paragraph 4.110 & 4.111)

Corporate Tax Reforms

10.46 A corporate entity should be viewed as a 'conduit' and therefore the need for integration of corporate tax and personal income tax. Given the pros and cons of the various full/partial integration methods, the Task Force recommends the adoption of this method of full integration of corporation and personal income tax whereby a tax at the corporate level is levied at the same rate as the maximum rate of personal income tax and all dividends and capital gains is exempted from tax in the hands of the shareholders. Accordingly, the Task Force recommends that a corporate tax rate of 30 per cent for domestic companies, being the top marginal rate for personal income tax, and exempt from tax all dividends and long term

capital gains from listed equity. This method would not undermine any equity since most direct equity investors in the companies in India are likely to be taxed at the top marginal rate of personal income tax.

(Paragraph 5.19)

10.47 This system recommended by us would serve as a full integration model only if the accounting profits bear the full burden of corporate tax i.e., the effective corporate tax liability is equivalent to the statutory corporate tax rate. This is possible if there is no divergence between the taxable base for companies and accounting profits, which generally arises due to various tax incentives and artificial deductions.

(Paragraph 5.20)

10.48 The tax incentive u/s 10A and 10B of the Income Tax Act must be eliminated for all taxpayers other than those engaged in manufacturing computer software.

(Paragraph 5.52)

10.49 The Task Force recommends that in the case of taxpayers engaged in manufacturing computer software, the Government of India must take immediate steps to negotiate with foreign governments to enter into a comprehensive totalisation agreement leading to a single point incidence of taxes. It may be noted that a number of countries across the globes already have totalisation agreements with each other related to payment of social security and other taxes . However, *in the interim*, the Task Force recommends the following alternatives:-

1. Eliminate the tax exemption u/s 10A and 10B and amend Section 91 of the Income Tax Act to allow full credit for payment of foreign country's federal and state income tax. However, no refund of such foreign tax credit should be allowed;

OR

2. Since the arrangement is transitory in nature the benefit of tax exemption u/s 10A and 10B for manufacturing of computer software only may be continued till we enter into a totalisation agreement with trading partners. However, the distribution of dividend by computer software manufacturing companies

availing of deductions u/s 10A or 10B should be subjected to a dividend distribution tax of 30 per cent. Similarly, the long-term capital gains arising from transfer of equities of such companies should also be subjected to tax like long-term capital gains from any other asset.

The Task Force could not arrive at unanimity on the preferred alternative amongst the above two.

(Paragraph 5.53)

10.50 The general rate of depreciation for plant and machinery should be reduced to 15 per cent from the existing level of 25 per cent. The rates of depreciation for other blocks of assets must be reviewed along the same lines as in the case of plant and machinery. Consequently, the depreciation amount charged for tax purposes will be similar to those charged under the Companies Act.

(Paragraph 5.58)

10.51 The tax benefit u/s 33AC of the Income Tax Act should be abolished.

(Paragraph 5.59)

10.52 The Task Force recommends the abolition of section 35 of the Income Tax Act. As a result, the revenue expenditure on scientific research will qualify for deduction u/s 37 of the Income Tax Act and capital expenditure on scientific research will be eligible for depreciation under section 32 of the Income Tax Act. Since, expenditure link weighted deduction will also be abolished, there will be no perverse incentive to shift expenditure or make false claims.

(Paragraph 5.63)

10.53 In view of the fact that deduction for donations to scientific research institutions confer higher benefit to donors engaged in business in comparison to non-business donors, we recommend the rationalisation of the deduction for donation for scientific research, so as to be more equitable across taxpayers. Therefore, a tax rebate calculated at 20 per cent of the amount of donation for research (scientific, social sciences or statistical) should be allowed to all taxpayers irrespective of their source of income.

(Paragraph 5.64)

10.54 With a view to aligning the provisions relating to the allowability of deduction u/s 36(1)(iii) with those of the Accounting Standard 16 issued by the Institute of Chartered Accountants of India, it is recommended that a suitable clarificatory amendment to Section 36(1)(iii) should be made to provide for the disallowance of the borrowing costs that are directly attributable to the acquisition, construction or production of a capital asset, as a revenue expenditure. Such borrowing costs will now have to be capitalized as part of the cost of the capital asset in accordance with the Accounting Standards 16 issued by the Institute of Chartered Accountants of India. Other borrowing costs should continue to be recognised as an expense in the period in which they are incurred and continue to be allowed as a deduction u/s 37(1) of the Income Tax Act. Accordingly, it is recommended that the provisions of section 36(1)(viia) of the Income Tax Act should be amended to provide that the provision for bad and doubtful debts will be restricted to the amount of provision debited to profit and loss account as audited subject to the maximum amount of provisioning permitted under the prudential guidelines issued by the Reserve Bank of India.

