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NEWSLETTER

INDIRECT TAX NEWS

GOVT CRACKS DOWN ON IMPORT OF SUB-STANDARD TEA

The Centre, on Thursday, announced strict measures to ensure that sub-standard teas are not imported and distributed in the country.

The Tea Board directed all importers to ensure that origin of imported tea is mentioned in all their sale invoices and not to pass off imported teas as teas of Indian origin.

India, which is the world's second-biggest tea producer with an annual production of over 1,300 million kg (mkg), imposes 100 per cent Customs duty on imports from countries other than those with which it has a bilateral trade agreement or the South Asian Association for Regional Cooperation's Free Trade Agreement (SAFTA). Imports for re-exports are duty-free.

While much of the imported tea is for re-exports, a fair chunk has been getting absorbed in the domestic market. It is to be noted that of the 16.97 million kg (mkg) imported during January-August 2021, 11.86 mkg of tea was meant for re-exports (70 per cent), while that for domestic use is close to 5.11 mkg (30 per cent)

INDIRECT TAX RECEIPTS UP 51% ON YEAR IN APRIL-OCTOBER

Despite the fizzling out of a favourable base effect, indirect tax collections have seen robust growth till October of this fiscal. In the first seven months of FY22, gross indirect tax collections (net of refunds, but before devolution to states) grew 51% on year to about Rs 7.4 lakh crore, as against a required rate of 3% to achieve the full year target of Rs 11.09 lakh crore.

The collections in April-October 2021 were also 41% higher than the receipts in the corresponding period of FY20. Even monthly indirect tax collection numbers have shown a steady growth on year. These collections grew 25% on year in July, 17% in August, 34% in September and a 63% in October. However, it may be noted that October GST collections largely belong to the transactions in the previous month

GST COUNCIL LIKELY TO FOCUS ON RATE RATIONALISATION

In its December meeting, the GST Council is likely to focus on rate rationalisation and suggest ways for revenue augmentation. Though the date for the meeting has not been finalised, it could take place immediately after the Winter Session of Parliament. The session is scheduled to end on December 23.

As on date, there are multiple rates comprising four main – 5, 12, 18 and 28 per cent – and some special rates such as 0, 0.25, 1 and 3 per cent. There has been thinking for a long time to bring down the number of rates and one idea was to merge 12 per cent and 18 per cent and prescribe a consolidated rate of 15 per cent. Various other combinations are also under consideration.

Other terms of reference for the GoM on rate rationalisation include review of the supply of goods and services exempt under GST with an objective to expand the tax base and eliminate breaking of ITC (Input Tax Credit) chain and review the instances of inverted duty structure.

Inverted Duty Structure refers to higher duty on inputs and lower duty on output. This results in a higher refund to the industry which affects the cash flows for companies and revenue collections for the Government.

CARBON BORDER TAX DISCRIMINATORY

Four developing countries – Brazil, South Africa, India and China (the BASIC Group) – have jointly opposed the proposed carbon border tax, calling it "discriminatory"

The carbon border tax is a levy proposed by the European Union to protect its domestic industry from cheaper imports from countries where rules imposing low carbon production are not strict. EU fears that while its industry would be at a disadvantage because European companies would have to comply with strict rules, those from other countries may not.

Developing countries fear that the carbon border tax might turn out to be a protectionist tool in the hands of European countries, leading to "market distortion". The joint statement makes a strong pitch for the framing of rules for carbon markets and underscores the need for an 'Enhanced Transparency Framework', and emphasised that flow of climate finance, including its predictability, "is a key component" of the framework.

US HIKES THRESHOLDS FOR TAX-PRIVILEGED RETIREMENT ARRANGEMENTS

The US Internal Revenue Service (IRS) has announced that the amount individuals can contribute to their 401(k) plans in 2022 has increased to USD20,500 (up from USD19,500 for 2021 and 2020).

The IRS has also issued technical guidance regarding all of the cost-of-living adjustments affecting dollar limitations for pension plans and other retirement-related items for tax year 2022 in Notice 2021-61, which was published on November 4. The increased USD20,500 threshold applies to employees who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan.

The income ranges for determining eligibility to make deductible contributions to traditional Individual Retirement Arrangements (IRAs), to contribute to Roth IRAs, and to claim the Saver's Credit all increased for 2022. Taxpayers can deduct contributions to a traditional IRA if they meet certain conditions. If during the year either the taxpayer or the taxpayer's spouse was covered by a retirement plan at work, the deduction may be reduced, or phased out, until it is eliminated, depending on filing status and income. (If neither the taxpayer nor the spouse is covered by a retirement plan at work, the phase-outs of the deduction do not apply.)

EU ADOPTS PUBLIC COUNTRY-BY-COUNTRY REPORTING TO DETER CORPORATE TAX AVOIDANCE

The EU's new requirement for multinationals to publicly disclose the amount of tax they pay in each EU country will become law following the approval by the European Parliament on November 11.

Multinationals will have to begin complying with the rules starting sometime in 2024. EU member states will have 18 months to transpose the directive into national law after it enters into effect, which will occur 20 days after it is published.

"Today's adoption is a long-awaited step in increasing corporate transparency, setting a precedent for the world," said Spanish parliamentary member Ibán García del Blanco. "The EU must put an end to the cloak of secrecy around where and how large multinationals do business and how much taxes they pay in each country."

The European Council had advanced the proposed directive in September following a provisional agreement on the directive reached with the Parliament in June. The efforts to adopt a public country-by-country measure had been in the works since 2015.

The new requirement will apply to multinationals and their subsidiaries that have annual revenues of more than EUR 750 million (approximately USD 860 million) and are active in more than one EU country. In-scope companies will have to provide information on the amount of tax they pay in each EU country, as well as in countries included in the EU's black and gray lists.

In addition to the taxes paid, companies will need to disclose information on the nature of their activities, their number of employees per country, and their profits/losses before taxes. The information is to be made publicly available online in standardized formats.

TODAY'S QUOTE

" Start where you are.
Use what you have.
Do what you can. "

-Arthur Ashe

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