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OBJECTIVES

HYPOTHESES

RESEARCH METHODOLOGY

RESULTS & DISCUSSION

FINDINGS

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CONCLUSIONS

SCOPE FOR FURTHER RESEARCH

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- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

CONTRIBUTIONS TO BOOKS

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UNPUBLISHED DISSERTATIONS AND THESES

- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

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- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

IMPLICATIONS OF REVISED DIRECT TAXES CODE ON PURCHASING POWER OF INDIVIDUALS

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ABSTRACT
After almost a year of deliberations and consultations, direct taxes code was finally tabled in Parliament on Aug 30, 2010. The final shape of the code leaves much to be desired as some of the more appealing proposals on direct taxation, included in the first draft code released in Aug 2009, have been altogether shelved or diluted in the final bill. Economists have been critically remarking on the architectural design of taxation systems, deeming the legislations as insufferably intricate and incoherent. Their derisive predicament is that taxation complexities would turn majority of the professionals into tax lawyers or tax accountants, thus subverting the responsive balance of socio-economic roles. It might sound outrageously far sighted but such provocations did set in motion tax simplification acts in the form of the Direct Taxes Code, 2010 ("DTC") and the Goods and Services Tax ("GST"). These tax reforms intend to sweep away needless and long-winded clauses rooted in the rudimentary structures. The present paper aims to attempt the impact of DTC on purchasing power of Individuals.

KEYWORDS
DTC, purchasing power.

TAX RATES
The elementary question before any person is about the tax slabs. The proposed tax slabs under the DTC are mentioned in the table below:

Slabs	*Rates*
0 - 200,000	*Nil*
200,001 - 500,000	10%
500,001 - 1,000,000	20%
1,000,000 and above	30%

Historically, the tax slabs are favourably structured for women and senior citizens. The proposed DTC extends that favour only in case of senior citizens and men and women are proposed to be treated at par with a view to promote gender equality.
The proposed tax slabs for senior citizens are as follows:

Slabs	*Rates*
0 - 250,000	*Nil*
250,001 - 500,000	10%
500,001 - 1,000,000	20%
1,000,000 and above	30%

The discussion with respect to the tax slabs is incomplete if the reference is not invited to the corporate tax rate. The revised DTC proposes to treat both domestic and foreign companies at par and tax them at 30%. Currently, domestic and foreign companies are taxed at the rate of 33.22% and 42.23%, respectively.
The original DTC proposed to charge Minimum Alternate Tax ("MAT") as a percentage of gross assets. This proposal was criticized, especially in case of loss making companies, companies with long gestation period, companies with huge capital work-in-progress and companies undergoing expansion. Accordingly, the revised DTC proposes to charge MAT with reference to book profit as is the case in current Income-tax Act, 1961 ("ITA"), levy MAT at 20% of book profits, and carry forward the credit up to 15 years.

EEE REGIME *VS.* EET REGIME
Under the current ITA, long-term savings scheme such as provident fund, approved superannuation fund, and life insurance are covered under the EEE method of taxation, wherein the contribution, accretion and withdrawal are all exempt from tax (exemption is at all the three stages and, therefore, it is referred to as "EEE"). However, the original DTC had proposed EET method of taxation wherein the withdrawals (*i.e.*, the third stage) would have been taxable.
The revised DTC has retraced its steps back to the EEE regime for various saving schemes. The keys reasons for the retraction are obviously popular public demand, absence of universal social security system and administrative hassles in taxing the withdrawals. EEE method of taxation is proposed to be restored for:
Provident fund under Provident Funds Act, 1925
Any other provident fund set up by the Central Government and notified in this behalf
Approved Superannuation Fund
This is a welcome relief to the individual taxpayers.

EMPLOYMENT INCOME

There are certain investments which will be eligible for exemption. Payment of life insurance premium, health insurance premium and tuition fees would qualify for deduction to the extent of Rs. 50,000. However, additional benefit is proposed for contribution to approved funds for which deduction would be to an extent of Rs. 100,000.

With respect to the exemption on medical reimbursement, the exemption limit has been increased from Rs. 15,000 to Rs. 50,000. This means that individuals would enjoy the enhanced limit to claim the actual medical expenses.