(Paragraph 5.66 & 5.69)

10.55 Since, the objective of the provisions of section 43B is to ensure that a taxpayer does not avail of any statutory liability without actually making a payment for the same, we are of the view that these objectives would be served if the deduction for the statutory liability relating to labour are allowed in the year of payment. The complete disallowance of such payments is too harsh a punishment for delays in payment. Therefore, it is recommended that the deduction for delayed payment of statutory liability relating to labour should be allowed in the year of payment like delayed taxes and interest.

(Paragraph 5.71)

10.56 The distinction between unabsorbed depreciation and unabsorbed business loss should be eliminated. In other words unabsorbed depreciation would be merged with business loss and lose its separate identity. Further, business loss would be allowed to be carried forward indefinitely.

(Paragraph 5.74)

10.57 The Task Force recommends the elimination of the provisions of section 80IA and 80IB with immediate effect (and not by a sunset clause).

(Paragraph 5.80)

10.58 The Task Force discussed the possible strategy for the successful implementation of the corporate tax reforms. Towards this, the Task Force recommends two alternate options for reform of corporate income tax :-

Option - I : The following measures to be introduced for the financial year 2003-04:-

(i) Reduction in corporate tax rate from the existing levels of 36.75 per cent to 30 per cent for domestic companies and to 35 per cent for foreign companies.

(ii) Exemption of dividend from taxation in the hands of the shareholders. There will also be no tax on distribution of dividends by a company.

(iii) Exemption of long-terms capital gains on listed equity.

(iv) Elimination of Minimum Alternate Tax under Section 115JB.

(v) Removal of the distinction between unabsorbed depreciation and unabsorbed business loss. In other words unabsorbed depreciation would be merged with business loss and loose its separate identity. Further, business loss would be allowed to be carried forward indefinitely.

(vi) Removal of the following deductions under Section 10 and Chapter VI A of the Income Tax Act with immediate effect and not by a sunset clause :-

(a) Elimination of Section 10A and 10B of the Income Tax Act for all tax payers other than those engaged in manufacturing computer software.

(b) In the case of taxpayers engaged in manufacturing computer software, the Government of India must take immediate steps to negotiate with foreign governments to enter into a comprehensive totalisation agreement leading to a single point incidence of taxes. However, in the interim, the Task Force recommends the following alternatives:-

1. Eliminate the tax exemption u/s 10A and 10B and amend

Section 91 of the Income Tax Act to allow full credit for payment of foreign country's federal and state income tax. However, no refund of such foreign tax credit should be allowed; OR

2. Since the arrangement is transitory in nature the benefit of tax exemption u/s 10A and 10B for manufacturing of computer software only may be continued till we enter into a totalisation agreement with trading partners. However, the distribution of dividend by computer software manufacturing companies availing of deductions u/s 10A or 10B should be subjected to a dividend distribution tax of 30 per cent. Similarly, the long-term capital gains arising from transfer of equities of such companies should also be subjected to tax like long-term capital gains from any other asset.

The Task Force could not arrive at unanimity on the preferred alternative amongst the above two.

(c) Section 80 IA in respect of profit and gains from industrial undertakings or enterprises engaged in infrastructure development or telecommunication service or development of industrial park or special economic zones or generation, transmission or distribution of power.

(d) Section 80 IB in respect of profits and gains from certain industrial undertakings other then infrastructure development undertakings (this includes backward areas also).

(e) Section 80 JJA in respect of profits and gains from business of collecting and processing of biodegradable wastes.

(f) Section 80 JJAA in respect of employment of new workman.

(g) Section 80 M in respect of inter corporate dividends.

(h) The phase out programme in respect of sections 80HHB, 80HHBA, 80HHC, 80HHD, 80HHE, 80HHF, 80-O, 80R, 80RR and 80RRA will continue.

