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Govt may tweak tax laws for job creation

Budget To Focus On Boosting Employment

TIMES NEWS NETWORK

Mumbai: Providing a stimulus to job creation is likely to be a focus areas of Budget 2018. In the run-up to the Budget, this has been a focus of discussions between finance ministry officials and external stakeholders as well as in internal brainstorming sessions.

Various countries provide tax benefits for creation of additional jobs (*see table*). Even India has such provisions, but owing to certain conditions that have been stipulated, many companies — especially in the service sector — have been unable to reap its benefits. It's likely that section 80JJJAA of the Income Tax (I-T) Act may be tweaked to provide a greater impetus for job creation or some other new provision introduced. Under section

COUNTDOWN TO BUDGET

80JJJAA, 30% of additional employee cost is available as a deduction for three years, including the year in which the new employment is generated.

If an individual is employed for less than 240 days in the first year, such an individual is not treated as an additional (or new) employee. For the textile sector, a lower threshold of 150 days has been set. Further, if the monthly salary of any additional employees exceeds Rs 25,000, then the salary of such employees are excluded for the purpose of computing the additional employee cost against which the benefit is available.

In its pre-Budget memorandum, Ficci points out that in a scenario where an employee has worked for less than 240 days in the first year, but for the entire year in year two and year three, even if all the other conditions are met with, the company will still not be able get the corresponding benefit under this section in any of the three years.

EY India partner & national tax leader Sudhir Kapadia explains, "Significant uncertainty arises in respect of those hired from August onwards as they are not able to complete 240 days in the first year. Employers are not incentivised to hire post-July, in any given year." "The condition of completion of 240 days by an employee should be tested in two consecutive years instead of only the first year. Thus, if the employee fulfils the condition cumulatively in the first two years of employment, the company should be allowed to claim the additional deduction from years two to four," he adds.

P V Srinivasan, an industry veteran and now a practising chartered accountant, says, "Further, if an employee's salary exceeds Rs 25,000 per month, such an employee is not treated as an 'additional employee' for the purpose of computing the benefits under this section. This largely disqualifies the service sector, including the IT sector." Ficci recommends that this limit be increased to at least Rs 50,000 per month.

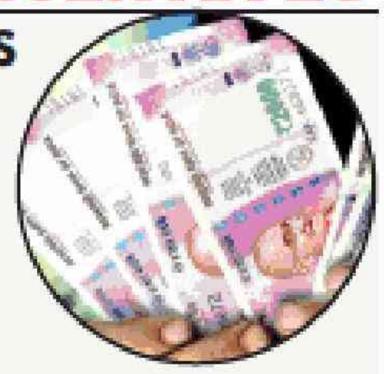
INDIA'S CURRENT I-T INCENTIVES

➤ Available to taxpayers liable to tax audit (eg: Cos with **turnover** of more than ₹**1 crore**)

➤ Deduction of **30%** of **additional** wages paid is available for a **3-yr** period

➤ **New employee** must be employed for a minimum **240 days** (**150** days in **textiles** sector) during first year and earn a salary of up to **₹25,000 per month**

SOME CASES AROUND THE WORLD



Switzerland
Federal tax **holidays** are available subject to creation of a certain number of jobs

Algeria, Cape Verde, Czech Republic, Portugal and Spain
Investment-linked tax sops are linked to job creation

Source: EY Worldwide corporate tax guide 2017