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A STUDY ON INCOME FROM SALARY AND SOME DEDUCTIONS WITH REFERENCE TO INDIAN I.T. ACT, 1961 AND DTC BILL, 2013

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ABSTRACT
The role of Government in a federal system like India is multifarious to govern the economy and overall society of a country. Government plays an important role in uplifting standard of living of countrymen in order make a bridge between poor and rich people. As a result, there is a need for finance for the country, which is collected in the form of revenue having from direct and indirect tax, profit from Public Sector Undertakings (PSUs) and many other sources. Direct Tax is an important source of revenue to the Government for conducting different developmental project for economic growth and removing disparity of several income groups. Calculation and collection of Income tax which forms an important part of Direct Taxes has been governed by Indian Income Tax Act, 1961 till now. On 30th August, 2009, the then Finance Ministry had come up with a proposal for a Direct Taxes Code (DTC) dealing with direct tax issues in a much simpler way. Following comments received from different stakeholders on the viability of this code, deficiencies found in this DTC-I are modified and one fresh DTC has been proposed on August 2010. However, this DTC-II was again referred to the Parliamentary Standing Committee for further modification. Adopting most of the recommendations of this Committee, Finance Ministry in India have proposed a new DTC Bill, 2013 for public discussion. This newly proposed bill is more simple and user-friendly than its previous version. Following this latest proposal made for a new code that will govern direct taxes including income taxes, an initiative has been taken in this study to identify the changes made in provisions relating to income from salary, and some important deductions from Income which are applicable to individual assessee. The implication of these changes towards tax liability of an individual assessee, economy and overall society is analyzed to comprehend Government's motives behind them as well.

KEYWORDS
Deductions, Direct Tax Code Bill, 2013, Income Tax Act, Income from Employment, Income from Salary.

INTRODUCTION
The role of Government in governing the economy and overall society in a constitutional system is multifarious. In a democratic country like India, Government assumes an important role in uplifting standard of living of countrymen. In order to perform their duties, government need fund which is collected in the form of tax, profit from Public Sector Undertakings (PSUs) and many other sources. Tax is of two types - Direct and Indirect Taxes as per Income Tax Act (IT Act), 1961. If the impact and incidence of taxation is on the same person it is called Direct Tax and if they are on different person they are called Indirect Taxes. Income tax, which is the most important constituent of Direct Taxes, impacts person with higher income more than the person with lower income So, apart from being an important source of revenue in the hands of Government, they are also used as a weapon in minimising the wide diversity of economic position between rich and poor. Presently, Central Board of Direct Taxes (CBDT), a body of Central Government of India, governs the procedure for calculation and assessment of income tax with the help of Income Tax Act, 1961. Not only language of this act is very complex but presence of numerous provisions in it also makes this act cumbersome for Indian tax payers. They often get confused with the language of this act or fail to comply with complicated provisions (Subramanian, 2010). In order to do away with this problem, on 30th August, 2009, the then Finance Ministry (FM) of Government of India had come up with a proposal for a Direct Taxes Code (DTC) dealing with direct tax issues in a much simpler way. Following comments received from different stakeholders on the viability of this code, deficiencies found in the DTC-I are modified and one fresh DTC has been proposed on August 2010 (Pandey, 2010a). However, this DTC-II was again referred to the Parliamentary Standing Committee headed by Mr. Yaswant Sinha. This committee critically analysed different provisions of this code over the period of two years and issued their recommendations in the Parliament on March, 2012. Adopting most of the recommendations of this committee, FM has published a draft bill on 1st April, 2014 (Economic Times, April 2, 2014). This new bill on DTC is much simple and user friendly than its previous version. The Union Cabinet was expected to take up the bill in the Parliament subject its approval by Prime Ministerial Office (PMO) (Economic Times, November 21, 2013). But, because of some reservations of PMO, the fate of this draft bill will depend upon decision of the Union Cabinet of the new government.