(vii) Depreciation rates for the purposes of depreciation allowance under section 32 should be reduced to 15 per cent for the general category of plant and machinery and to appropriate lower rates for other categories of block of assets. The revised rates of depreciation will minimize the divergence between the depreciation charged to the profit and loss account in accordance with the provisions of the Companies Act and depreciation claimed for tax purposes.

(viii) Elimination of Section 33 AB relating to Tea development account.

(ix) Elimination of Section 33 AC relating to reserve for Shipping business.

(x) Elimination of Section 33 B relating to Rehabilitation allowance.

(xi) Elimination of Section 35 relating to expenditure on Scientific Research. However, donations to trusts, institutions etc. engaged in scientific research will continue to be allowed but in the form of a tax rebate like in the case of Section 80G.

(xii) Elimination of Section 35 AC relating to expenditure on eligible projects. However, expenditure on projects already approved will continue to enjoy tax benefit in the form of rebate at the rate of 20 per cent.

(xiii) Elimination of Section 35 CCA relating to expenditure by way of payment to associations and institutions for carrying out rural development programmes.

(xiv) Elimination of Section 36(1)(iii) in respect of interest on borrowed capital.

(xv) The provision for bad and doubtful debts allowable under Section 36(1)(viia) of the Income Tax Act will henceforth be restricted to the amount of provision debited to profit and loss account as audited subject to the maximum amount

of provisioning permitted under the prudential guidelines issued by the Reserve Bank of India.

Option - II : The package of measures along with their phased implementation, to be introduced through the Finance Bill 2003, in the following manner:-

(i) Reduction in corporate tax rate from the existing levels of 36.75 per cent to 30 per cent for domestic companies and to 35 per cent for foreign companies over a period of three years. The rates for domestic companies will be 34 per cent in financial year 2003-04, 32 per cent in 2004-05 and 30 per cent in 2005-06. The rates for foreign companies will be 38.50 per cent in financial year 2003-04, 37 per cent in 2004-05 and 35 per cent in 2005-06.

(ii) No tax on dividend in the hands of the shareholders.

(iii) No tax on long terms capital gains on listed equity.

(iv) Elimination of Minimum Alternate Tax under Section 115JB.

(v) Removal of the distinction between unabsorbed depreciation and unabsorbed business loss. In other words unabsorbed depreciation would be merged with business loss and loose its separate identity. Further, business loss would be allowed to be carried forward indefinitely.

(vi) Levy of a distribution tax on dividends at the rate of 15 per cent for dividends distributed in 2003-04, 7.5 per cent in 2004-05 and Nil in 2005-06.

(vii) Removal / Phasing out of the following deductions under Section 10 and Chapter VI A of the Income Tax Act with immediate effect and not by a sunset clause :-

(a) Phasing out of the provisions of Section 10A and 10B of the Income Tax Act. over a period of 3 years i.e. the deduction will be reduced to

60 per cent of the profits in 2003-04, to 30 per cent of the profits in 2004-05 and NIL in 2005-06.

(b) Phasing out of Section 80 IA in respect of profit and gains from industrial undertakings or enterprises engaged in infrastructure development or telecommunication service or development of industrial park or special economic zones or generation, transmission or distribution of power, over a period of 3 years i.e. the deduction will be reduced to two – third of the profits in 2003-04, to one – third of the profits in 2004-05 and NIL in 2005-06.

(c) Phasing out of Section 80 IB in respect of profits and gains from certain industrial undertakings other then infrastructure development undertakings (this includes backward areas also), over a period of 3 years i.e. the deduction will be reduced to two – third of the profits in 2003-04, to one – third of the profits in 2004-05 and NIL in 2005-06.

(d) Section 80 JJA in respect of profits and gains from business of collecting and processing of biodegradable wastes.

(e) Section 80 JJAA in respect of employment of new workman.

(f) Section 80 M in respect of inter corporate dividends

(g) The phase out programme in respect of sections 80HHB, 80HHBA, 80HHC, 80HHD, 80HHE, 80HHF, 80-O, 80R, 80RR and 80RRA will continue.

(viii) Depreciation allowance under section 32 will be restricted to the allowance, charged to the profit and loss account in accordance with the provisions of the Companies Act.

(ix) Elimination of Section 33 AB relating to Tea development account will be eliminated.

