Taxation Laws (Amendment) Act, 2021

Presented in the Lok Sabha in August 2021, the Taxation Laws (Amendment) Bill, 2021, has now received the assent of the President. **The Bill amends the Income Tax Act, 1961 (IT Act) and the Finance Act, 2012.**

The Taxation Laws (Amendment) Act, 2021, **aims to withdraw tax demands made using a 2012 retrospective legislation to tax the indirect transfer of Indian assets**.

About the Taxation Laws Act, 2021

- **The objective of the Act -**
    - The **aim of the amendment made by the 2021 Act is to bring tax certainty** and ensure that once specified conditions are fulfilled, the pending Income-tax proceedings shall be withdrawn; demand, if any, raised shall be nullified; and amount, if any, collected shall be refunded to the taxpayer without any interest.
- **Proposed Changes in the Bill -**
    - It amends the Income-tax Act, 1961 (Income-tax Act) so as to provide that **no tax demand shall be raised in future on the basis of the amendment to section 9 of the Income-tax Act made vide Finance Act, 2012 for any offshore indirect transfer of Indian assets** if the transaction was undertaken before May 28, 2012
    - The Act also provides that the demand raised for offshore indirect transfer of Indian assets would be "nullified on fulfilment of specified conditions" such as the withdrawal of pending litigation and an undertaking that no damage claims would be filed.
- **Timeline of Events for implementation of the Taxation Laws (Amendment) Act, 2021 -**

August 5, 2021	Bill Introduced in the Lok Sabha
August 6, 2021	Passed in the Lok Sabha
August 9, 2021	The Rajya Sabha approved the Bill
August 13, 2021	Got the President’s assent
August 28, 2021	Draft notification for framing rules for implementing the amendments made by the Taxation Laws (Amendment) Act, 2021, released

2021 Taxation Act - Other Facts & Brief Background

Q. What was the 2012 retrospective taxation legislation?

Ans. The retrospective tax law was passed in 2012 and was introduced after an amendment to the Finance Act, that enabled the tax department to impose retrospective capital gains tax for deals — involving the transfer of shares in foreign entities located in India — after 1962.

Q. What is meant by retrospective taxation?

Ans. Retrospective Taxation allows a country to pass a rule on taxing certain products, items or services and deals and charge companies from a time behind the date on which the law is passed.

Q. Why was the 2012 amendment made?

Ans. The 2012 retrospective taxation power was introduced was Former President Late Pranab Mukherjee, after the Supreme Court of India held that Vodafone could not be taxed for a 2007 transaction involving its purchase of a 67% stake in Hutchison Whampoa for $11 billion. The retrospective tax was then invoked against Cairn Energy and its assets were frozen by the authorities.

Q. Why the retrospective tax is being scrapped?

Ans. The **2021 amendment has been made with the aim to establish an investment-friendly business environment**. Though the 2012 amendment was made only for Vodafone, 17 other companies came under the raised tax demand bracket. However, both, Vodafone and Crain had initiated international arbitration under bilateral agreements. In 2020, Arbitral Tribunal gave its decision in favour of the two.

Conclusion

With the implementation of this Act, India will be able to retain its reputation in the international business industry. By scrapping off the tax legislation, India may be able to improve its ease of doing business.
It will also be beneficial for the country economically if more investments will be made in India.