IMPACT OF DIRECT TAX CODE ON INDIVIDUAL ASSESSEE

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INTRODUCTION

In a civilized society it is necessary to have a good governance. Good governance need good government. Good government need revenue to meet administrative expenses of running the government and also for other social welfare measures like providing education, medical treatment, infrastructure and other necessary facilities for the society. The main source of revenue of the government is tax which is imposed directly on a person's income earned during a financial year. Income tax is one of the important sources of revenue for the government and it has also been utilized for meeting various other socio-economic objectives of the government.

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Income-Tax is a direct tax, levied and collected by the Central Govt. The provisions of income-tax are contained in the income-tax Act, 1961 which extends to the whole of India and became effective from Ist day of April, 1962. The Govt. has set-up a separate income-tax department for this purpose. Income-tax is a very important source of income of the Central Government. Income-tax department functions under the direct control and supervision of Central Board of Direct Taxes (CBDT) which is under the Finance Ministry of the Government of India. Income-tax is a tax on income, levied on the previous year's total taxable income of an assessee (person) at the rates applicable during the current year. The rates of income-tax are given in the 'Finance Act', passed by the Parliament every year. These rates are divided into various slabs of income. For every income-slab there is a different rate of income-tax. As the income slab goes up, the rate of income-tax also goes up. As a result more income-tax is charged on higher income.

Income-tax Act, 1961, had been amended at several times and the following amending legislations have been passed from time to time to amend this Act:-

i) Taxation Laws (Amendment) Act, 1962, 1965, 1967, 1970, 1972, 1975, 1978, 1984, 1986, 1991 and 2006.

ii) Income-tax (Amendment) Act, 1963, 1965, 1972, 1973, 1976, 1981, 1989, 1996, 1997 and 1998.

iii) Direct Tax Laws (Amendment) Act, 1964, 1974, 1987 and 1989.

Income-tax Act, 1961 has become the most complicated Act of the country due to the amendments at several times. The Jurists, The Accountants and the Economists call it as the 'most complicated Act of the world'. Government of India is also aware of this fact and has been trying to simplify the tax structure. For this purpose the Central Govt. appointed a 'Direct Taxes Enquiry Committee' in 1970 under the chairmanship of Dr. K.N. Wanchoo to suggest measures to curb the evil effects of black money on the national economy. In 1977 the Choksi Committee was appointed under the chairmanship of Sir C.S.Choksi which submitted its interim report in December, 1977 and final report in October, 1978. This way the first solid attempt of the then Janta Government to simplify the tax structure and to bring some radical changes in the income-tax Act. Various amendments were made in the income-tax Act, 1961 incorporating the recommendations of the committee.

The present law of income-tax is complicated and impracticable which needs to simplify. The 'Chailleya Committee' under the chairmanship of Raja Chailleya was constituted to suggest for improvement and simplify the present tax-structure. The committee submitted its report in 1991-92 and the government has started implementing its suggestions from 1992-93 budget. The rates of income-tax have been reduced and the difference between the highest and lowest tax rates has been reduced. Now the lowest income-tax rate is 10% and the highest rate is 30%. It was expected that several effective measures would be taken and effective improvements in the procedure would be effected in the budget 1995-96, but nothing expected was done so far.

An Expert Group of 9 members under the chairmanship of Dr. Amaresh Bagechi was constituted by the Govt. of India, through its order dated 6th August, 1996 to examine the existing income-tax structure and to suggest changes in the light of new economic policy and tax reforms. The Group was to submit its report on the proposed new tax laws by 31st Dec., 1996, which was extended to 28th Feb., 1997. After an extensive discussion with professionals and other bodies in the area of income-tax. The Expert Group submitted its report during the limited time available. The report is divided into fourteen chapters and highlights the salient changes in the income-tax for which the Bill is currently being drafted. It is expected that the tax structure would be simplified very soon so that the tendency of tax evasion by the assessee is prevented.

Direct Tax Code

The Finance Ministry has released a new Draft "Direct Tax Code", which was proposed to be come into existence with effect from Ist April, 2011. The new proposals of draft seem to be some really big changes in Taxation Laws if "Direct Tax Code" comes into existence in year 2011. The major changes which can affect a common man may be as follows:-

i) The new slab of tax for an individual assessee would be:-

Upto 1.6 lacs	:	Nil
1.6 to 10 lacs	:	10%
10 – 25 lacs	:	20%
Above 25 lacs	:	30%

It may become the biggest change in the history of taxation law if it actually was made applicable because almost 98% of Indian will then pay 10% tax because majority of the people's taxable income is below 10 lacs.

2. Corporate tax will be 25% from 30%. This will reduce the tax burden of companies which will be helpful in increasing their profitability to some extent.

3. The deduction u/s 80C may be raised to 3 lacs in comparison to present Rs. 1 lac. It will be encouraging for tax payer to invest more in different saving schemes approved under this section.

