

## IMPACT OF DIRECT TAX CODE ON INSURANCE (A STUDY FROM INDIVIDUAL PERSPECTIVE)

Dr. Sunil Gupta\*

Madhu Arora\*\*

---

### ABSTRACT

*As income Tax code, 2009 will come into force from 1<sup>st</sup> April, 2012. is a most radical fiscal roadmap for India it is expected that it will have large impact on assesses as well as insurance companies. In present study it is proposed to know the impacts of new code.*

*Insurance business not only is a tool for an individual for security, saving and investment but also helps to mobilize and canalize significant amounts of saving and investments in corporate and government bonds, a commercial mortgage and equity. After privatization of insurance and establishment of IRDA insurance business has opened opportunities for carrier and investment for rural individual it may be required for security and investment but for urban population it is a tax saving instrument also.*

*In the present study authors have observed a number of implications for the insurance sector both life and non life and found that under DTC only sum paid towards a contract for an annuity plan of any insurer is eligible for a deduction. Payments received from maturity is taxable except received in case of death on the condition premium should not exceed five percent of the capital sum assured in any year during the term of the policies system of taxation will continue. More than 90% of selected assesses takes positive for saving and investment as exemption limit go higher in addition to other benefits. Earlier life insurance companies were being taxed at confessional rates but now they will be taxed at normal corporation rate i.e.30 percent. Also they will have to pay five percent distribution tax seek for give some relaxations.*

**Key words:** *Insurance, Tax, Individual*

---

\*Associate Professor, Indira Gandhi National Open University

\*\* Assistant Professor, Fairfield Institute of Management and Technology, Delhi-37

(Affiliated to GGSIP University, Delhi)

*The present study is exploratory in nature.*

*Primary data will be used collected from insured and insurers.*

*Chi Square test will be applied to analyze the data. This paper will be useful for individual for investment and tax planning for individuals in insurance business. It will also helpful to insurance companies to know what new code is going to contribute.*

## **INTRODUCTION**

The Income Tax Act 1961 is still in force but has been amended time and again by the Annual Finance Acts and other Amendments Acts. It has, therefore become very complicated both for the administrative authorities and the tax payers as more than 5,000 amendments have been made in this act. In view of quick changes made in the Act taxpayers and authorities have to undergo a rigorous exercise of learning, unlearning and relearning of the law almost every year. The time has come when it has become demand of the time to introduce a more scientific and understandable fresh enactment or redrafting of the present Act. In August, 2009 the government unveiled the blueprint of what could be the most far reaching reform of the direct tax framework in more than half a century old Income tax Act, 1961 and bring all direct taxes like wealth tax, gift tax under its purview, may be on acceptance our finance minister is confident that the government will be in a position to implement the Direct Tax Code from April 1, 2012 In the present study authors have studied impact of Direct Tax Code on assesses as well as insurance companies. Observed a number of implications for the insurance sector both life and non life and found that under DTC only sum paid towards a contract for an annuity plan of any insurer is eligible for a deduction. payments received from maturity is taxable except received in case of death on the condition premium should not exceed five percent of the capital sum assured in any year during the term of the policies system of taxation will continue.

### **The Income Tax Law (act 1961) amended up to date follows:**

1. The provisions of Income Tax are contained in the I.T.Act, 1961 which extends to the whole of India and became effective from 1<sup>st</sup> April, 1962(Section 1): Act contains determination of Taxation Income, Determination of Tax liability, Procedure for assessment, Appeals, Penalties and prosecutions, Power and duties of various I.T.authorities. It has 33 chapters, subdivided in subheads in alphabetical order. Finance Minister presents a budget every year before parliament.

2. The Income Tax Rules 1962 amended up to date: Section 295 of Income Tax Act has given power to CBDT to make such rule, subject to the control of central government for the whole or any part of India.
3. Circulars, Clarifications issued from time to time by Central Board of Direct Taxes (CBDT): such circulars are binding upon the I.T. authorities but the same are not binding on the assesses although the assesses can claim benefit under such circulars.

