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**REVIEW OF LITERATURE** 

NEED/IMPORTANCE OF THE STUDY

STATEMENT OF THE PROBLEM

**OBJECTIVES** 

HYPOTHESES

**RESEARCH METHODOLOGY** 

**RESULTS & DISCUSSION** 

INDINGS

RECOMMENDATIONS/SUGGESTIONS

CONCLUSIONS

SCOPE FOR FURTHER RESEARCH

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#### ANALYTICAL STUDY OF DIRECT TAX CODE TO BE INTRODUCED IN INDIAN ECONOMY

### DR. MAHESH BHIWANDIKAR HEAD DEPARTMENT OF ACCOUNTANCY K. M. AGRAWAL COLLEGE OF ARTS, COMMERCE & SCIENCE KALYAN

#### ABSTRACT

The Direct Taxes Code (DTC) is an attempt by the Government of India (GOI) to simplify the direct tax laws in India. DTC will revise, consolidate and simplify the structure of direct tax laws in India into a single legislation. The DTC, when implemented will replace the Income-tax Act, 1961 (ITA), and other direct tax legislations like the Wealth Tax Act, 1957. The first draft bill of DTC was released by GOI for public comments along with a discussion paper on 12 August 2009 (DTC 2009) and based on the feedback from various stakeholders; a Revised Discussion Paper (RDP) was released in 2010. DTC 2010 was introduced in the Indian Parliament in August 2010 and a Standing Committee on Finance (SCF) was specifically formed for the purpose which, after having a broad-based consultation with various stakeholders, submitted its report to the Indian Parliament on 9<sup>th</sup> March 2012. Recently as a follow-up on this initiative and as stated by the Finance Minister (FM) in his Interim Budget Speech in February 2014, after taking into account the recommendations of the SCF, a "revised" version of DTC (DTC 2013) has been released on 31 March 2014. This paper focuses on the key features of the Direct Tax Code, its impact on the Indian Economy and various stakeholders as a whole and analyze the practical issues on the effective implementation of the DTC in India. This paper also discusses the need and benefits of such tax initiative to reduce the number of compliances under various acts by the citizens and tax payers.

#### KEYWORDS

Direct Tax Code, Government of India, Income Tax Act, 1961, Tax Rates, tax-GDP ratio, tax administrator, Hindu Undivided Family.

#### INTRODUCTION

The Government of India introduced the Direct Tax Code 2010 (DTC) in the Parliament on 30<sup>th</sup> August, 2010. The DTC was proposed to be made effective from the financial year 2012-13 i.e. year starting from 1<sup>st</sup> April, 2012.

While some onerous provisions from the first draft of the DTC have been rightly dropped after representations, several proposals in the DTC are still likely to compel the corporate to rethink their existing structures and mode of conducting business. For example, the DTC proposes to tax transfer of shares of a foreign company, on the basis that there is a transfer of a capital asset situated in India, if the fair value of the asset situated in India constitute at least 50 percent of the assets directly or indirectly held by the foreign company.

Further , an overseas company with a place of effective management in India will now be treated as a tax resident in India and would be consequently liable to tax in India on its global income. Introduction of CFC rule would result in taxing income of certain overseas subsidiaries in the hands of their Indian owners, even before such income is distributed.

The other important provisions that have been retained and refined relates to GAAR, APA, CFC regulations, residency rule for the foreign company and branch profit tax. Another important key relaxation relates to tax holidays for the SEZ developers and SEZ units. The other welcome move is the continuation of exemptions of capital gain on sale of listed shares and concessional tax treatment for short term capital gain as well as unlisted shares.

India has long advocated its preference for a modern, stable and simple tax regime. Whether the DTC meets these criteria is something that will be undoubtedly debated as one analyses the fine print. However, it is the tax administration's implementation that will determine the long-term impact of the new tax regime.

#### **OBJECTIVES OF THE STUDY**

The primary goal of this study is to examine the basic provisions of Direct Tax Code in the context of emerging Indian Economy.

The secondary objectives are as per following:

- a. To understand the need for enactment and implementation of DTC in India.
- b. To appreciate the role of administration in effective implementation of DTC.
- c. To create awareness amongst various stakeholders regarding the provisions of DTC in comparison with the prevailing tax system in India.