OBJECTIVE
In this research paper, an attempt has been made to identify changes proposed in this new code relating to provisions of Income from Salary and Deductions available to salaried employees. Implication of these changes on economy and society will also be analysed to understand government motives behind them.

RESEARCH METHODOLOGY
- We have considered the provisions for Income from Salary under IT Act, 1961 and Income from Employment under DTC Bill 2013 for the purpose of analysis. Structure and distribution of provisions, method of calculating gross and net income from this source as per two regulations has been thoroughly reviewed and changes proposed in the new bill have been identified
- We have considered certain expenses which are normally incurred by salaried employees in order to analyse their taxability under both the norms. This will reflect to capture comprehensive impact of DTC Bill, 2013 on taxability of salaried employees. Comparison of IT Act, 1961 and DTC Bill, 2013 in respect of certain expenses are discussed here as well.
- Impact of these changes on the different stakeholders in tax environment of India is presented.

INCOME TAX ACT, 1961 AND DIRECT TAX CODE, 2013: A COMPARATIVE STUDY

The Central Government of India has been empowered by our constitution to levy tax on income from every source except agriculture. The assessee i.e. on whose income, tax is ascertained can be categorised into individual, Hindu Undivided Family (HUF), company, firm, Association of Person, Body of Individual etc. Therefore, Indian Income Tax Department is governed by CBDT under Department of Revenue of Ministry of Finance. IT Act, 1961 is the statute governing income tax in India. Levy, administration, collection and recovery of income tax are monitored through IT Act, 1961, IT Rules, 1961, circulars issued by CBDT etc. Each year, relevant provisions of IT Act, 1961 are amended subject to changes made in Finance Act. Presently, IT Act, 2013 as amended by the Finance Act, 2013 is in force. DTC on the other hand is comprehensive regulatory piece dealing not only with income tax but also taxes on wealth, dividend distribution etc. as well. Following continuous modification from 2009, a third version of DTC is in-front of us whose provisions for income tax are claimed to be more scientific and user friendly than IT Act, 1961. In the following paragraphs, let us discuss some provisions governing income from salary and deductions under these two regulations and bring out the changes proposed in the new code.

INCOME FROM SALARY Vs. INCOME FROM EMPLOYMENT

Income can be generated by way of salary, house property, business or profession, capital gains or other source. Tax on salary income of individual employees constitutes an important segment of overall income tax revenue of the Government. Salaried employees are the most systematic tax payers of this country. As salaried employees are one of the most important tax payers in Indian economic environment, governing regulation is supposed to look after their interest. Any adverse impact on this tax liability would ultimately affect the entire economy. Changes proposed in the new bill have been identified are pointed out below:

