"Exploring the Legal Implications of Integrating a *Flat Transaction Tax* with *Universal Basic Income* on Corporate Entities in India: A Corporate Law Perspective"

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Introduction

As the rise of Artificial Intelligence(AI) and automation threatens to render the workforce jobless, governments are contemplating income guarantees to provide support. The rapid proliferation of AI and automation tools has led to a scenario where corporations may become self-reliant, potentially diminishing their reliance on government assistance for sustaining their businesses and operations. Consequently, the existing taxation system may not adequately fulfill its objectives of promoting economic and human growth, among other aims.

"We still lack convincing evidence concerning the effects of FTT, in particular what impact they have on volatility of financial markets, or what long run revenue potential these taxes have. Nevertheless, many examples of actual use of FTT exist across the world though often they tend to be temporary once their specific, momentary objectives are met."[1]

The apparent contradiction arises from the possibility of reduced income tax payments to the government due to corporate downsizing in response to increasing automation. To address these challenges and ensure a steady flow of taxes to the government while providing socio-economic security to citizens, an integrated tax regime is proposed—combining Flat Transaction Tax (FTT) and Universal Basic Income (UBI). Such an approach would ensure a consistent tax stream to the government, irrespective of the employees' income tax contributions, thereby reducing the impact of workforce downsizing on government revenue. Additionally, it aims to enhance the well-being of the country's citizens by providing a safety net through UBI.

"Until relatively recently, a Flat Rate FTT would have been technically very difficult to implement, but with the introduction of electronic banking the percentage of economic transactions that can be directly monitored through the banking system has become increasingly high. Importantly, imposing a levy on each transaction would be extremely simple to implement – far simpler than the vast majority of taxation methods that are normally used."[2] *As India's interest in using cash to alleviate poverty has grown, the concept of a universal basic income (UBI) has garnered renewed attention in advanced economies elsewhere in the world.*[3]

[1] Financial Transactions Taxes, Edn Apr 2011, by Parthasarathi Shome, Page 17, Available at :https://icrier.org/pdf/Working_Paper_254.pdf

[2] Simon J T Thorpe A Flat Rate Financial TransactionTax to replace all taxes: Page 6.

[3] India's Universal Basic Income- Bedeviled by the Details, by Saksham Khosla, Page 6 available at:- https://carnegieendowment.org/files/CEIP_Khosla_Report_FNL_w_covers.pdf

The integration of a Flat Transaction Tax (FTT) with Universal Basic Income (UBI) has garnered considerable attention as a potential tax reform in India. This paper explores the implications of integrating a Flat Transaction Tax (FTT) with Universal Basic Income (UBI) in India, considering its potential to sustain government revenues and safeguard individual welfare in the era of AI and automation. Examining the benefits and challenges of FTT-UBI integration, policymakers can design a more adaptive tax system aligning with the changing economic landscape. The study focuses on legal implications from the perspective of Corporate Law, analyzing corporate governance, transactions, and compliance. By understanding the impact on corporations, shareholders, and stakeholders, this research offers valuable insights into FTT-UBI's effects on corporate entities in India.

Impact on Corporate Governance Structures and Practices

Corporate governance in India is primarily governed by the Companies Act, 2013.*It is substantively a law based on Rules. The changing national and international economic environment, exponential growth of the Indian economy and changes in the stakeholders' expectations necessitated a need for a new Companies Law.*[4]

This legislation outlines the legal framework for corporate entities, including provisions related to board accountability, fiduciary duties and shareholder's rights. The Companies Act, 2013, provides guidelines on the composition and functioning of Boards of Directors, emphasizing transparency, accountability, and responsible decision-making. It sets out the duties and responsibilities of Directors towards the company and its stakeholders, including shareholders[5]. Therefore, the integration of a FTT-UBI framework would necessitate an assessment of how these corporate governance structures and practices align with the objectives of the tax reform.

Effects on Corporate Transactions

Corporate transactions, such as mergers, acquisitions, and reorganizations, would be significantly influenced by the integration of a FTT-UBI framework. These transactions are subject to regulations under the Securities and Exchange Board of India (SEBI) Act, 1992, which governs aspects such as corporate disclosures, insider trading, and takeover regulations.