Judicial decisions: any decision given by Supreme Court becomes a law which will be binding on all the courts, Appellate Tribunals, the I.T. authorities as well as all the assesses. Where there are apparently contradictory rulings by the Supreme Court, the decision of larger bench should always prevail

## **RESEARCH METHODOLOGY**

**The design of the research helps to get the ways for doing the work. Summary of the proposed research work is given as under**

**As the purpose of research is to discover answers to questions through the application of scientific procedures, research objectives can be one of the following categories:**

1. Exploratory research to gain familiarity with a phenomenon or to achieve new insights into it.
2. Descriptive research is to portray accurately the characteristics of a particular individual, situation or a group.
3. Diagnostic research is to determine the frequency with which something occurs or with it is associated with something else.
4. Hypothesis testing research to test a hypothesis of a causal relationship between variables

The present study is exploratory in nature.

## **OBJECTIVES OF THE STUDY**

1. To know the opinion of man individual on direct tax code from insurance point of view
2. To explore the views reservations about insurance in direct tax code of woman individuals.

3. To understand views expressed about insurance discussed in direct tax code by individual senior citizen.
4. To analyze whether views expressed by three classifications described above are homogeneous or not.

### **Hypothesis**

It is assumed that the three classifications are homogeneous in so far as the opinion of three groups of people about Direct Tax Code from insurance point of view. It means there exists no difference among the three classes of people on the issue.

### **Sample**

**Primary as well as secondary data has been used for present paper. Secondary data from websites and Journals and primary data from 200 people.**

Three samples were taken from 60 men below 65 years, 75 women and 65 senior citizens.

Purposive i.e. deliberate sampling was used to select each person who knows about change in direct tax code from insurance point of view that best represent his/her feeling about Direct Tax Code.

### **Analysis of New Direct Tax Code:**

Overall:

1. Uniform code for direct taxes: it has been proposed in new code that all the direct taxes to be brought under a single uniform code. It will facilitate tax payer.
2. Simple language: all directions and mandates have been conveyed in active voice. It will help the taxpayers which are expected to increase significantly with introduction of modified provisions by eliminating confusing explanations for non experts. Also extensive use of formulae and tables has been made.
3. Flexibility: The essential and general principles have been reflected in the code and the explanation is in rules/schedules. these are flexible in the circumstances so required
4. Redefining provisions: in order to enable a better understanding of tax legislation, provisions relating to meaning, incentives, procedure and different proposed rates have been consolidated.
5. Law in one form: the A-10 structure of the law has been designed so that it is capable of being logically reproduced in a Form.

6. Assurance of Stability: Till now, the rates of taxes are stipulated in the Finance Act of the Current Year. Therefore there is certain degree of uncertainty and instability in the prevailing rates of taxes. In New Direct Tax Code, all rates of taxes are proposed to be prescribed in the First to the Fourth Schedule to the code itself thereby inculcating the need for an annual finance bill. The changes in the rates will be done through appropriate amendments to the schedule brought before Parliament in the form of an Amendment Bill.

**Analysis of data:**

This analysis has three parts:

Impact of insurance on individuals

Impact of insurance on business profits

Impact of DTC on insurance companies

Non parametric Test (Chi Square Test) has been used as a test of homogeneity which is an extension of chi square test to analyze the data as we have used more than two samples.

The calculated value of chi square is greater than the table value. Hence hypothesis is rejected...

The three classifications are not homogeneous about new code.

Impact on Assesses:

For individuals

Increasing limit of Section 80C is a recommendable step. This will pave the way for saving and investment for individuals.

Table 1:

Impact of Section 80C:

Situation	Present	DTC
Limit	Deduction is available up to 1 lakh for various instruments including premium paid for insurance policy, PF etc. including specified investments.	Only amount paid towards a contract for an annuity plan of any insurance company will be eligible for a deduction of Rs. 3 lakhs

Table 2:

Additional deduction:

Situation	Present	DTC
Amount	Available for Health insurance and Children Education	Proposes that premiums paid to LIC to be included for those policies where the premium does not exceed five percent of the capital sum assured

EEE system of taxation (i.e. contributions are taxfree, accretions are tax-free and withdrawals are also tax-free) will continue as there is no change for this benefit.