- In the new bill, name of this source, namely Income from Salary, has been changed to Income from Employment.
- In the both the regulations, salary is any amount paid, due or allowed, whichever is earlier to an employee in the financial year by or on behalf of his former or present employer (Singhania & Singhania, 2013).
- Provisions for salary are discussed as per section 15-17 in IT Act, 1961. Whereas, in DTC Bill, it is discussed u/s 20-23. Although, names of the sections in these two laws are almost similar, there is a huge difference in their structure and content.
- Provisions for computation of gross salary in IT Act, 1961 is more detailed as compared to DTC Bill, 2013. In fact, this code does not specify the names of different allowances, perquisites and profits in lieu of salary, that constitute overall gross salary of an individual. However, from the definition of salary in this code, we assume that no changes have been made in this code in terms of items forming gross salary.
- So far as method of calculating income from salary under IT Act, 1961 is concerned, exemptions allowed from individual allowances, perquisites or profits in lieu of salary are adjusted against the individual items to arrive at gross salary.
- Professional tax is deducted from gross salary to arrive at income from salary. On the other hand, all items or sources that constitute gross salary of an individual are added first in the DTC. Then their respective exemptions and professional tax are deducted from the gross salary to arrive at income from employment. This structure is more simple and understandable than that of IT Act, 1961.
- Certain incomes (e.g. Gratuity, Commuted Pension, and Leave Salary) that are fully or partly exempt u/s 10 of IT Act, 1961 are taken into consideration while calculating income from salary with their taxable amount after adjusting for respective exemptions. Rules of exemptions of these items are discussed under Third Schedule of DTC. However, the code is silent about their consideration in calculating gross salary.
- As per IT Act, 1961, exemptions on House Rent Allowance (HRA) is calculated at lower of three: (a) actual amount; (b) (Rent Paid – 10% of Salary); and (c) 50% of salary (40% of salary, if the house is not in metro cities). Whereas the exemption limit is the lower of actual amount of HRA and amount of rent paid as per DTC. Therefore, if rents are not paid, benefits of HRA cannot be reaped.
- As per IT Act, 1961, if an employer contributes in an approved pension fund of his employee, it is fully taxable. In the DTC, a deduction of 10% is allowed on this amount.
- As per IT Act, 1961, an exemption of Rs. 1 lakh is allowed on the contribution made by an employer in the superannuation fund for an employee. Under DTC, the entire amount contributed is exempt from tax.
- As per IT Act, 1961, if employer reimburses the medical expenses of an employee, a deduction of Rs. 15000 is allowed. However, this limit has been increased to Rs. 50000 in the DTC.
- Total amount of medical facilities provided by an employer to his employee or his family member including travel and stay abroad is exempt if, Gross Total Income of that employee is less than Rs. 200000 as per the provision of current IT Act, 1961. However, DTC raise this limit to Rs. 500000 allowing more number of person availing benefit of this scheme.
- As per IT Act, 1961, health insurance premium of an employee paid by an employer is exempt in the hands of the employee, while this exemption has been removed in this recent DTC.

However, DTC is simpler and user friendly as far as provisions for income from employment are concerned. Calculation of gross salary is very easy in this regulation, as all the deductions are considered together. Most of the changes proposed in the new code are employee oriented and allow them to reap the benefit of good employer employee relationship.

DEDUCTIONS FROM GROSS TOTAL INCOME (GTI) Vs. TAX INCENTIVE

Some special categories of tax payers are allowed to have certain deductions from GTI while calculating their Taxable Income. Deductions are available if the assessee incurs certain expenditure or receives certain income which qualifies to be deducted from GTI as per applicable tax law. Therefore, provisions for deductions are to be devised very carefully. For example, if Government need fund for a particular purpose, it can allow deductions for investment in a fund that fulfils the intended purpose of the Government. Therefore, the purpose of these deductions is to encourage savings, investments, industrialization and to help the tax payers meeting their essential expenditure. However, allowing excessive deduction will reduce tax revenue of the tax authorities. Therefore, applicable tax law should consider these aspects and devise provisions for deductions carefully. Under IT Act, 1961, they are known as deductions, where DTC Bill, 2013 calls them Tax Incentive. Deductions under IT Act, 1961 are allowed u/s 80C to 80U (Singhania & Singhania, 2013). DTC, Bill, 2013 discusses provisions of Tax Incentives u/s 68 to 86.