(x) Elimination of Section 33 AC relating to reserve for Shipping business.

(xi) Elimination of Section 33 B relating to Rehabilitation allowance.

(xii) Elimination of Section 35 relating to expenditure on Scientific Research. However, donations to trusts, institutions etc. engaged in scientific research will continue to be allowed but in the form of a tax rebate like in the case of Section 80G.

(xiii) Elimination of Section 35 AC relating to expenditure on eligible projects. However, expenditure on projects already approved will continue to enjoy tax benefit in the form of rebate at the rate of 20 per cent.

(xiv) Elimination of Section 35 CCA relating to expenditure by way of payment to associations and institutions for carrying out rural development programmes.

(xv) Elimination of Section 36(iii) in respect of interest on borrowed capital.

(xvi) The provison for bad and doubtful debts allowable under Section 36(1)(viia) of the Income Tax Act will henceforth be restricted to the amount of provision debited to profit and loss account as audited subject to the maximum amount of provisioning permitted under the prudential guidelines issued by the Reserve Bank of India.

The Task Force deliberated upon the two packages. It was unanimously agreed that it is rather difficult for any government to give a credible ex-ante time commitment. Such commitments are rarely sustainable. Past experience shows that while tax rates were reduced, successive governments failed to implement the phased withdrawal of incentives. As a result, we have reached a point where the corporate tax rates are close to their resting points and yet the statute continues to be riddled with exemptions and deductions. Any attempt to sequence the reduction in the corporate taxes and the withdrawal of exemptions and deductions could lead to disastrous impact on

revenue flows. The two must necessarily be implemented simultaneously. Phasing also gives rise to uncertainty and a 'hope' that reforms could be reversed. In addition, in the present state of international economy and the decline in the growth momentum of the domestic economy, implementation in "one go" will be a powerful counter cyclical demand push to the domestic economy particularly given the projected policy initiatives on the indirect taxes front. Therefore, the Task Force unanimously recommends Option - I for implementation.

(Paragraph 5.93)

Taxation of Capital Gains

10.59 The concessional treatment of long-term capital gains through a reduced scheduler rate of tax must be abolished. In other words, the long-term capital gains would be aggregated with other incomes and subjected to taxation at the normal rates. Further, since we have recommended the abolition of various saving incentives, we do not consider necessary to allow any exemption for roll over of long-term capital gains.

(Paragraph 6.3)

10.60 Given the public nature of the project, it is necessary to maintain the flow of funds. Therefore, we recommend that long-term capital gains should continue to be exempt if invested in a house or in the bonds of National Highway Authority of India until completion of the Golden Quadrilateral and the North-South & East-West corridors.

(Paragraph 6.3)

10.61 We have also recommended that while short-term capital gains on equity should continue to be taxed, the long-term capital gains on equity should be eliminated. However, recognising the possibility of abuse by transferring real assets through the corporate vehicle, we also recommend that the exemption on long-term capital gain on equity should be restricted to listed securities as defined in section 112 of the Income Tax Act.

(Paragraph 6.7)

10.62 Where there is a conflict between simplicity of equity, the Task Force has a preference for simplicity. Complexity is, inherently, regressive and non-transparent. Therefore, what may appear to be equitable could, in effect, be inequitable. In the light of the problems associated with the existing system of taxation of investment fund and the package for corporate tax reform, we recommend the following:-

(i) The income of the mutual fund derived from short-term capital gains and interest should be taxed at a flat rate in the hands of the mutual fund.

(ii) Since most investors in units are generally smaller taxpayers, we recommend that the rate of tax should be the minimum marginal rate of personal income tax i.e. 20 per cent.

(iii) With a view to overcoming double taxation, the dividends received by the unit holders should be fully exempted since the distributable surplus would have suffered the full burden of the tax.

(iv) The short-term capital gain arising to the investor from sale of units of investment funds should be taxed at his level at the personal marginal rate of tax.

(v) The long-term capital gain arising to the investor from sale of units of mutual fund should be exempt from income tax.

(vi) The tax treatment of mutual funds and their investors should also be extended to venture capital funds, private equity funds and hedge funds. However, the tax rate for these funds should be 30 per cent since their investors are likely to be those in the highest tax slab.

