



CBDT to Overhaul Income Tax Act 1961

For Prelims: [Direct tax](#), [Central Board of Direct Taxes](#), [Income Tax Act, 1961](#), [Vivad Se Vishwas](#), [Angel tax](#), [Capital gains](#)

For Mains: Reforms, Issues in the Taxation system in India, Indian Economy and issues relating to Policies, Changes in the Tax Regime

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Why in News?

The [Income Tax Department](#) is undertaking a significant overhaul of the [Income Tax Act, 1961](#), through a newly formed internal committee.

- This move, announced by the [Central Board of Direct Taxes \(CBDT\) chairman](#), is part of a central government-mandated initiative aimed at simplifying and modernizing [India's direct tax laws](#).

Why is the Income Tax Act Being Reviewed?

- **Historical Complexity:** The Income Tax Act, 1961, has been criticized for its complexity and outdated provisions.
 - Previous efforts to simplify the Act, including the [1958 Law Commission's work on the Income Tax Act 1922](#), highlighted that true simplification requires **overhauling the tax structure itself**.
- **Need for Modernization:** The Act's complexity has led to **disputes and confusion among taxpayers**. The review aims to update the law to reflect current economic realities and global best practices, making it **more transparent and easier to navigate**.
- **Improvement of Compliance:** Simplifying the tax law is expected to enhance taxpayer compliance by **reducing ambiguities and making the filing process more straightforward**.
 - The review is part of a broader effort to make the tax system **more efficient and in line with global standards**.
- **Dispute Resolution:** The [Vivad Se Vishwas scheme](#) has been implemented to settle long-standing disputes.
 - The review will also consider **shortening the reassessment period and setting higher monetary thresholds** to reduce confrontations between taxpayers and the tax department.

What are the Key Aspects of the Income Tax Act, 1961?

- **About:** The Income Tax Act of 1961 is a **foundational statute governing income taxation in India**. As a comprehensive framework, it dictates how income tax is levied, administered, and collected from individuals and corporations.
 - It contains 298 sections, 23 chapters and several important provisions which contain all the

aspects of taxation in India.

- Income tax is a **direct tax that individuals are required to bear**, without the option to transfer it.

▪ **Objectives:**

- **Economic Stability:** The Act aims to maintain economic stability by regulating private spending and ensuring progressive taxation.
- **Progressive Taxation:** It seeks to ensure that **individuals contribute to taxes according to their income levels**, promoting fairness and equity in the tax system.
- **Revenue Collection:** By outlining clear rules for taxing income from various sources, the Act helps in efficient revenue collection and management.

▪ **Key Provisions:**

- **Tax Slabs:** Defines income brackets and the corresponding tax rates applicable to individuals and businesses.
- **Deductions:** Allows for deductions under sections such as **80C (investments), 80D (medical insurance premiums), and 80G (donations), subject to annual limits.**
- **Assessment:** Details the procedures for assessing taxable income, filing returns, and conducting audits.
- **Tax Deducted at Source (TDS):** Requires [tax to be deducted at the source](#) for certain payments, simplifying the tax collection process.
- **Capital Gains:** Regulates taxation on profits from the sale of assets, including provisions for short-term and long-term gains.
- **Penalties and Appeals:** Outlines penalties for non-compliance and the procedures for resolving disputes through appeals.

▪ **Key Recent Reforms:**

- **Corporate Tax Rates:** Recent reforms have included reducing corporate tax rates and phasing out certain incentives.
 - The effective tax rate for corporate taxpayers decreased from 29.49% in 2017-18 to 23.26% in 2021-22. The corporate tax rate for foreign companies has also been reduced to 35%, and the [angel tax has been abolished.](#)
- **Personal Income Tax Slabs:** Fewer income-tax slabs and reduced rates for lower-income groups are expected to benefit a large number of individual taxpayers.
 - Simplification of Tax Slabs has led to an increase in the number of taxpayers, from **89.8 million to 93.7 million between 2019-20 and 2022-23.**

What are the Expected Benefits of the Overhaul of Income Tax Act, 1961?

- **Conciseness and Clarity:** The revised Act will be more **concise**, making it easier to understand and navigate.
 - By **eliminating redundant and outdated clauses**, the Act will become less cumbersome, reducing the administrative burden on taxpayers and tax authorities.
- **Enhanced Taxpayer Experience:** A more straightforward tax law will reduce **ambiguity and make it easier for taxpayers** to navigate the system, fostering trust and compliance.
- **Capital Gains Tax Reform:** The government plans to reform the capital gains regime, aligning with **global trends**.
 - This includes **increasing taxes on equity capital gains and raising the securities transactions tax** on futures and options. The reform aims to balance the tax burden between different asset classes and income groups.
- **Broader Tax Base:** Simplified **compliance procedures and clearer regulations** may lead to higher tax compliance and broaden the tax base.
 - With better **enforcement and reduced loopholes**, the government expects to boost revenue collection despite potential reductions in tax rates or exemptions.
- **Improved Business Environment:** A more transparent and **predictable tax regime will make India a more attractive destination for foreign and domestic investors.**
 - Adjustments to **corporate and capital gains tax rates** can be designed to foster

investment and economic growth.

- **Long-Term Economic Benefits:** A modernized **tax system will support economic growth and stability**, contributing to India's goal of achieving **developed country status by 2047**.
 - Streamlined processes and **clearer regulations will enhance** the overall efficiency of the **tax administration and reduce** the cost of compliance.

What are the Key Facts About the Central Board of Direct Taxes?

- **Historical Background:** The origins of the CBDT trace back to the Central Board of Revenue Act, 1924, which initially established the Central Board of Revenue responsible for both direct and indirect taxes.
 - The administrative burden of **managing both direct and indirect taxes led to the bifurcation** of the Board in 1964.
 - This split created two distinct bodies: the **Central Board of Direct Taxes (CBDT)** for direct taxes and the **Central Board of Excise and Customs for indirect taxes**.
 - This restructuring was formalised under the **Central Boards of Revenue Act, 1963**.
 - It is a part of the **Department of Revenue within the Ministry of Finance**, the CBDT plays a crucial role in managing direct taxes in India.
- **Structure:** The CBDT is headed by a **Chairman, who coordinates the functions of the Board**.
 - The Board comprises six members, each holding the rank of **ex-officio Special Secretary** to the Government of India.
- **Selection:** The Chairman and Members are selected from the Indian Revenue Service (IRS), ensuring that the leadership is well-versed in tax administration and policy.
- **Functions:** The CBDT is responsible for formulating policies related to direct taxes, including income tax and corporation tax.
 - The Board oversees the functioning of the entire Income Tax Department, ensuring efficient administration and enforcement of tax laws.
 - The CBDT proposes changes in direct tax laws and rates in alignment with government policies. It also suggests legislative amendments to enhance the tax system.

Drishti Mains Question:

Q. Analyze the complexity of the Income Tax Act of 1961 and the need for modernization to align with current economic realities and global practices.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Prelims

Q. Which one of the following effects of creation of black money in India has been the main cause of worry to the Government of India? (2021)

- (a) Diversion of resources to the purchase of real estate and investment in luxury housing.
- (b) Investment in unproductive activities and purchase of precious stones, jewellery, gold, etc.

(c) Large donations to political parties and growth of regionalism.

(d) Loss of revenue to the State Exchequer due to tax evasion.

Ans: (d)

Mains:

What is the meaning of the term 'tax expenditure'? Taking the housing sector as an example, discuss how it influences the budgetary policies of the government. **(2013)**

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