TABLE 1: DEDUCTIONS AVAILABLE TO INDIVIDUAL ASSESSEE AS PER IT ACT, 1961 AND DTC BILL, 2013

Particulars	IT Act, 1961 (Finance Act, 2014)	DTC Bill, 2013
a) Contribution to savings in any approved fund		
Section	80C	69
Maximum limit of deduction	Rs. 150000	Rs. 100000
Applicable to	Individual, spouse and child	Individual, spouse and child
Nature of funds	Deferred annuity, provident fund, superannuation fund, savings certificate, unit linked schemes, subscription to equity and debentures etc.	Not specified
b) Contribution of life insurance premium		
Section	80C	70
Maximum limit of deduction	20% of the sum assured or Rs. 100000 whichever is lower	10% of the sum assured. [insurance premium for person with severe disability is deductible up to 15% of the sum assured]
Applicable for	Individual, spouse and child	Individual, spouse and child
c) Contribution towards health insurance premium		
Section	80D	71
Maximum limit of deduction	Rs. 15000 [Rs. 20000 for senior citizens]	Rs. 100000
Applicable for	Individual, spouse, dependent child and parents	Individual, spouse, dependent child and parents
d) Contribution towards education of children		
Section	80C	72
Maximum limit of deduction	Rs. 100000	Rs. 100000
Applicable for	Schools, Colleges and Universities in India subject to the condition that contribution towards donation shall not be considered as deduction	Schools, Colleges and Universities in India subject to the condition that contribution towards donation shall not be considered as deduction
e) Investment in Equity Linked Savings Scheme		
Section	80CCD	74
Maximum limit of deduction	Rs. 10000	50% of the amount invested or Rs. 25000 whichever is lower
Conditions	No condition applied.	i)GTI from ordinary sources should not exceed Rs. 1 lakh; ii) Retail investor; iii) Listed equity shares iv) Lock in period of 3 years
f) Payment of interest on loan for higher education		
Section	80E	75
Maximum limit of deduction	Any amount for initial year and 7 succeeding years	Any amount for initial year and 7 succeeding years
Applicable for	Individual, spouse, children etc.	Individual, spouse, children etc.
Loan taken from	Financial and approved charitable institution	Financial institution
g) Payment for medical treatment		
Section	80DDB	76
Maximum limit of deduction	Rs. 40000 [Rs. 60000 in case of senior citizen]	Rs. 40000 [Rs. 60000 in case of senior citizen]
Applicable for	Individual, spouse, dependent children, dependent parents, dependent brothers or sisters	Individual, spouse, dependent children, dependent parents
h) Payment for medical treatment of disability of dependent		
Section	80DD	78
Maximum limit of deduction	Rs. 50000 [Rs. 100000 for severe disability]	Rs. 50000 [Rs. 100000 for severe disability]
i) Payment for rent		
Section	80GG	80
Maximum limit of deduction	Lower of the following • Actual rent – 10% of GTI • Rs. 25000 • Rs. 2000/ month	Lower of the following – • Actual rent – 10% of GTI • Rs. 5000/ month
Condition	The assessee is not in receipt of HRA	The assessee is not in receipt of HRA

(Source: IT Act, 1961, Direct Tax Code Bill, 2013)

In Table 1, we have considered few expenses that are normally incurred by salaried employees. Several changes have been made on their tax treatment in the respective provision of the new code.

CHANGES IN THE PROVISIONS FOR SELECT DEDUCTIONS

The changes in DTC Bill, 2013 are identified as follows:

- Deduction for contribution to life insurance premium decreased in the code;
- Deduction for contribution to health insurance premium, investment in equity linked savings scheme, payment of rent increased in the code;
- Conditions applied for investment in savings schemes;
- Interest on loan taken from charitable institution is not allowed for deduction;
- Payment of medical treatment for dependent brothers and sisters are not allowed for deduction;
- This new code allows an individual to get deduction for treating his own disability;
- Deduction for savings in National Savings Schemes (NSS) (80CCA), specified pension fund (80CCC), special pension schemes of Central Government (80CCD), subscription to infrastructure bonds (80CCF) under IT Act, 1961 have been eliminated in this new code;
- Section 80CCE limits total deduction under Section 80C to 80CCD to Rs. 100000 whereas in DTC Bill, 2013 such limit exists only for Section 71 to 73.

IMPACT OF CHANGES IDENTIFIED ON DIFFERENT STAKEHOLDERS

There is no denying to the fact that changes in taxation law affect several section of the society. It impacts on tax liability of the assessee which in our case is individual mainly involved in any form of employment and receiving salary as their source of income. Impact on tax liability inversely affects tax revenue of the tax authorities. Overall revenue generated by the government impact overall economy as well. Changes made in tax laws also show probable changes in social outlook for some variables. In our previous section, with a view to capturing impact of DTC, 2013 on salaried employees who do not have any other source of

income but incur some expenses to gain deductions, we have identified the changes made in new code with respect to Income from Employment, and specific deductions which are normally availed by salaried employees.

