Direct Taxes Code (DTC)

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ABSTRACT: -- The unconditional, inexorable aspect of the direct tax was a paramount concern of people in the 18th century seeking to escape tyrannical forms of government and to safeguard individual liberty. New Direct Taxes Code is a debatable issue and a matter of concern not only for the taxpayers but also to the tax consultants and tax administrators. This code is expected to come into force from 1st April 2012. Direct Tax Code is a new code and simplified version of an Income Tax Code which would eventually replace five decades old Income Tax Act. The Direct Taxes Code (DTC) is said to replace the existing Indian Income Tax Act, 1961. 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.

KEYWORDS:--Direct Tax Code, Income Tax

INTRODUCTION: --

A direct tax is generally a tax paid directly to the government by the person on whom it is imposed. In a general sense, a direct tax is one imposed upon an individual person (juristic or natural) or property (i.e.
real and personal property, livestock, crops, wages, etc.) as distinct from a tax imposed upon a
transaction. In this sense, indirect taxes such as a sales tax or a value added tax (VAT) are imposed only
if and when a taxable transaction occurs. People have the freedom to engage in or refrain from such
transactions; whereas a direct tax (in the general sense) is imposed upon a person, typically in an
unconditional manner, such as a poll-tax or head-tax, which is imposed on the basis of the person's very
life or existence, or a property tax which is imposed upon the owner by virtue of ownership, rather than
commercial use. Some commentators have argued that "a direct tax is one that cannot be shifted by the
taxpayer to someone else, whereas an indirect tax can be."

The main objective of the Code is to consolidate and amend the law relating to all existing direct taxes,
that is, income tax, dividend distribution tax and wealth-tax. Government wants to upgrade the direct tax
laws mainly to change the 50-year old Income Tax Act, 1961. The new Direct Taxes Code is expected to
abolish the unnecessary exemptions, moderate the tax rates increase the scope of tax base and reduce the
scope for disputes and minimize litigation. The first draft of the Direct Taxes Code was published in
2009 for public comments. The revised Direct Taxes Code has been published in June 2010 after
considering the valuable suggestions of various committees and individuals. If the Direct Tax Code is
implemented there will be big changes in taxation and also it is going to impact people in big way.
Direct Tax Code can lessen the tax burden. The Direct Tax Code is having the main objective of
eliminating the tax exemptions, when the Direct Tax Code is implemented the transitions with the
objective of tax benefit can be invalidated by the income tax commissioners. The complexities in the
existing tax laws, a need for tax law that can match the rapid economic growth of the country lead the
search for new tax law. Direct Tax Code is designed to provide stability in the regime as it is based on
well accepted principle of taxation and best international practices. It will eventually pave the way for a
single unified taxpayer reporting system. The analysis made with the help of both primary through
structured questionnaire and secondary data through various sources. Finally, it attempts to arrive at
conclusions and to offer suitable suggestions for the proper implementation of Direct Tax Code for the
benefit of entire societal people. Direct Tax Code,2009 is a draft proposal to make existing tax structure
easy and simple so that tax payers themselves can compute and file Income Tax return .DTC is designed
to provide stability in the tax regime as it is based on well accepted principles of taxation and best
international practices. DTC is a new code and simplified version of an Income Tax Code which would
released. If the DTC is implemented there will be big changes in Taxation and also it is going to impact
people in big way. An opt statement for the DTC is “Better late than never” DTC which is supposed to replace the old Income Tax Act, 1961 is delaying. The tax code makes radical changed in all areas of taxation. It lowers the incidence of tax on corporate and individual incomes but reintroduces wealth tax and capital gains tax albeit at lower levels. The basic objective of this tax code is to broad base the tax umbrella. It is expected that the new code will facilitate higher consumerism and thereby promote economic growth. Experts have already started to analyze the proposed changed of the existing direct tax system. The DTC already attain mixed reactions from different corners regarding different changes of the existing tax system. The thrust of the code is to improve the efficiency and equity of the Indian tax system by eliminating distortions in the tax structure, introducing moderate levels of taxation and expanding the tax base. The attempt is to simplify the language, remove ambiguity, provide stability and adopt best international practices.

