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YOJANA MAGAZINE ANALYSIS

(September 2023)

(Part 1/3)

TOPICS TO BE COVERED

PART 1/3

- **DIRECT TAX REFORMS**
- **CONSUMER PROTECTION ACT**

PART 2/3

- **WOMEN EMPOWERMENT**
- **LAW COMMISSION OF INDIA**

PART 3/3

- **CIVIL SERVICES REFORMS**
- **ROLE OF CONSTITUTIONAL**

BODIES IN STRENGTHENING DEMOCRACY IN INDIA

TOPICS (PART 1/3)

- **DIRECT TAX REFORMS**
- **CONSUMER PROTECTION ACT**

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DIRECT TAX REFORMS

WHAT IS DIRECT TAX?

A direct tax is a tax that a **person or organization pays directly to the entity that imposed it**. Examples include **income tax, real property tax, personal property tax**, and taxes on assets, all of which are paid by an individual taxpayer directly to the government.

Direct tax is a **crucial source of government revenue**, playing a vital role in developing infrastructure, fostering economic growth, and achieving social objectives such as providing education, healthcare, housing, and other basic amenities.

DIRECT V/S INDIRECT TAX

Parameter	Direct tax	Indirect tax
Tax Imposition	This tax is directly the taxpayer's income.	This tax on taxpayers for the <u>goods and services</u> availed or purchased.
Payment course	This tax is directly paid to the government.	This tax is indirectly paid to the government through an intermediary.
Paying Entity	These taxes are paid by individuals and businesses.	These <u>taxes</u> are paid by end-consumers.
Rate of Payment	The rate of tax is decided by the government based on profit and income.	<u>Tax rates</u> are the same for everyone.
Transferability of tax	This type of tax is non-transferrable.	This type of tax is transferable.
Nature of Tax	This is a progressive type of tax. This tax rate increases with an individual's profit and income.	This is a regressive type of tax, which means the tax rate is not affected by the individual's income.
Types of tax	<u>Income tax</u> , wealth tax, corporate tax, etc.	Sales tax, service tax, value added tax, etc.
Tax Collection	Collecting this type of tax is difficult.	Tax collection is relatively easier.

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DIRECT TAX REFORMS BY THE GOVERNMENT

- **Corporate tax reduction:** The corporate tax rate for existing domestic companies was reduced from the previous **30% to 25.17%** (inclusive of surcharges and cess).
- **Tax incentives for new companies:** A lower direct tax rate of **17.16%** (inclusive of surcharges and cess) is applicable to new domestic manufacturing companies established after **October 1, 2019**, and commencing production before **March 31, 2024**.
- **Reduced tax rates for cooperatives:** The Finance Act of 2022 reduced the **Alternative Minimum Tax** rate for cooperatives to **15%**.
- **Personal income tax rebate:** In **2020**, a new personal income tax regime with **lower rates** was introduced, and these rates were further reduced in the Finance Act of 2022.

WHAT IS ALTERNATIVE MINIMUM TAX?

At times it may happen that a taxpayer, being a company, may have generated income during the year, but by taking the advantage of various provisions of Income-tax Law (like exemptions, deductions, depreciation, etc.), it **may have reduced its tax liability or may not have paid any tax at all.**

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Due to increase in the number of **zero tax paying companies**, MAT was introduced by the **Finance Act, 1987** with effect from assessment year 1988-89.

Later on, it was withdrawn by the Finance Act, 1990 and then reintroduced by Finance (No. 2) Act, 1996, wef 1-4-1997.

OBJECTIVE OF ALTERNATIVE MINIMUM TAX?

The objective of introduction of MAT is to **bring into the tax net "zero tax companies"** which in spite of **having earned substantial book profits** and having **paid handsome dividends**, do not pay any tax due to various tax concessions and incentives provided under the Income-tax Law.

WIDENING & DEEPENING TAX BASE

- Introduction of **Tax Deduction at Source (TDS)** and **Tax Collection at Source (TCS)** for various payments like rent, e-commerce operations, virtual digital assets, online games, and car purchases to broaden the tax base.
- Measures for **high-net-worth individuals**:
 - Arbitrage on the **sale of market-linked debentures and debt mutual funds** was eliminated.
 - A higher surcharge was imposed on high-net-worth taxpayers.

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- **Legislation:** The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 and the Benami Transactions (Prohibition) (Amendment) Act 2016, were introduced to combat black money and benami transactions.

USE OF TECHNOLOGY

- A **Faceless Scheme for e-assessment** and appeal was introduced to improve the efficiency of tax collection and bring convenience to taxpayers.
- **E-filing systems**, refund bankers' schemes, and online tax payments for quicker processing of tax returns and speedy issuance of refunds.

CONCLUSION

Direct taxation reforms have led to a remarkable **160% growth in direct tax collections from 2013-14 to 2022-23**. The long-term **direct tax buoyancy**, standing at **1.15**, surpassing the baseline of 1, signifies the **efficiency of tax administration and the success of tax reforms**.

Tax policy reforms remain an ongoing process, with the need for further reforms to minimise tax litigations and simplify taxation regimes to enhance the ease of doing business.

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CONSUMER PROTECTION ACT

The **Consumer Protection Act of 2019** replaced the Consumer Protection Act of 1986 to further strengthen provisions for consumer protection, especially in the new era of globalisation, online platforms, and e-commerce markets.

PROVISIONS OF CONSUMER PROTECTION ACT, 2019

- **Expanded Consumer Definition:** The Act broadened the definition of “consumer” to include those **who purchase** or access goods or services **online** or through electronic means.
- **Central Consumer Protection Authority (CCPA):** The Act established CCPA as a central authority to promote, protect and enforce the rights of consumers. CCPA has the power to
 - **Conduct investigations** into violations of consumer rights.
 - **Issue orders** for the recall of unsafe goods and devices.
 - Order the **discontinuation** of unfair trade practices and misleading advertisements.
 - **Impose penalties** for misleading advertisements.

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- **Product liability** provision to sellers for any harm caused to a consumer due to a defective product.
- **Simplified dispute resolution process:**
 - Mediation will be preferred for early settlement of cases
 - State and District commissions can review their own orders
 - E-filing of complaints and videoconferencing for hearing.
- **Misleading Advertisements and False Endorsements:** The Act defines advertisements as any audio or visual publicity, representation, endorsement, or pronouncement made through various means, including electronic media, the internet, or websites.
 - The 'Guidelines for Prevention of Misleading Advertisements and Endorsements for Misleading Advertisements, 2022' require endorsers to fully disclose any affiliations with the trader, manufacturer, or advertiser of the endorsed product.
- **e-Commerce Regulation:** The Act defines e-commerce as the **buying or selling of goods or services, including digital products, over a digital or electronic network.**

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- Information regarding the return, refund, grievance redressal mechanism, and country of origin need to be provided.
- Acknowledge any consumer complaints within **48 hours** and redress the complaint within one month.
- **Punishments:** Imposes a 2-year licence suspension for manufacturing or selling adulterants or spurious goods.
- **Combatting Dark Patterns:** E-commerce companies and industry associations are urged to avoid engaging in unfair trade practices known as “**dark patterns.**”
 - “Dark patterns” involve **using design and choice architecture** to deceive, coerce, or influence consumers into making choices that are not in their best interest.

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