4. Tax on maturity amount from insurance policies, PPF, EPF and GPF will be big turn-off of new draft. As per proposals of new draft the amount accrued till 2011 will not be taxable but after 2011 the amount received on maturity will be fully taxable.

5. The exemption you get on interest on House loan upto 1.5 lac will not be allowed as per new proposal in direct tax code. It will be great loss for tax payer who gets benefits of House loan interest in case of self occupied house.

6. Perquisites likes free lunch, interest free loan etc. which are at present either tax free or exempted upto certain limit will be fully taxable as per proposals of new direct tax code which will increase the tax liability of employees who are getting such type of perks from their employers.

7. Investment in Mutual funds, Shares, Bonds etc. will be treated long term capital assests after 3 years holding as compared to 1 year previously. Income from short term capital gain will be treated as normal income and will be taxed at applicable rate of tax on an individual.

8. Securities Transaction Tax (STT) will be abolished which at present is applicable on transactions of buying and selling shares.

These were some major proposals of original draft of Direct Tax Code but later on Finance Minister Pranab Murkherjee in his 2011-12 budget speech said that Direct Tax Code is proposed to be implemented from April 1, 2012 instead of April 1, 2011. Besides changing the date of implementation from 2011 to 2012 some other changes has also been proposed in the Direct Tax Code.

1) The proposed slab rates will be:-

Upto 2 lacs	:	Nil
2 lacs to 5 lacs	:	10%
5 lacs to 10 lacs	:	20%
Abvoe 10 lacs	:	30%

2) Long-term capital gains exemption on listed equities stays aloghwith STT. This will ensure that long-term capital investments are not discouraged. The short-term capital gains will be taxed at half your slab rate in whichever taxable income bracket you fall in.

3) Women assessee who at present enjoy an exemption limit over men could cease to enjoy this benefit.

4) Senior citizen will get extra relief with tax exemption upto income of Rs. 2.5 lacs.

As compared to Financial year 2011-12 the benefits to an individual assessee in 2012-13 may be presented as follows:-

1) An assessee having income upto Rs. 5,00,000 will get benefit of Rs. 2000 in his tax liability, which is only due to increase in exemption limit from 1,80,000 to 2,00,000.
2) An assessee having income upto Rs. 10,00,000 will get benefit of Rs. 22,000 (i.e. 2000 + 20000 on increase in slab from 5 lacs - 8 lacs to 5 lacs – 10 lacs in 20%) in his tax liability.
3) An assessee having income above 10 lacs will not get any extra benefit in his tax liability other than Rs. 22,000 which is available to an assessee having income upto Rs. 10 lacs.

How many people paid tax at what rate:-

1) There are 3.25 crore people who are paying tax as per data record available from last year budget.
2) 95.25% of the total individual assessee fall within the slab upto Rs. 5 lacs income, who contribute 30% of total taxes collected.
3) 2.05% of the total individual assessee fall within the income slab 5 lacs to 10 lacs and contributing 10% of total taxes collected.
4) 2.20% of the total individual assessee are in the income slab above 10 lacs and their contribution is 60% of the total tax collected.

From the above figures it is clear that majority of our individual tax payees are in the income slab upto Rs. 5 lacs i.e. 95.25% of total tax payee will get benefit of Rs. 2000 p.a. in their tax liability and remaining 4.75% of total tax payee will get Rs. 22000 p.a. in their individual tax liability. This shows that as far monetary benefit from 'Direct Tax Code' to an individual assessee is concerned, it is just an eyewash for tax payees which they generally get in an annual budget and even more tax benefit if it is an election budget.

As far simplification of tax procedure is concerned, there is no change in the procedure of filing of Return and other documents with the Income Tax Department. The only benefit to the Income Tax Department is that by increasing income tax exemption limit upto Rs. 2 lacs the tax payees number will reduce by 10-15% which will help the department in reducing their paper work to some extent.

From the above, you can see that due to these changes the 'Direct Tax Code' will be beneficial for a few income groups individual tax payees which is still an assumption on the basis of proposals of 'Direct Tax Code'. The picture will become clear only after it actually comes into force as a finance bill passed by the Govt. of India.

Government and many international agencies claim that the middle class population of India is 300 million strong and is more than the entire population of Germany. If we consider this 300 million people means at least 60 million families i.e. 60 million individual assesses. Our individual tax payees are only 3.25 crore, which means that 2.75 crore people still are not paying taxes. It is a question of great concern to find out these 2.75 crore people – Are they farmers (as agriculture income is tax free)? Are they businessmen (a chunk of whom earn in black)? Are they politician (who don't declare their income)?.

In order to increase the revenue from income-tax and to provide benefit to a maximum number of tax payees it may be suggested to increase taxable slabs until a certain point and reduce tax rates, may be considered as an effective measures to improve the present tax structure of India economy. Although it may cause some financial loss to Government revenue but in long run it will be beneficial for the economy by encouraging more people to give taxes at a reasonable rate.