As elaborated in the SEBI Act,1992, under the Powers and functions vested to the Board *"(2A) Without prejudice to the provisions contained in sub-section (2), the Board may take measures to undertake inspection of any book, or register, or other document or record of any listed public company or a public company (not being intermediaries referred to in section 12) which intends to get its securities listed on any recognised stock exchange where the Board has reasonable grounds to believe that such company has been indulging in insider trading or fraudulent and unfair trade practices relating to securities market."*[6]

The SEBI Act, 1992, aims to protect the interests of investors and ensure fair and transparent market practices. Any changes in the tax regime, including the introduction of a ***Flat Transaction***

[4] The Companies Act, 2013 and Rules thereon, Apr 2014, page 21. - by The Institute of Chartered Accountants of India. Available at :- https://itatonline.org/info/wp-content/files/E_Book_Companies_Act_2013.pdf

[5] Company Act, 2013, Page 98, Chapter XI

[6] Inserted by the SEBI (Amendment) Act, 2002 , S. 4(b) (w.e.f. 29-10-2002).

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Tax, would necessitate careful consideration of the impact on the financial viability and attractiveness of these transactions. Corporations would need to evaluate the potential tax liabilities and incorporate them into their strategic decision-making processes, taking into account the regulatory requirements set forth by the SEBI Act, 1992."

Token Based Equity Trading

Maintaining a robust open market or Equity market is crucial for corporate entities' financial well-being. Therefore, the FTT-UBI integration should not adversely impact it. To achieve this, a Token-Based Equity Trading system is proposed which seeks to simplify the tax structure. This ensures that service taxes during trading and other complexities become redundant, wherein an individual purchasing stocks is issued a value equivalent trading token. This token is attached to the transaction, preventing repetitive tax deduction during subsequent trades. This innovation eliminates the risk of being taxed more than once on the same transaction and promotes a fair and efficient trading environment.Through careful analysis and consideration of the Token-Based Equity Trading system's implications, policymakers can strike a balance between tax reforms and the sustainable growth of Corporate entities in India.

Compliance, Legal Rights and Obligations of Corporate Entities and Stakeholders

In the context of the integrated tax system, corporate entities, shareholders, and other stakeholders will experience altered legal rights and obligations.The Companies Act, 2013, provides mechanisms to safeguard shareholder rights, such as the right to receive dividends, participate in decision-making processes, and access information about the company's operations. Additionally, it establishes guidelines for the rights, duties and responsibilities of corporate entities towards stakeholders, including employees and the wider community. *The same is directed as per Section 115BBDA of Income Tax Act, 1961 which elaborates the Tax on certain dividends received from domestic companies.*[7]

Compliance with the new tax laws and regulations, hypothetically introduced by the integrated tax system, is crucial for corporate entities. The Income Tax Act, 1961, may be modified to provide the legal framework for assessing, collecting, and enforcing taxes on corporate entities, imposing compliance obligations within the FTT-UBI framework. The Income Tax Act, 1961, prescribes various provisions related to tax computation, filing of returns, maintenance of books of accounts, and audit requirements. The same is reiterated in Section 139 of Indian Partnership Act,1932.[8]

Corporate entities would need to understand the intricacies of the integrated tax system to ensure accurate reporting and fulfillment of their obligations. Compliance mechanisms, such as record-keeping, audits, and dispute resolution, would require adaptation to accommodate the new tax regime. The same could be utilized for planning, expansion etc to get the pulse of the industry. The same may also be used to monitor ethical industrial practices like monopoly, antitrust laws.Antitrust laws are regulations that encourage competition by limiting the market power of any particular firm. This often involves ensuring that mergers and acquisitions don't overly concentrate market power or form monopolies, as well as breaking up firms that have become monopolies.Indian antitrust law is governed by the Competition Act, 2002.[9] The Act prohibits any agreement between companies, individuals or

[7] Section 115BBDA of Income Tax Act, 1961
[8] Section 139 of Indian Partnership Act,1932.
[9] Competition Act, 2002

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associations that could have an adverse effect on competition.

The audit may focus more on day to day operations (including incomes and expenditures) etc rather than being a tax audit.

