DIRECT TAX CODE: OVERVIEW

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Direct tax code was introduced by government of India to simplify direct tax laws in India. It revises consolidates and simplifies the structure of direct tax laws in India into a single legislation. The direct tax code replaces the Income tax Act of 1961 in India. DTC was introduced in monsoon session parliament in 2010 -11 after cabinet clearance and is expected to be enforcing from 2012. During the announcement of 2010 – 11 budget, the finance minister Mr Pranab Mukherjee announced to bring the new direct tax code (DTC) into force from 1st of April, 2011, but it was decided to applicable from 1st April 2012. In reality it came into effect from 1st April, 2013.

SOME OF THE FEATURES OF DTC

- DTC removes most of the categories of exempted income. Unit link insurance plan (ULIPs), Equity linked mutual funds (ELSS), term deposits, NSCS (National Savings Certificates), long term infrastructure bonds, house loan principle repayment, stamp duties and registration fee on purchase of house property will lose tax benefits.
- 100,000 limit fixed for tax saving investments and 50,000 has been added for pure life insurance (sum insured is at least 20 times the premium paid), health insurance, med claims policies and tuition fees of children. But the one lack investment can now only be done in provident fund, superannuation fund, gratuity fund and new pension fund.
- Rationalization of tax rates and slab the proposed rates and slab are as follows:

UptoRs 200,000 (for senior citizen Rs 250,000)	nil
Between Rs 200,000 to 500,000	10%
Between Rs 500,000 to 1,000,000	20%
Above Rs 1,000,000	30%

Men and women are treated same now

- 1.5 lack per year for interest on housing loan for self-occupied property.
- Half of short- term capital gains will be taxed. Long term capital gain are exempted from income tax for eg. Equities and equity mutual funds, on which STT paid.
- Tax exemption at all stages (EEE) – saving , accretions and withdrawals- to be allowed for provident fund (GPF, EPF and PPF), NPS (new pension scheme administered by PFRDA), retirement benefit (gratuity, leave encashment, etc.) pure life insurance products and annuity schemes. DTC wanted to tax withdrawals.
- Education cess and surcharge are abolished.
- For income arising of house property deduction for rentand maintenance would be reduced from 30 % to 20% of gross rent. Also all interest paid on house for a rent house is deductible from rent. Before DTC if one owns more than one property, there was provision for taxing national rent even if the second house was not put to rent. But, under the direct tax code 2010, such a concept has been abolished.
- Tax exemption on LTA (leave travel allowance) is abolished.
- Tax exemption on education loan to continue.
- 34% to 30% reduction in corporate tax including education cess and surcharge.
- Taxation of capital gain from property sale: for sale within one year, gain is to be added to taxable salary. For long term gain (after one year of purchase), instead of flat rate of 20% of gain after indexation benefits, new concept has been introduced in DTC gain after indexation will be added to taxable income and taxed at the tax slab . Base date for cost of acquisition has been changed to 1st April. 2000 instead of earlier 1st April 1981.
- 5% tax on dividends.
- Medical reimbursement has been increased to 50,000 per year from current 15,000 limit.
- An NRI is liable to if he is in India for a period more than 182 days in a financial year. In new bill, this duration has been changed to just 60 days.

IMPACT OF DTC

PPF included under EET (exempt,exempt,tax) as per DTC. As per EET model contributors to PPT would be taxed at the time of withdrawal. Whereas investment made till 31 March 2011 and the interest they earn will not be taxed. DTC lowered the tax burden on individuals by raising income tax slabs. DTC changed Minimum Alternate Tax calculations from book profits to gross assets which encourage optimal utilization and increased efficiency of assets. MAT will be levied at 2% and on banks 0.25%. Wealth tax raised to Rs 50 crores from Rs 30 lakhs and the Tax rate reduced from 1% to 0.25%. DTC expended the scope of taxation; it includes shares, corporate bonds, fixed deposits etc. in wealth tax. Asset valuation will be done on the basis of cost and or at market price. Removal of short-term and long-term capital gain tax and a uniform structure and gain taxed at the marginal tax rate as applied to the tax-payer. DTC promotes tax revenue and reduced tax evasion. Government will utilize this revenue for poor section of the society.

DRAWBACKS OF DTC

Under DTC exemptions are same, some are reduced it increases tax burden on them. Under DTC financial securities and shares are considered as the wealth and taxable under wealth tax. All type of medical facilities is taxable. The standard deduction from the income from house property will create an additional burden on the public who are retired and survived only on house rent income. DTC fails to increase tax collection.

SUGGESTION

The calculation of total income under direct tax code need to be simplified so that a common person can easily understand the calculation some provisions of direct tax code i.e levy income distribution tax on equity linked insurance product on the lines of equity oriented mutual funds , new tax rate of individual having income exceeding Rs 10 crore every individual and Hindu undivided family (HUF) who has wealth exceeding Rs 30 needing to pay wealth tax at the rate of 1% are required to review and make modifications after taking into account such aspects. The rate of minimum alternate tax need to be reasonable so that company will be comfortable to pay. The exemptions prevailing should continue under the direct tax code. Rate of standard deduction on house property is to be considered in order to avoid increased burden of tax liability to the payers.

CONCLUSION

All the DTC proposals regarding NRI's taxation are slightly harsh. If NRIs stay in India for 60 days and earn money, they will be taxed. This limit earlier was 182 days. The DTC will have positive impact on the work and consumption savings rate. The tax base increased as the tax rate is simple to understand. These rates will have greater revenue potential. But the cost of collection tax remains to be examined. The DTC will have a positive implication on India's outlook and made the most of tax system, as part of effort to cancel revenue deficit and lower fiscal deficit to less than 3.0 percent of GDP. DTC removed all extra benefits to women. DTC proposed to levy dividend distribution tax at 15%. DTC aims to replace the Income tax act and simplify the direct tax regime in the country. It is trying its best to reduce tax rate and it will be a very positive and progressive initiative. Due to fiscal reforms it reduced both tax evasion and cost of compliance, and eliminates most of the distorted behavior coming from tax avoidance. This bill will introduce a total departure from multiple tax brackets and high rate of tax prior to reforms. In market oriented economy like us it is expected that the tax structure brought forward by this bill reduce conspicuous consumption and make it difficult for people to evade and avoid tax , and it will promote horizontal equity. DTC will have direct impact on tax saving and calculations. DTC will impact on tax saving and calculations. Implementation of DTC, government encourages saving and contributed to infrastructural development.

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