

Tax reforms panel keen to improve dispute resolution mechanism

The Tax Administration Reforms Commission (TARC) will set up focused groups to identify quicker solutions for long-term issues the Income-Tax Department and taxpayers are grappling with.

These groups will involve private sector representatives as well as revenue officials, TARC Chairman Parthasarathi Shome said.

Besides suggestions on improving the dispute resolution mechanism, the groups are expected to come up with 'out-of-the-box' ideas on treating taxpayers as customers of the department.

"The main issue is, how do we develop customer focus and make it a regular feature of our tax administration", Shome said.

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The absence of 'customer focus' has been a major lacuna of tax administration. Aspects such as continuous stakeholder dialogue have been missing in the Indian income tax system.

Source-based taxation principle is sacrosanct for India and there is no proposal to move away from such an approach, Shome said at a recent Global Tax Summit here, adding that India followed the United Nations convention.

This was different from the residence-based taxation followed under OECD model by the developed countries.

In this context, he pointed out that India followed a source-based principle for software taxation, which saw some controversies in recent years.

Controlled foreign corporation (CFC) rules and thin capitalisation have not gone out of the radar of the Central government, Shome said. It may become a reality when the proposed Direct Taxes Code Bill is enacted into law.

CFCs are an anti-avoidance measure and historically introduced in countries that have had higher outbound than inbound investments.

Under CFC rules, passive income earned by a foreign company, controlled (either directly or indirectly) by an India resident, and where such income is not distributed to shareholders (thereby resulting in deferral of taxes), would be deemed to have been distributed.

Consequently, it would be taxable in India in the hands of the resident shareholders as “dividend” received from the foreign company.

(The Hindu Business)