Failure to comply with the FTT-UBI framework could lead to legal consequences, including penalties and reputational damage. Therefore, corporate entities would need to navigate the requirements set forth by the Income Tax Act, 1961, to ensure compliance within the integrated tax system.

Effects on Corporate Financing, Capital Structure, and Investment Patterns

The integration of a FTT-UBI framework would likely impact corporate financing, capital structure, and investment patterns. The Reserve Bank of India Act, 1934, regulates various aspects of corporate financing and capital structure. This legislation empowers the Reserve Bank of India (RBI) to oversee monetary policy, control credit conditions, and regulate the financial system.

As per the preamble to the RBI Act, 1934, *"it is expedient to constitute a Reserve Bank for India to regulate the issue of Bank notes and the keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage; it is essential to have a modern monetary policy framework to meet the challenge of an increasingly complex economy; the primary objective of the monetary policy is to maintain price stability while keeping in mind the objective of growth;*[10]

Any changes in the tax regime, such as the introduction of a Flat Transaction Tax, would have implications for corporations' funding decisions, debt-equity ratios, and investment strategies. Corporate entities would need to assess the financial implications of the FTT-UBI framework and adjust their financing and investment plans accordingly, while also considering the regulatory requirements set forth by the Reserve Bank of India Act, 1934.

The introduction of a simplified tax system through the integration of a FTT-UBI can offer several advantages to corporate entities in India. Here are some key points to consider:

1. **Ease of Compliance**: A simplified tax system reduces the complexity and administrative burden associated with tax compliance. By implementing FTT, companies can benefit from a streamlined tax structure with fewer tax brackets and exemptions. This simplification can lead to reduced compliance costs, making it easier for businesses to meet their tax obligations efficiently and accurately.

2. **Clarity and Certainty**: A simplified tax system provides clarity and certainty for corporations regarding their tax liabilities. With a flat tax rate applied uniformly to all transactions, there is greater predictability in determining the tax obligations associated with business activities. This predictability allows companies to plan their finances, investments, and strategies more effectively, fostering a stable business environment.

3. **Improved Resource Allocation**: The simplification of the tax system through a flat transaction tax can result in improved resource allocation for corporate entities. By eliminating complex tax calculations and loopholes, companies can allocate their resources more efficiently, focusing on core business activities rather than navigating intricate tax regulations.

[10] Preamble to RBI Act, 1934

This can promote productivity, innovation, and growth within the corporate sector.

4. **Reduction in Tax Evasions**: A simplified tax system with a flat transaction tax can help curb tax evasion and promote greater tax compliance. With a clear and straightforward tax structure, there are fewer opportunities for individuals and businesses to exploit loopholes or engage in aggressive tax planning strategies. This can contribute to a fairer and more equitable tax system, ensuring that corporate entities fulfill their tax obligations and contribute their fair share to the economy.

5. **Economic Competitiveness**: By reducing the complexity and compliance burden associated with taxation, India can create a more attractive business environment, attracting domestic and foreign investments. This can lead to increased economic activity, job creation, and overall growth in the corporate sector.

6. **Effect on Purchasing Power of Individuals:** The UBI system would enhance the purchasing power to the individuals, which in turn stimulates the economy and hence the corporate growth.

Conclusion

The integration of a Flat Transaction Tax (FTT) with Universal Basic Income (UBI) offers a potential solution for simplifying the tax system for corporations in India while enhancing the purchasing power of individuals, which in turn stimulates the economy.However, thorough analysis of potential trade-offs and unintended consequences is crucial to ensure the success of this tax reform.

This integrated approach has been examined from a corporate law perspective, highlighting the need for careful consideration and analysis. While a simplified tax system provides benefits such as ease of compliance, clarity for corporate entities, and reduced tax evasion, policymakers must carefully assess its specific design and implementation to align with broader economic and social goals in the Indian context. Striking a balance between the legal implications, potential benefits, and careful considerations can lead to a streamlined tax system that promotes economic competitiveness and social equity. By simplifying tax compliance and providing certainty for businesses, the FTT-UBI framework enables more efficient resource allocation and fosters a stable business environment. Additionally, by reducing tax evasion and attracting investments, India can enhance its economic competitiveness, stimulate job creation, and foster overall corporate sector growth.