TABLE 2: IMPACT OF CHANGES IN THE DTC ON DIFFERENT STAKEHOLDERS

Changes in the DTC	Impact on Assessee	Impact on Tax Authority	Impact on Economy	Impact on Overall Society
Income from Employment				
Removal of exemption on HRA in case rents are not paid	Taxable income for employees living their own houses will rise to some extent. However, taxable income for employees living in rented houses will reduce.	Tax authority would be able to collect more tax from employees living in their own houses and less from employees living on rent. However, exact gain or loss by tax authority would depend upon place of residence of the employee and rental structure.	This change can increase the employees' interest towards rented property which would help leasing and renting business to flourish. However, as inclination towards living in own house would reduce; small real estate business would be affected.	Employees' inclination towards constructing and living in their own houses may reduce to some extent.
Contribution to approved pension fund is exempt up to 10% of salary	If employer contributes towards approved pension fund, tax liability of the assessee will reduce.	Tax revenue of the tax authority will reduce.	Funds mobilised through this source can be further invested in capital market and drives Indian economy towards prosperity.	This change would secure employees' regular pension payments after his retirement.
Entire amount of contribution to superannuation fund is exempt which is limited to Rs. 100,000 under IT Act, 1961	If employees have contribution towards this fund more than Rs. 3 lakh they are going to benefit more in terms of tax liability because of such change.	If employers increase their contribution towards this fund, tax authority will lose in terms of tax revenue.	Funds mobilised through this source will also help in the growth of Indian economy.	This fund is used to pay workers pension after their service is over. Naturally, excess contribution towards this fund would secure employees future after their retirement.
Medical reimbursement for treatment increased to Rs. 50000 from Rs. 15000	Employees incurring a large sum of money towards medical expenditure for himself and his family are going to benefit from such change.	If employee is spending more on medical treatment, tax authority will lose tax revenue to some extent.	Employees spending on medical treatment will rise resulting in a growth of pharmaceutical companies.	Expenses on medical treatment incurred for family members would create strong bonding between family members.
Medical reimbursement for treatment abroad are applicable for employees with salary of Rs. 500000 which was Rs. 200000 under IT Act, 1961	Only high income employees can avail benefit of this change.	Number of person availing this benefit will reduce. So tax authority will ultimately gain in terms of tax revenue.	Employees will be less inclined towards having them and their family members treated from abroad. This will have adverse impact on aviation, tourism and global pharmaceutical industry.	Belief in Indian medical system will improve.
Payment of health insurance premium by employees has been made taxable	This adversely affects tax liability of salaried employees when employers pay their health premiums.	If by nature of employment contract, employer pays health insurance premium of the employee, tax authority is set to gain more tax revenue.	There will be a general disinclination from availing health insurance benefit among employees. Naturally insurance companies providing such services will lose.	Employer would be less responsible toward protecting his employees from health hazards.
Tax Incentives				
Deduction for contribution to life insurance premium decreased	Tax liability will increase	Tax revenue will improve	Less contribution towards life insurance premiums will have an adverse impact on insurance industry. Channelization of savings through this route will decrease impacting entire economy.	Concern for own life and life of family members will decrease among individuals.
Deduction for contribution to health insurance premium increased	Tax liability will reduce.	Tax revenue will fall.	More contribution towards health insurance companies will improve the insurance industry and fund channelized through this route will lead to capital formation and growth of overall economy.	Concern for own health and health of family members will increase among individuals.
Deduction for investment in equity linked savings scheme increased and conditions applied	Tax revenue will reduce subject to conditions applied.	Tax revenue will fall	Increase in investment in this scheme will lead to savings mobilisation and economy will grow.	Application of condition makes this route of investment very important for channelization of fund.
Deduction for rent paid increased	Tax liability will decrease if rent is paid for more than 5 months.	Tax liability will reduce if similar conditions are satisfied.	Construction industry will be severely impacted.	Peoples' inclination towards staying in their own house will reduce.
Payment of medical treatment for dependent brothers and sisters are not allowed for deduction	Tax liability increases if the assessee has dependent brothers or sister.	Tax revenue will increase.	Amount spent for medical treatment will reduce to some extent impacting pharmaceutical industry.	Brothers and sisters are not considered to be eligible person to get deductions for medical treatment. It may have negative impact on social values.

