

Assessee Perception towards Direct Tax Code (DTC)

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Abstract

The New Direct Tax Code which was said to be introduced from the financial year, 2012-13 replacing the five decade old Income tax Act, 1961 has the objective to make the Indian tax structure straightforward. The Income Tax Act 1961 has become very complex and virtually unintelligible to the common man by virtue of a complicated structure, numerous amendments, frequent policy changes and a multitude of judgments that gave varying interpretations to already undecipherable provisions. This complexity has not only increased the cost of compliance for the average tax payer, but also made it costly for the administration to collect tax. For the replacement of Income Tax 1961, the new Direct Tax Code which is completely new gives moderate relief to tax payers, reduce unnecessary exemptions and improve compliance for improving collections. The tax payers themselves can compute and file Income Tax Returns without the help of experts. This paper highlights the overview of the Direct Taxes Code in a nutshell.

Keywords

Assessee, Income Tax Act, Direct Tax Code

I. Introduction

The Income Tax Act was passed in 1961 and has been amended every year through the Finance Acts. A lot of things have changed since then. No doubt, many things have been implemented by modifying the IT Act from time to time. Thus, the IT Act today is very difficult to interpret, and has resulted in many disputes and court cases. Of late, Income Tax department of India has put the new proposal for direct tax in front of Government of India and Government has unveiled the draft of a brand new direct tax law, which will replace the five-decade old Income-Tax Act. This is known as Direct Tax Code (DTC). The aim of New Direct Tax Code (DTC) is to make the current tax structure in India straightforward. An important part of the budget every year has been the detailing of the tax rates. However, with the introduction of the new direct tax code, the tax rates will not be part of the budget presented to Parliament every year. The new code will completely overhaul the existing tax proposals for not only Assessee (a person by whom income tax or any other sum of money is payable under the Act), but also corporate houses and foreign residents. It has been drawn with inspiration from the prevailing tax legislation in US, Canada and UK. It is a topic of interest and a matter of concern for every taxpayer in India. India wants to modernize its direct tax laws, mainly its income tax act which is now nearly 50 years old. The government needs a modern tax code in step with the needs of an economy which is now the third largest in Asia. The new tax code is expected to widen the tax base, end unnecessary exemptions, moderate tax rates and add to the government's coffers.

The direct tax code seeks to consolidate and amend the law relating to all direct taxes 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, minimize litigation and formulate the strategy relates to checking of erosion of the tax base through tax evasion. 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 Philosophy behind such replacement is to make the Direct Taxes Code very easy and simple so that tax payers themselves can, without help of experts compute and file Income Tax Returns.

In planning and framing an ideal Income Tax Structure of a welfare state like ours the objectives are to give relief to the maximum possible extent to the lower and middle income group taxpayers and check creation of black money at one hand and to enable the Government to increase collection of tax revenue for development works on the other.

The Direct Taxes Code (hereafter referred to as the 'Code') is not an attempt to amend the Income Tax Act, 1961; nor is it an attempt to "improve" upon the present Act. In drafting the Code, the Central Board of Direct Taxes (the Board) has, to the extent possible, started on a clean drafting slate. Some assumptions which have held the ground for many years have been discarded. Principles that have gained international acceptance have been adopted. Hence, while reading the Code, it would be advisable to do so without any preconceived notions and, as far as possible, without comparing the provisions with the corresponding provisions of the Income Tax Act, 1961.

A. Highlights of DTC

Earlier Income Tax Act and Wealth tax Act are abolished and single code of Tax, DTC in place. Some of the major highlights of New DTC are –

1. Concept of Assessment year and previous year is abolished. Only the "Financial Year" terminology exists.
2. Only status of "Non Resident" and "Resident of India" exists. The other status of "resident but not ordinarily resident" goes away.
3. Earlier the terminology of 'Assessee' was meant for the person who is paying tax and/or, who is liable for proceeding under the Act. Now it has been added with 2 more definitions namely a person, whom the amount is refundable, and/or, who voluntarily files tax return irrespective of tax liability.
4. Income to be now classified under two broad categories:
 - Income from special sources; and
 - Income from ordinary sources.
5. Income from Special Sources includes income taxable at special rates like income of non-residents, winning from lotteries and horse races etc. Income from Ordinary Sources includes:
 - Income from employment;
 - Income from house property;
 - Income from business;
 - Income from capital gains; and
 - Income from residuary sources.
6. Housing Loan Interest for Self Occupied house disallowed.
7. Returns to be processed within one year, otherwise no demand notice can be raised.
8. VRS Gratuity and commuted pensions, taxable if not invested in approved savings, will be taxable on withdrawals.
9. Government and Non-Government Taxation Difference removed.
10. Savings limit eligible for deduction increased to Rs. 3 lakhs from the current Rs. 1 lakh.

11. Deductions like 80D, 80DD, 80DDE, 80U, 80E, 80 GG retained.

12. No changes in the system of Advance Tax, Self-Assessment Tax and also TDS.

13. Government assessee is covered in Direct Tax Code. Even though they are not liable for Income Tax / Wealth Tax.

B. Salient Features of The Code

The Code is a sincere attempt towards simplifying the direct tax laws in India. Briefly, the salient features of the Code are as under

1. Single Code for Direct Taxes

All the direct taxes have been brought under a single Code and compliance procedures unified.

2. 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. This is sought to be achieved, inter alia, by using simple language in drafting so as to convey, with clarity, scope and amplitude of the provision of law.

3. Reducing the Scope for Litigation

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.

4. 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.

5. To 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 A-10 structure of the tax law has been designed so that it is capable of being logically reproduced in a Form.

6. 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.

7. 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.