#### LIMITATION

This is a study is based on the secondary data collected from It is supported more by facts than by numerical data. The study is further limited to the discussion of the provisions of the Direct Tax Code, its impact on the stakeholders and various aspects f the act in comparison with the present direct tax system in India.

#### **HYPOTHESIS**

It is the tax administration's implementation that will determine the long-term impact of the Direct Tax Code as a new tax regime.

#### METHODOLOGY

This study is based on secondary data's. The information has been collected from books, periodicals, government publications and web sites.

#### STATEMENT AND SIGNIFICANCE

#### DIRECT TAX CODE

The **direct tax code** seeks to consolidate and amend the law relating to all direct taxes, namely, income-tax, dividend distribution tax, fringe benefit tax and wealth-tax so as to establish an economically efficient, effective and equitable direct tax system which will facilitate voluntary compliance and help increase the tax-GDP ratio. Another objective is to reduce the scope for disputes and minimize litigation.

It is designed to provide stability in the tax regime as it is based on well accepted principles of taxation and best international practices. It will eventually pave the way for a single unified taxpayer reporting system.

The salient features of the code are:

- Single Code for direct taxes: all the direct taxes have been brought under a single Code and compliance procedures unified. This will eventually pave the way for a single unified taxpayer reporting system.
- Use of simple language: with the expansion of the economy, the number of taxpayers can be expected to increase significantly. The bulk of these taxpayers will be small, paying moderate amounts of tax. Therefore, it is necessary to keep the cost of compliance low by facilitating voluntary compliance by them. This is sought to be achieved, inter alia, by using simple language in drafting so as to convey, with clarity, the intent, scope and amplitude of the provision of law. Each sub-section is a short sentence intended to convey only one point. All directions and mandates, to the extent possible, have been

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conveyed in active voice. Similarly, the provisos and explanations have been eliminated since they are incomprehensible to non-experts. The various conditions embedded in a provision have also been nested. More importantly, keeping in view the fact that a tax law is essentially a commercial law, extensive use of formulae and tables has been made.

- Reducing the scope for litigation: wherever possible, an attempt has been made to avoid ambiguity in the provisions that invariably give rise to rival interpretations. The objective is that the tax administrator and the tax payer are ad idem on the provisions of the law and the assessment results in a finality to the tax liability of the tax payer. To further this objective, power has also been delegated to the Central Government/Board to avoid protracted litigation on procedural issues.
- Flexibility: the structure of the statute has been developed in a manner which is capable of accommodating the changes in the structure of a growing economy without resorting to frequent amendments. Therefore, to the extent possible, the essential and general principles have been reflected in the statute and the matters of detail are contained in the rules/schedules.
- Ensure that the law can be reflected in a Form: for most taxpayers, particularly the small and marginal category, the tax law is what is reflected in the Form. Therefore, the structure of the tax law has been designed so that it is capable of being logically reproduced in a Form.
- **Consolidation of provisions**: in order to enable a better understanding of tax legislation, provisions relating to definitions, incentives, procedure and rates of taxes have been consolidated. Further, the various provisions have also been rearranged to make it consistent with the general scheme of the Act.
- Elimination of regulatory functions: traditionally, the taxing statute has also been used as a regulatory tool. However, with regulatory authorities being established in various sectors of the economy, the regulatory function of the taxing statute has been withdrawn. This has significantly contributed to the simplification exercise.
- Providing stability: at present, the rates of taxes are stipulated in the Finance Act of the relevant year. Therefore, there is a certain degree of uncertainty and instability in the prevailing rates of taxes. Under the Code, all rates of taxes are proposed to be prescribed in the First to the Fourth Schedule to the Code itself thereby obviating the need for an annual Finance Bill. The changes in the rates, if any, will be done through appropriate amendments to the Schedule brought before Parliament in the form of an Amendment Bill.