DTC allows an individual to get deduction for treating his own disability	Tax liability will reduce for disable assessee	Tax revenue will decrease.	Pharmaceutical industry will see a little growth following same reason mentioned earlier.	People become more serious about their own problems and disabilities.
Deduction for savings in National Savings Schemes (NSS) (80CCA), specified pension fund (80CCC), special pension schemes of Central Government (80CCD), subscription to infrastructure bonds (80CCF) under IT Act, 1961 have been eliminated in DTC	Tax liability will increase, if assessee has investment in these schemes.	Tax revenue of the government will rise.	Post offices and other financial institutions floating these schemes will lose to some extent. Lack of fund generated through infrastructure bond will badly impact infrastructure companies. However, people will leave traditional investment avenues and move towards capital market leading to its growth.	Risk taking mentality of the people will rise.
Section 80CCE limits total deduction under Section 80C to 80CCD to Rs. 150000 whereas in DTC Bill, 2013 such limit exists only for Section 71 to 73	Tax liability will reduce as quantum of maximum deduction under different heads rises.	Tax revenue will fall.	The investors are left with more investment options. It will increase savings mobilisation and ensure economic growth.	As maximum deduction is available, it will encourage investment habit and reduce scopes of tax evasion.

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- Changes that go on reducing tax liability of salaried employees actually encourage them to pay tax properly. However, for salaried employees, scopes of tax evasion are really less. Most of the changes in this recent code are very much employee oriented and looks after their interest.
- Any change, that reduce tax liability of individual assessee also reduces tax revenue of the tax authorities i.e. government. If the Government revenue falls, they will not be able to perform developmental activities leading to economic slowdown. Social outlook about the Government is also bound to deteriorate. As most the provisions selected for our current study reduce tax revenue, impact of this code on economy and society does not seem to be very good.
- However, this code will ensure money mobilisation in different leading industries of this country leading to their growth. Application of this code will improve investment habit of salaried employees and they will participate more in risky and rewarding investment avenues. Growth of capital market and improvement in foreign reserve will also be possible with effective implementation of this code. All these attributes will ultimately go on improving overall economy.
- This code will also have important influence on social outlook of the individuals. It will instigate high family values and teach people to value their life and health. It will also improve risk orientation of concerned individual.
- On the whole, effective implementation of DTC Bill 2013 will protect interest of salaried employees to a great extent. However, Government behind every change has a motive of improving economy and social outlook of India as a whole.

CONCLUSIONS

In this current study, India's current taxation system in briefly reviewed in the light of changes proposed in direct tax environment. Current regulation governing income tax in India is very complex and separate acts for each direct tax made tax regulatory framework really cumbersome. As a measure of solution, a comprehensive code covering all direct taxes has been proposed. After several modifications, a final draft of this code has been issued on 2014. In this paper, based on gap in existing literature an initiative has been taken to identify the impact of this code of salaried employees. Therefore, changes proposed in Income from Salary and Deductions normally availed by salaried employees in DTC have been identified and their impact on individual assessee, tax authority, economy and society have been critically analysed. The analysis shows that new version of this code is really simple and easy to understand for salaried employees. Changes proposed in it are not only employee oriented, but also set to improve prominent industries in India and overall social outlook of Indian citizens. Therefore, enactment of this code is a positive move by the Indian Government from the viewpoint of salaried employees, entire economy and society.

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