(vii) All funds must necessarily obtain the PAN of the investor and the Databases about every payment made by the fund manager back to the investor, tagged with PAN, should be furnished to the tax authorities as a information return.

(Paragraph 7.13)

10.63 At present, the profits of a partnership firm are subjected to tax at the same rate of tax applicable to a domestic company. In view of our recommendations, for corporate tax reform, we recommend that the rate of tax for partnership firms should be reduced to the same level as corporate rate of tax.

(Paragraph 7.14)

10.64 The tax benefit for donations to charitable trusts must take the form of tax rebate at the minimum marginal rate of tax of 20 per cent. Further, we also recommend that there should be no quantitative ceiling either in absolute terms or as a fraction of the gross income as is presently provided under Section 80G.

(Paragraph 7.17)

10.65 Therefore, the Task Force recommends that the exemptions under Section 10(21), 10(23B) and 10(23C)(iiiab) to (via), 10(29A) should be merged with Section 11 to 13A of the Income Tax Act. We also recommend that:-

(i) The present practice of exempting a class of Charitable trust and Institutions through notifications should be abolished. However, the requirement to file a return of income by such trust and institutions as proof of fulfilling the various conditions stipulated u/s 10(23C), should continue.

(ii) Returns to be identified for scrutiny/audit only through a computerised risk assessment system.

(iii) Where a return is identified for scrutiny and the assessing officer is of the opinion that the activities of the trust are not charitable in nature, such a case will be referred to a rating agency from amongst the panel drawn up by the C&AG. An "A+" rating for the trust will mean that it is indeed a charitable trust. An "A" rating for the trust will mean that it will enjoy exemption during the current year and will be subjected to review again in the following year. A "B" rating for the trust will disqualify it from any tax exemption. The new procedure should be introduced from 01-04-2004 and the interregnum should be utilized to work out the details and also allowing the trust to adapt to the new procedures.

(iv) Since a large number of provisions in the Income Tax Act are regulatory in nature, we also recommend the creation of a National Charities Board to assist the government in regulating and promoting charities on the lines of the National Charities Commission, U.K. Since, a number of States in India already have Charity Commissioners, the proposed Board may have to be advisory.

(v) The Income Tax Department should reimburse to trusts, the fees payable to the rating agency.

(Paragraph 7.18)

10.66 We recommend the elimination of Section 80P of the Income Tax Act. However, the existing exemption limit of Rs. 10,000/- prescribed as part of the rate schedule, should be increased to Rs. 1,00,000/- and the revised income tax rate schedule for cooperatives should be the same as recommended for personal income tax.

(Paragraph 7.21)

10.67 The manpower strength of FTD should be immediately augmented so as to assign one team each for America, Europe, South East Asia and Australia, and Rest of the World.

(Paragraph 7.23)

10.68 We understand that, as recommended by us in our Consultation Paper, the CBDT has already set up a working group headed by the Director General of Income Tax (International Taxation) and comprising of representatives also from trade and industry to examine the various issues relating to taxation of non-resident individual and foreign companies. We also understand that the working group is expected to submit its report by the end of December. We suggest that the recommendations should be processed during the forthcoming budget exercise.

(Paragraph 7.23)

Other Taxes

10.69 The Task Force recommends the abolition of wealth tax.

(Paragraph 8.4)

10.70 The present tax on expenditure in hotels is in the nature of a consumption tax. It was introduced as a separate tax in the absence of a tax on services. Since tax on services has since been introduced, it is only appropriate that this levy is merged with service tax. We recommend accordingly.

(Paragraph 8.6)

Impact of Recommendation

10.71 Individual Taxpayers of all categories and in every income group benefit substantially from the package of recommendation.

(Paragraph 9.8)

10.72 Overall, the recommendations are revenue neutral at the existing level of compliance. To the extent the new simplified and liberalised tax regime will induce compliance, the revenue gains are likely to be substantially higher and it will enhance bouyancy by widening the personal and corporate income tax bases.

(Paragraph 9.14)

10.73 The recommendations for eliminating the exemptions, the extensive use of technology and privatization of non-core activities of the tax administration will result is sharp reduction in transaction cost. A 10 per cent reduction in transaction cost for personal income tax would help taxpayers to save an estimated Rs. 4,000 crores. Such reduction in transaction cost is progressive.

(Paragraph 9.17)