CAPITAL GAINS

Original DTC had eliminated the distinction between long-term and short-term capital gains and the concept of capital asset. Original DTC had instead provided that 'any' gains arising from transfer of 'investment assets' (as opposed to 'business assets') would be taxed at applicable marginal tax rate for residents and special rate of 30% in case of non-residents. Further, it was proposed that Securities Transaction Tax (STT) should continue.

The revised DTC also proposes that Securities Transaction Tax (STT) should not be abolished. Further, the revised DTC proposes that there will be no capital gains tax on sale of equity shares of a company or unit of an equity oriented fund subject to the condition that:

The holding period is more than a year; and

STT is paid on the transfer.

However, in case equity shares of a company or unit of an equity oriented fund are held for a period of less than one year but STT is paid on the transfer, capital gains tax will be payable only on 50% of the gains.

The other major proposals include an option provided to the taxpayer to substitute fair market value of the asset as on 1st April, 2000 for purchase price of the asset. This means that the taxpayer can avail the option to compute capital gain by using the fair market value in case there is a significant difference between the purchase price and the fair market value on 1st April, 2000. Further, with respect to the cost of acquisition of asset, the cost would be treated as *Nil* if such a cost cannot be determined or ascertained.

With respect to exemptions on capital gains, an exemption can be claimed if a residential house is acquired out of the proceeds on transfer of original asset. However, this exemption benefit is subject to the condition that the taxpayer should not own more than one residential house on the date of transfer of original asset. Besides, the exemption shall be withdrawn if the residential house purchased to claim the exemption benefit is transferred within a period of one year. As under the current regime this limit is three years, the taxpayers will be benefited as they will have to retain the property for a reduced period under the new provisions.

INCOME FROM HOUSE PROPERTY

There have been challenges under this head of income as even the self-occupied properties may be taxed under the current regime in certain specific situations. This is because self-occupied properties are treated as deemed to be let out property in case an individual owns more than one house property. To remove the hardships, the revised DTC proposes to tax income from house property only if the property is let out.

Another challenge under this head of income is with respect to the treatment of those properties which are let out and letting out is in the nature of trade, commerce or business. There is always a mystification whether such income will be treated as income from house property or business income. The revised DTC will resolve this paradox as it proposes to tax such income as income from house property. This will clearly not only reduce the complexities, but will also reduce the benefits to the taxpayers as the taxpayers will not be able to claim higher deductions.

The revised DTC proposes to retain deduction to the extent of Rs. 150,000 on interest paid on loan against self-occupied house property, but does not extend the benefit of deduction on the principal amount. Further, the murky side is that two or more co-owners would be considered an Association of Persons if their shares are not definite and ascertainable, thereby getting the brunt of higher tax slab.

WEALTH TAX

There have been enormous discussions with respect to the exemption limit for imposing wealth tax. The original DTC proposed to substantially increase the limit from the existing threshold of 30 lakhs to 50 crores. The revised DTC proposes to keep the threshold limit as 1 crore. Accordingly, wealth tax is proposed to be levied at the rate of 1% with an exemption limit of 1 crore. Before the final version is in place, the Government will have to seriously think of increasing the exemption limit so as to ensure that a large number of assessees is out of hassle of compliance and tax payment.

Another significant change proposed is that only non-profit organizations would be exempt from levy of wealth tax. Further, some new categories of assets have also been introduced such as:

Archaeological collections, drawings, paintings, sculptures or any other work of art

Valuable watches of more than Rs. 50,000

Equity or preference shares held in Controlled Foreign Companies.

CONCLUSION

It is estimated that the implementation of the revised DTC may reduce the revenue collections on the direct tax front by approximately 50,000 crores. This means that the purchasing power of the taxpayers will improve to that extent and they would have extra amount to either spend or invest. The taxpayers will have a motivation to spend if the taxes are moderate on the indirect tax front. Accordingly, it is imperative that the GST is implemented before the DTC is effective or at the most both the tax reforms are implemented together. This will impact revenue collections as implementation of GST will increase the tax base, moderate the tax rate, and improve compliance, thereby enhancing indirect tax collections.

The advent of these tax reforms surely projects to augment India's competitiveness and would usher in a new era of Industrial Revolution. To put it into achievement, the Government can no longer follow a sachet approach and the success would depend on whether the Government will be able to take quick decisions and negotiate with our unruly States

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