8. 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 there by obviating the need for an annual Finance Bill. The changes in the rates, if any, will be done through appropriate amendments.

II. Objectives of the Study

1. To study the awareness of the respondents about Direct tax code.
2. To analyze the demographic factors influencing the awareness of the respondents about Direct tax code.
3. To find out the valuable suggestions and the willingness of selected respondents to accept Direct tax code.

III. Scope of the Study

Though the study represents the assessee awareness, their adaptability and their concern about direct tax code in the state of Uttarakhand. Due to very small sample size, the findings may not be a true representation but the recommendations of assessee about DTC will give a better prospect when it will be implemented.

VI. Research Methodology

The study examines perception of tax payers regarding Income Tax System and Direct Tax Code thereto. This chapter deals with sampling design, data collection, data analysis, and the statistical tools applied in the analysis of data and limitations of the study.

A. Study Area

For studying the perception of tax payers regarding Income Tax System and Direct Tax Code, data has been collected from the residents of Hardwar, Roorkee & Dehradun (Uttarakhand).

B. Sample Size

Sample size of respondents are of 170, which has been taken by using random sampling technique.

C. Sources and Collection of Data

For the purpose of the study, two sets of data have been collected. One set of data has been collected from secondary sources which includes the various books, journals, Finance Acts, Explanatory Memorandum on the Budget of the Central Government, Reports of the various committees/commissions, Indian Economic Survey, Income Tax Act 1961, Income Tax Rules 1962, various announcements, circulars and notifications of Central Board of Direct Taxes, Budget speeches of Finance Ministers, Reports of Comptroller and Auditor General of India on Direct Taxes, Economic and Political Weekly, newspapers (Economic Times, Financial Express, Business Lines) etc. Moreover, websites of Income Tax Department, Ministry of Finance, Ministry of Statistics and Comptroller and Auditor General of India have also been used for collection of data. The second set of data has been collected from residents of Uttarakhand by administering a questionnaire to them includes reasonability of tax rates, tax evasion/corruption, computerisation of Income Tax Department, problems faced by taxpayers, satisfaction level regarding various factors and various opinion statements regarding simplification of tax laws, taxpayer friendly measures etc.

V. Analysis and Discussion

Vast amount of scattered data is transformed into valuable information database with the help of analysis using statistical tools.

Table 1: Age-wise breakup of the sample size

Age Group	Number of Respondents	Percentage
25-35	95	55.88
35 - 45	41	24.12
45 - 55	23	13.53
55 & above	11	6.47
Total	170	100

It is evident from Table 1 that 95 (55.88 per cent) of respondents are in the age group of 25 to 35 whereas 11 (6.47 per cent) of respondents are in the age groups of 55 and above. This shows that young people are more aware about direct tax code.

Table 2: Gender-Wise Breakup of the Sample Size

Gender	Number of Respondents	Percentage
Males	103	60.58
Females	67	39.42
Total	170	100

Table 2, reveals that 103 (60.58 per cent) males dominates the awareness of DTC while in case of females, the number of respondents are only 67 (39.42 per cent). Result shows that out of the general male-female ratio, DTC is more popular among males.

Table 3: Qualification-Wise Breakup of the Sample Size

Qualification	Number of Respondents	Percentage
Graduates	75	44.12
Post Graduates	95	55.88
Total	170	100

Table 3, reveals that 75 (44.2 per cent) of the respondents are graduates whereas 95 (55.88 per cent) of the respondents are post graduates. This shows that more qualified respondents are more aware about direct tax code.

Table 4: Occupation-Wise Breakup of the Sample Size

Occupation	Number of Respondents	Percentage
Employees	126	74.12
Business/Profession	44	25.88
Total	170	100

Table 4, reveals the majority i.e., 126 (74.12 per cent) respondents belongs to employees of government/private sector companies are aware about DTC whereas 44 (25.88 per cent) respondents belongs to their own business or profession.

Table 5: Income-Wise Breakup of the Sample Size

Income Level	Number of Respondents	Percentage
Rs. 200000 to 500000	44	25.88
Rs. 500000 to 800000	56	32.94
Rs. 800000 & above	70	41.17
Total	170	100

It is evident from Table 5 that there is a positive relationship between increasing income and the awareness of DTC. This can be concluded because of the results have shown that 70 (41.17 per cent) respondents belongs to the income more than 8 lakhs per year, 56 (32.94 per cent) of respondents falls in the bracket of 5 to 8 lakhs per year. Further, a mere 44 (25.88 per cent) of respondents falls in the bracket of 2 to 5 lakhs per year. So, it can be concluded that if an assessee income is increasing, the awareness about DTC also increases.

VI. Recommendations of the Study

The government should introduce Direct Tax Code compulsory in order to have uniformity. Following recommendations are also drawn from the side of tax payers for New Direct Tax Code -

1. Public must be given training in computation of tax under Direct Tax Code.
2. The government should give a handbook to all assessee giving guidelines to compute tax under Direct Tax Code.
3. To abolish the problem of corruption and black money.
4. Tax benefit should be allowed on housing loan.
5. Limits of sec. 80C to 80U should be increases.
6. The government should review the income tax slabs and should make it assessee friendly. (tax-free income limit should be increased.)

VII. Conclusions

The Code shall replace the five-decade old Income-tax act. The new tax code aims to make the system more efficient and easy for tax payers, with simplified rules and regulations. DTC has integrated all Direct Taxes as a single Act. The aim of the DTC is to simplify tax legislation minimize litigation, broaden tax base and eliminate tax exemptions in part to attract foreign business and investment. But, there are always two sides of any coin. The Direct Tax code 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 is very much criticized because many provisions under this proposal may harm the investors and FIIs. The Direct Tax Code change in the whole taxation system of India. 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.

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