Decision to tax PF interest based on the principle of equity: Ajay Bhushan Pandey, Revenue secretary

Updated: Feb 03, 2021, 08:05 AM IST

The decision to remove the tax exemption on provident fund contributions of ₹2.5 lakh and above in the budget was based on the principle of equity, said revenue secretary Ajay Bhushan Pandey.

“Any tax exemption is taxpayers’ money— assured return being given is again coming out from the taxpayers’ money,” he told ET in an interview. “The question is those who are depositing higher, should they be given the tax concession at the cost of another taxpayer?”

In the budget announced on Monday, the government said interest earned on Employees’ Provident Fund contributions of ₹2.5 lakh and above a year will be taxed at the prevailing income tax rates. This limit does not include the employer’s contribution. The new rules will also apply to the General Provident Fund.

The government also removed tax exemption available to unit-linked insurance plans (ULIPs) with a consolidated annual premium of ₹2.5 lakh and above. Gains will now get taxed at the same rate as equity-oriented mutual funds. “It was a kind of anomaly, which we’ve tried to remove,” Pandey said. “If the unit gets linked to investment like a mutual fund, it should also get taxed in the same manner.”

Among steps aimed at making the process less onerous, goods and service tax (GST) will be pre-filled in income tax returns, he said, noting that the facility was already available in Form 26AS, which provides details of tax deducted or collected at source. “This will help us take it to the next level, by increasing compliance and (bringing into the net) incomes that were earlier not getting added,” he said.

‘Rating Agencies Should Take a Holistic View’

He added that pre-filling of input tax credit taken by suppliers while filing GST returns will not only address information asymmetry, but also deter evasion and reduce instances of the fraudulent availingof credit.
The revenue secretary said rating agencies should take a holistic view of India’s reforms undertaken in an extraordinary year. He was responding to a question on whether the government was concerned about rating downgrades due to the expanded fiscal deficit estimate of 9.5% of GDP for the current financial year.

“It will not be appropriate to go entirely by a simple arithmetic formula of a fiscal deficit,” he said. The rating agencies “need to see where the amount of money is being spent, on what activity, the kind of asset creation and other reforms which the country is attempting.”

He added that the FY22 fiscal deficit has been pegged at a realistic 6.8% and the quality of expenditure will improve as more money will be spent on infrastructure and healthcare.

“In the next four years, we should come down to a reasonable level with this approach. So, the rating agency needs to take a holistic view of the situation,” he said.

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Pandey was opposed to tinkering with direct and indirect tax rates in every budget to cover revenue gaps. Taking a cue from increased GST collections due to technological improvements that plugged evasion, he said that revenue could be raised by improving voluntary compliance. At the same time, this will help reduce the compliance burden.

For instance, tech upgrades in customs have led to increased revenue of ₹16,500 crore for December 2020 and January 2021 compared with ₹8,500 crore in the same period a year earlier without any increase in duty or trade volumes.

“The larger plan was to simplify and rationalise the tax structure by removing discretion and hence any chance of collusion and collision,” he said on the proposed customs changes.

About 400 exemptions will be reviewed in consultation with stakeholders, ministries and businesses concerned over the next six months, he said.

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