#### Major Changes in comparison with the present tax structure:

- The draft tax code proposes a new tax rate of 35% for individuals havin income exceeding 10 crore.
- The standing committee on Finance headed by senior BJP leader Shri. Yashwant Sinha had proposed the tax stabs as follows :-

INCOME	TAX RATE
Income up to Rs. 3,00,000/-	NIL
Income between Rs. 3,00,000 to Rs. 10,00,000/-	10%
Income between Rs. 10,00,000 to Rs. 20,00,000/-	20%
Income beyond Rs. 20,00,000/-	30%

But these recommendations did not make into the draft Direct Tax code. These recommendations will result in huge revenue loss. The total revenue loss on account of recommended changes in income tax slabs and removal of cess works out to Rs. 60,000 crore approximately. Whereas the present structure of tax is as follows:

INCOME	TAX RATE
Income up to Rs. 3,00,000/-	NIL
Income between Rs. 2,00,000 to Rs. 5,00,000/-	10%
Income between Rs. 5,00,000 to Rs. 10,00,000/-	20%
Income beyond Rs. 10,00,000/-	30%

- 1. The draft Direct Tax Code-2013 proposes to reduce the age for tax exemption for senior citizens to 60 years from 65 years.
- 2. The new draft tax code widens the base for levy of wealth tax. The revised code captures all assets for wealth tax, whether physical or financial, thereby removing the distinction between physical and financial assets. Wealth tax is proposed to be levied on individuals, Hindu Undivided Family (HUF) and private discretionary trusts at the rate of 0.25 %. The threshold for levy of wealth tax in the case of individual and HUF shall be Rs. 50 crore. According to current tax norms, every individual and HUF who has wealth exceeding Rs. 30 lakh is required to pay wealth tax and the wealth tax rate is 1%.
- 3. With a view to provide parity in treatment of insurance products and mutual fund products, the new Direct Tax Code proposes to levy income distribution tax on equity linked insurance products on the lines of equity oriented mutual funds.
- 4. The new tax code proposes additional tax @ 10% on recipient of dividend ( liable to dividend distribution tax) exceeding Rs. 1 crore. Under the Income Tax Act, the dividend distribution tax is to be levied at the rate of 15%.
- 5. The revised DTC says the provisions of Income from House Property shall not apply to the house property or any part of the house property which is used for business or commercial purposes.
- 6. The new tax code says the amount of rent received in arrears or the amount of rent which is not realized from a tenant and is realized subsequently shall be deemed to be the income from house property of the financial year in which such rent is received or realized.
- 7. For the purposes of the dedication in respect of interest on loan taken for self-occupied house property, the loan given by the employer should also qualify for this concessions.
- 8. Further certain novel provisions are also included such as additional tax levy on certain persons having high net worth such as dividend tax levy on dividend income earned by resident shareholders in excess of Rs. 10 million.
- 9. With a view to provide smooth transition from IT Act to Direct Tax Code, the new tax code says provisions will be made for treatment of losses remaining to be carried forward and set off as per the provisions of the existing Income Tax Act on the date on which DTC comes in to effect.
- Other Important Highlights of the Direct Taxes Code
- Proposal to levy dividend distribution tax at 15 per cent.
- Exemption for investment in approved funds and insurance schemes proposed at Rs. 150,000 annually.
- Proposed bill has 319 sections and 22 schedules against 298 sections and 14 schedules in existing IT Act.
- Many provisions in Income Tax Act will be a part of DTC as well.
- Mutual Funds/ULIP dropped from 80C deductions : Income from equity-oriented mutual funds or ULIP shall be subject to tax @ 5%
- Fringe benefits tax will be charged to the employee rather than the employer.
- Political contribution of up to 5 percent of the gross total income will be eligible for deduction.

#### CONCLUSIONS

The DTC 2013 is presently a draft version which can be implemented only after it is presented before the Indian Parliament where. The fate of the DTC 2013 continues to be is uncertain. Nevertheless, DTC 2013 provides an opportunity to assess the impact of the proposals on current structures and business models. Based upon recommendation of the Parliamentary Standing Committee on Finance, the Code provides for investment linked incentives to specified businesses such as generation of power, infrastructure facility, hospital, hotel, cold chain facility, etc. However, no deduction is allowable on expense incurred to acquire land, goodwill or financial instrument.

The efforts of the Government to introduce a simpler tax regime are welcome but most of the Code seemingly contains provisions similar to the current legislation with only a few exceptions.

This code is not an attempt to amend the Income Tax Act, 1961 nor it is an attempt to improve upon the present Act, It is an overall new exercise in which assumption which have held the ground for many years have been discarded

India has long advocated its preference for a modern, stable and simple tax regime. Whether the DTC meets these criteria are something that will be undoubtedly debated as one analyses the fine print. However, it is the tax administration's implementation that will determine the long-term impact of the new tax regime.

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