THINKING ALOUD!

HELPING YOU THINK ONLINE

February 2017 - ₹ 40 - thinkingaloud.in

Ease of doing business

By M.S. Ananth - Nishith Desai Associates

The NDA government's consistent, coordinated and multi-pronged approach to promote India as a destination for investments and manufacturing is paying off with improvements in global indices on ease of doing business in India and competitiveness. Tentative upward revisions is indicative of foreign investors and domestic business' comfort to do more business in India. However, these reports also reveal that India needs to achieve more in the area of taxation. A recent World Bank report on Doing Business – Equal Opportunity for All, 2017, (World Bank Report) highlights the point that improvement in certain parameters for ease of doing business in India may not reveal the complete picture. Legislative amendments and other changes in company law, bankruptcy laws, dispute resolutions, improvements to processes to facilitate ease of obtaining permits, electricity connections etc. go only so far, if there isn't a consistent and uniform change in legal, regulatory and tax regime in India.

India's only silver-lining on taxes is the ease of making payments in respect of employee state insurance contributions. However on other metrics such as administration of tax laws, appeals and refunds, rationalisation of rates, and time take for tax audits, India has not made progress. For India to break free from these shackles, the government would need to make certain key changes to tax administration. In a comparable constitutional republic, India may be first among equals in introducing a uniform value-added tax regime such as the Goods and Services Tax (Model GST law). Drawing inspiration from reforms in indirect taxes, the government could achieve a lot more.

Such a change would be neither too dramatic nor impossible. The World Bank Report indicates that developing economies have taken various measures for ease of tax compliance and administration. Cyprus for instance, merged the process of registration for value added tax and corporate income tax. Malta has integrated the process for registration of tax identification number. OECD high-income economies, including certain European and Central Asian economies are recorded as having the easiest and simplest processes in place to correct a minor mistakes in the corporate income tax return. In contrast, in 74 economies an error in the income tax return was likely to trigger an audit and 38 economies an error was likely to lead to a comprehensive audit of the tax return.

In India, not only are registrations different for indirect taxes and income tax, registrations are multiple as each state requires a fresh registration under its laws. This leads to considerable time and money being invested in compliances. Unfortunately, in India it is also not possible to justify these onerous measures on the ground of tax recovery. Experience has shown that recovery of income taxes in India is between 1% and 3%. These statistics need to be seen in the context of Income Tax Department's poor track record in appellate courts, as noted by the Standing Committee on Finance (only 10% appeals of Income Tax Department in Supreme Court of India decided in its favour).

The average service provider in India is likely to have requirements for registrations and administrative compliances under as many as 5 laws (assuming that an entity has presence in only one state) and these compliances and registration increase for every presence in another state in India. Not only do businesses deal with multiple registrations and requirements under different statutes and governments (Central Government and State Governments), one of India's biggest problems is uncertainty on Central Governments exercise of taxation powers leading to issues on compliances and costs. Service tax, introduced in 1994 as a levy on limited number of services, today extends to all services, other than those which have been expressly excluded. Not only was the length and breadth of taxable services increased several manifold, a whole new tax in the form of an equalisation levy was introduced in 2016 Union Budget. The equalisation levy has brought with it a whole new administrative compliance requirements independent of those under income tax law and service tax law.

The fact that equalisation levy – structured similar to an indirect tax, has not been subsumed in the Model GST law or in the GST Bill, too, is a cause for concern as it will have a cascading cost effect. Similar criticisms have been levelled by academics against the imposition of additional cesses over and above the proposed GST regime, as it will too lead to multiplicity of taxes. The seemingly innocuous equalisation levy may turn out to be a service tax regime outside Model GST law leading to increased compliance costs and increased cost to consumers. Indian businesses will have particular difficulty in keeping track of spending with respect to notified services to ensure compliance with the Levy. Further, the proposition of having to pay the Levy and potentially obtain a refund later also leads to complications and inconvenience for especially cash strapped businesses.

Canons of taxation require that a tax regime should have certainty and equitability and unpredictable taxation powers are the anathema of canons of taxation. India's inefficient taxation regime is a result of high taxes and inefficient administration. This would unnecessarily restrict India' economic growth and ranking in ease of doing business in India.

Radical changes are not required to avoid these pitfalls – like other governments which rationalised rates of tax and administration, Indian government needs to bring certainty and clarity on certain taxes and refrain from taxation measures under residuary legislative powers to increase – or even impose, taxes like equalisation levy and other taxes outside an integrated Model GST law. Rationalisation of rates and improving administration and the tax base will help improve on key parameters highlighted in the World Bank Report.

FOREX SOLUTIONS FOR INTERNATIONAL TRAVEL & BUSINESS

FOREIGN EXCHANGE

Weizmann Forex delivers quality forex at the best prevailing rates & travel solutions to customers in India and across the globe. Its services include foreign currency, demand drafts, multi-currency prepaid travel cards for both business and leisure travellers, available throughout a robust network of over 200 branches pan India.

STUDENT FOREX SOLUTIONS

Weizmann offers customised financial solutions for students studying abroad. One can conveniently transfer fees directly to a student's university through our secure Reserve Bank of India authorised payment partners. Additionally, it offers specialised international travel cards for easy fund access and instant cash top-ups at any Weizmann Forex branch.

TRAVEL INSURANCE

Weizmann Forex offers tailor-made international travel Insurance plans to individuals, families & corporate groups that provide complete coverage against any unfortunate circumstances that could occur during travel. It offers a global protection policy that is valid 24 hours a day, 365 day of the year, with no medical certification required for people below the age of 80 years.

IMPORT PAYMENTS

Weizmann Forex Ltd, in association with Western Union Business Solutions enables all sized companies to smoothly send cross-border payments & effortlessly manage foreign exchange. With years of experience in moving funds around the globe, it has access to over 135 currencies and a financial network spanning across 200 countries.

FOREIGN OUTWARD REMITTANCES

Weizmann Forex enables customers to make RBI authorised money transfers to India from around the world. Payments can be collected from 200 Weizmenn Forex branches & counters, plus from over 53000 authorised agent locations. It offers a wide gamut of quality remittance products like family maintenance, NRO/NRE repatriation, salary remittance and NRE quota admission.

TRAVEL RELATED SERVICES

Weizmann Forex has ventured into travel related services to provide its customers end-to-end travel services under "TRIP TOE TRAVELS" an IATA registered travel agency. This division promotes Domestic & International travel tours and packages, group departures, M.I.C.E movement, air tickets, hotel booking and other travel related services under a single umbrella.

30+
YEARS OF LEGACY

200+
OFFICES ALL OVER INDIA

25 MILLION+
SATISFIED CUSTOMERS

192, Kitab Mahal, 2nd Floor, Dr. D.N.Road, Fort, Mumbai - 400001. Email: customercare@weizmannforex.com, Tel: 022 62121501

FOR FURTHER INFORMATION CALL OUR TOLL FREE NO.

1800 229 222
(10:00 am to 7:00 pm)

www.weizmannforex.com

Published on 2nd / 3rd of every month | Posted on 6th / 7th of every month | RNI. No.: DELENG/2009/30094 | Postal Registration No.: DL(S) - 01/3375/2010-12
If undelivered, kindly return to: Thinking Aloud, 28, 1st Floor, Okhla Industrial Estate, Phase - III, New Delhi - 110020 (India).