

Media Coverage

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Taxation reforms can help streamline insolvency resolution process: IIPI study

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Synopsis

A report by the Indian Institute of Insolvency Professionals of ICAI (IIPI) has recommended tax, insolvency, and procedural reforms to improve the insolvency resolution process. Key suggestions include granting tax-neutral status to resolution plans, exempting debt waivers from tax, clarifying treatment of losses and minimum alternate tax, and easing GST rules by allowing seamless input tax credit transfer and waiving legacy liabilities.

A comprehensive set of reforms across taxation, insolvency and procedural frameworks can help streamline the insolvency resolution process, according to a report prepared by IIPI.

The report by the study group of the Indian Institute of Insolvency Professionals of ICAI has suggested aligning the Income Tax Act with the Insolvency and Bankruptcy Code (IBC) by granting tax-neutral treatment to resolution plans and exempting debt waivers from tax liabilities.

Another suggestion is to ensure clarity on treatment of brought-forward losses and minimum alternate tax provisions, IIPI said in a release, citing the report.

IIPI is promoted by the Institute of Chartered Accountants of India (ICAI).

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Taxation Reforms Can Help Streamline Insolvency Resolution Process: IIPI Study

The report by the study group of the Indian Institute of Insolvency Professionals of ICAI has suggested aligning the Income Tax Act with the Insolvency and Bankruptcy Code

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Summary of this article

• IIPI report suggests reforms in taxation, insolvency, and procedural frameworks to improve insolvency resolution.

• Recommends aligning Income Tax Act with IBC by making resolution plans tax-neutral and exempting debt waivers from tax.

• Calls for clarity on treatment of brought-forward losses and minimum alternate tax provisions.

• Suggests seamless GST input tax credit transfer during insolvency, exemption

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The IBC, which came into force in 2016, has been amended six times so far, and the last amendment was made in 2021.

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Another suggestion is to ensure clarity on treatment of brought-forward losses and minimum alternate tax provisions, IIPI said in a release, citing the report.

"In the sphere of Goods and Services Tax, the study group recommends enabling seamless input tax credit

transfer during corporate insolvency, exempting resolution applicants from legacy GST liabilities, and simplifying compliance requirements during the resolution process to encourage participation and revive stressed entities effectively," the release said.

Meanwhile, the government, on Aug. 12, introduced a bill in the Lok Sabha to amend the IBC, proposing a raft of changes, including provisions to reduce the time taken for admission of insolvency resolution applications, an out-of-court mechanism to address genuine business failures, as well as group and cross-border insolvency frameworks.

The IBC, which came into force in 2016, has been amended six times so far, and the last amendment was made in 2021. It provides for a market-linked and time-bound resolution of stressed assets.

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Tax Reforms To Boost Insolvency Resolution: IIPI Report

Report urges tax-neutral resolution plans, also called for clearer guidelines on the treatment of brought forward losses

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The Indian Institute of Insolvency Professionals of ICAI (IIPI) recently released a report recommending key reforms in taxation, insolvency, and procedural areas to strengthen the insolvency resolution process.

The report advocates granting tax-neutral status to resolution plans and exempting debt waivers from tax liabilities by aligning provisions of the Income Tax Act with the Insolvency and Bankruptcy Code (IBC). It also called for clearer guidelines on the treatment of brought-forward losses and minimum alternate tax provisions to reduce ambiguity. Regarding the Goods and Services Tax (GST), the report suggests facilitating seamless input tax credit transfers during corporate insolvency, exempting resolution applicants from legacy GST liabilities, and simplifying compliance norms to encourage broader participation in resolution proceedings.

Centre proposed 'next-generation' GST system. Under the plan, GST would be streamlined into two primary slabs of 5 per cent and 18 per cent, with a special 40 per cent rate applied to about 5-7 demerit goods, including pan masala, tobacco and online gaming. At present, GST is charged at 5, 12, 18 and 28 per cent. Essential and food items are mostly taxed at nil or 5 per cent, while luxury and sin goods fall under the 28 per cent category, along with an additional cess.

The GST Council is scheduled to meet on September 18-19 to decide on the proposal.

These recommendations come amid the government's introduction on 12 August of a bill in the Lok Sabha to amend the IBC. The proposed amendments include measures to shorten the admission time for insolvency resolution applications, introduce an out-of-court framework for genuine business failures, and address group and cross-border insolvencies.