DTC is willing to charge tax on the proceeds on maturity of life insurance policies (except received in case of death of insured). The exception is in case of policies where the premium paid does not exceed five percent of the sum assured or the insurer has paid distribution tax. In such cases, the life insurance company would have to withhold tax at specified rates from these receipts being paid to insured. Mention made so far in this direction was half hearted and lacking special attention to women and senior citizens. Thus with the change in composition of demography the problem of providing income from annuity becomes acute.

Table 3:

Reaction of individuals towards DTC

Individual	F	A	I	Total
Man below 65 years	40	15	05	60
Woman below 65 years	35	20	20	75
Senior citizens	25	25	15	65
Total	100	60	40	200

Table 4:

Expected frequencies:

30	18	12	60
37	23	15	75
33	19	13	65
100	60	40	200

Table 5:

Calculation of chi square

$(O-E)^2$	$(O-E)^2/E$
100	3.333
4	0.108
64	1.939
9	0.500
9	0.391
36	1.894
49	4.083
25	1.667
4	0.308
	$\sum (O-E)^2/E$

$$v=(r-1)(c-1) = (3-1)(3-1) =4$$

$v=4$ , chi square at 0.05=9.488

The computed value of chi square is greater than the table value. Hence the hypothesis is rejected. The three classifications are not homogeneous in so far as the opinion of the three different groups of people about national policy under consideration is considered.

Impact on business profits

Expenses paid for insurance premium is allowable expense under the head profits and gains of business and profession. Hence income is reduced with the amount of insurance premium paid

on goods and persons of business. There is no change in new code about it. Hence no effect on business profits is observed.

Existing exemptions retained for individuals, senior citizens and the handicapped..

Life insurance and new pension scheme will be EEE

Impact on Insurance Companies

Earlier life insurance companies were being taxed at concessional rates but now they will be taxed at normal corporation rate i.e.30 percent. Also they will have to pay five percent distribution tax. It will increase tax liability of insurance companies.

## **CONCLUSION**

For an individual insurance has been not only a source of security and investment but a tool for tax planning up to a certain limit this limit has been raised in proposed tax code. So impact for an individual is in mixed blend. As an individual it may be beneficial but as business point of view it is increasing tax burden on insurance companies. The three classifications are not homogeneous in so far as the opinion of the three different groups of people about direct tax code about insurance due to not taking care of all individuals as specific attention is expected by some categories.

## **REFERENCES**

1. International taxation- A Monthly Journal on International Taxation, Taxmann Allied Services (P) Ltd., volume 1, Issue 5 march 2010.
2. Corporate Professionals Today- A fortnightly Magazine on direct taxes, Taxman Allied Services (P) Ltd., Volume 17, Issue 6, March 16 to 31,2010.
3. [http://incometaxindia.gov.in/download\\_all.asp](http://incometaxindia.gov.in/download_all.asp)
4. <http://incometaxindia.gov.in/HISTORY/PRE-1922.ASP>
5. <http://economictimes.indiatimes.com/quickiearticleshow/5553295.cms>
6. <http://www.livemint.com/2009/08/16231227/A7B37DCA-62D0-420C-9144-95CAF5CEC986ArtVPF.pdf>
7. [http://www.stockmarketsreview.com/news/india\\_direct\\_tax\\_code\\_2009\\_review\\_analysis/](http://www.stockmarketsreview.com/news/india_direct_tax_code_2009_review_analysis/)
8. <http://www.feeleminds.com/articles/view/333/analysis-of-direct-tax-code>
9. <http://www.deccanherald.com/content/19934/decoding-direct-tax-code.html>

10. <http://www.deccanherald.com/content/19934/decoding-direct-tax-code.html>
11. <http://www.feeleminds.com/articles/view/333/analysis-of-direct-tax-code>
12. <http://blogs.hindustantimes.com/cutting-the-edge/2009/08/16/the-new-direct-tax-code-needs-whitewashing/>
13. <http://www.financialexpress.com/news/direct-tax-code-pursues-structural-change/502699/>
14. <http://indiabudget.nic.in/>
15. Ahuja, Girish 'Systematic Approach to Income Tax, Bharat Law House Pvt Ltd. New Delhi, 2009
16. Chandra Mahesh and Shukla D.C., Income Tax Law and Practice, Pragati Publications, New Delhi, 2009
17. Singhania Monica, Student Guide to Income Tax, Taxmann Publication Private Limited, 2009