LITERATURE REVIEW:

Vikas Vasal (November, 2009), made a study on “Direct Tax Code a mixed Bag”, he states that the thrust of the DTC is to improve the efficiency and equity of our tax system and the aim of the DTC is also to simplify the language and the layout of the provisions for a common man to better understand tax obligation. C.A. Uma Kothari (November 12th, 2010), made a study on “Direct Tax Code 2010- some suggestions for simplifications and with a long-term perspective”, she has given some suggestion in this article for simplifications for DTC, like she has advised that the provisions (DTC) should be drafted with a long term perspective to cover all Direct Taxes without any doubt or ambiguity and in a simple manner Satya Ranjan Doley (June, 2010), made a study on “Direct Tax Code 2009: Boone or Bane”, in this article he has analyze some of the drawbacks of the proposal which need to be taken into account before making it act. i.e., new tax slab, he says that the proposed DTC tax slabs would give more benefit to the upper classes group than that of lower group. Dr. A Jayakumar and R Elavarasan (March, 2012), made a study on “Direct Tax Code An overview”, in this article the authors are stated that DTC will surely help in the growth of our economy because the tax rate has been reduced for person who earns up to Rs10,00,000, this reduction in tax may motivate them to contribute that money in the development of economy. Babar Zaidi (August31st, 2012), made a study on “DTC proposals”, in this article he stated that DTC and GST which are set to transform the Direct and Indirect Tax structure are aimed to improving compliance by simplifying the tax structure and lowering the tax rates. M. Govindarajan
(September 6th, 2010), made a study on “Direct Tax Code Bill Introduced”, he has stated the new income Slab for individuals under DTC and some of the tax rate for companies like companies can carry forward MAT credit for 15 years. Subhash Kumar Jha (September 1st, 2010), made a study on “Direct Tax Code, Lost the original”, in his article he has said that when the actual proposal for DTC bill was presented, it still gave a very positive signal with some areas of concerns like bringing EET regime for all including PF, MAT based on asset base. Preeti Pahwa (August 13, 2009), made a study on “Direct Tax Code: Tax Liability and You”, in this article the author states that the direct tax code bit of a mixed bag for individuals.

OBJECTIVES OF THE STUDY:--

1) To study the awareness about Direct Tax Code.
2) To study role of DTC in eliminating tax avoidance.
3) To study Positive and Negative impact of Direct Tax Code.

RESEARCH METHODOLOGY:--

Researcher for collecting the required data that is primary data and secondary data uses the following two different sources

Primary Data: Primary data means first hand information collected by researcher.

Secondary Data: Secondary data means the already published data and it is used for conceptual framework. Here the secondary data is collected through the Journals and Research Paper, Newsletters.

Highlights of the Direct Taxes Code:--

From 20.5 percent.

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, against 120,000 currently

Proposed bill has 319 sections and 22 schedules against 298 sections and 14 schedules in existing IT Act.

Once enacted, DTC will replace archaic Income Tax Act.

However, 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.

**Salient features of DTC:**

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 conveyed in active voice. Similarly, the provisions 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.

**WHY INDIA NEED DIRECT TAX CODE:**

There are several reasons behind the need of DTC as follows: Provides stabilities in direct tax rates Increase tax to GDP ratio Corporate tax 30%(no surcharge and cess) Wealth tax “cut off” increased DTC bill has had its share of criticism post its proposal which has eventually been the reason for delay in applicability of it. Direct Tax Code was first meant to be applicable from 1st April, 2012 will now
finally apply from 1st April, 2013. The Direct Taxes Code Bill which was introduced in Parliament last year proposes to replace the 50-year old Income Tax Act.

**CONCLUSIONS: --**

When the first draft of DTC i.e., Direct Tax Code 2009, which had more than 5000 amendments to the current tax system, Income Tax Act 1961, was opposed by all stakeholders, but the second draft, Direct Tax Code 2010, was introduced with the various favorable changes which helps to the individual taxpayer and also for corporate then many stakeholders welcomed it, it still has not yet satisfied majority of the corporate houses. Here it must also be noted that when Government implement VAT in 2005. It was widely criticized by many but it is moving successfully. The code aims to reduce tax rate which seems to be a very positive and progressive initiative from the government. The delay in implementation of the bill. The implementation of the proposed DTC should reduce both tax evasion and costs of compliance and should eliminate most of the distorted behavior coming from tax avoidance. The government will need to ensure the provisions of the DTC to be implemented effectively and successfully to safeguard the country’s long term ambitions. The DTC in India is very much discussed and criticized now a day, even though, the basic aim behind DTC is simple and helpful to the people. It will surely help in the growth of our economy because the tax rate has been reduced for person who earns up to ten lakhs. This reduction in tax may motivate them to contribute their money in the development of the economy, like establishing business firms, building hotels etc., which play major role in the growth of economy. DTC will have a direct impact on tax saving and calculations. With the implementation of DTC, government encourages savings and contributed to infrastructural development.

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