

CBDT's Decision on Tax Appeals

Why in news?

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Central Board of Direct Taxes (CBDT) has reportedly announced a new scheme aimed at a speedier disposal of tax appeals.

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What is the status of Tax appeals in India?

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- Every tax appeal before the CBDT comes to the First Appellate Forum (FAF) before cases move on to the Income Tax Appellate Tribunals, the high courts and finally the Supreme Court of India.

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- The number of appeals before the FAF has been rising and now total over 320,000.

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- As of March 31, 2018 the amount involved is over 55 per cent of estimated collections for the current financial year.

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- By its recent move CBDT aims to reduce litigation and enhance the credibility of tax administration in order to secure a fair system.

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- CBDT's move is with regard to dealing with issues causing tax disputes, the latest move incentivises CIT(A)s to actually further enhance assessments.

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- It aims to do so by adhering to stiff timelines for disposing of cases and by instilling a sense of accountability in the whole process.

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What are the concerns with CBDT's move?

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- While all measures of CBDT are commendable, the method chosen by the

government to achieve it is likely to be counter-productive.

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- As part of the CBDT Action Plan, Commissioners of Income Tax (Appeals), or CIT (A), will be given additional credits of two units per order in case they pass what is called a “quality” order.
- Quality orders essentially include those that strengthen the assessment order of an assessing officer and levy penalties on such orders.
- But CIT(A) levy penalties when, under law, its proceedings are supposed to be independent of the assessment process.
- Incentivising CIT(A) to enhance assessment orders introduces a conflict of interest given that the CIT(A)’s quality order will be judged by his immediate supervisor, i.e. the chief commissioner.
- It also undermines its impartiality as he or she is prejudiced against the concerned taxpayer.
- Given that such credits might well be used in determining career growth, they will lead to decisions that will increase litigation further, instead of its stated objective of reducing it.

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What is the way forward?

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- Union government took over at a time when the notion of “tax terrorism” was gaining currency.
- Over the past decade, there has been a reversal in the trend of disposing of tax cases, more cases now move up the litigation chain to the higher judiciary.
- The recent directive will only worsen the situation, and tax authorities also pay only little attention to some fundamental reasons behind a rising mountain of litigation in the first place.

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Source: Business Standard

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