BRIEF NOTE ON NEW DIRECT TAX CODE

The much-awaited Direct Tax Code (DTC) Bill aimed at replacing the five-decade old archaic Income Tax Act, now tabled in Parliament, has miserably failed in its objective setting aside a few concessions in individual income sans any efforts to rationalize or simplify the taxation system. Such a proposal will benefit the big companies whereas the micro, small and medium enterprises and the trading community will have to bear the burden of more tax liability which will ultimately result into escalation of overall prices The basic element of encouraging self compliance is missing, since the language of the law has been codified in such a way that an average tax-payer will find it difficult to understand the nitty gritty of the new proposed law.

a. The investment companies (banks or financial institutions) use the savings of the people for funding or loaning at higher rates of interest earning handsome amounts and instead of raising the rates of interest on such savings to encourage people for more savings, the common man depositing money for saving purposes will be penalized for his efforts.

b. To enlarge economic growth, the need of providing tax concessions to certain priority sectors like Traders, Small Scale Industry, SMEs and Industries in remote, tribal and in naxal-affected areas ,allied agro activities like vermin compost, fisheries, dairy farming and piggery farming have been totally neglected.

c. The elimination of distinction between Short Term Capital Assets and Long Term Capital Assets will discourage Long Term Holding of Assets. This will also discourage investments in Capital Assets.

d. Taxing income from equity shares as regular income will prove counter-productive to the stock market. Indian Stock Market is in a developing stage. Still, it requires thousands of millions and billions of rupees for development of Indian share market. The existing system of taxing income from shares at 15% for Short Term and Nil if holding is beyond 1 year should continue.

e. The proposal to reduce the thresh hold limit and rate of tax under wealth tax will also hit small assesses very badly. Hence, the exemption limit of wealth tax and rate of tax should be maintained at the existing level as suggested in the original discussion papers.

f. The new Code will provide the terms ‘business assets and non-business assets’, and such division will increase litigations. Instead of ‘income from salary’ it will be ‘income from employment’. `Income from other sources’ is proposed to be replaced by `income from residuary sources’. These new terms will take a lot of time in understanding and putting in proper uses.

g. The concept of‘ treating gross receipts’ as income and allowing specified deduction will arm the officials with more discretionary powers to tax income as per their wish by allowing only limited expenditure. And, this will strengthen the Inspector Raj as the assesses will remain at the mercy of such officials.

h. The DTC has proposed totally a new method of computing income from businesses as it would treat gross turnover as income and specify as to what expenditures would be taken into consideration for deduction purposes whereas, presently, all business enterprises are required to prepare Profit and Loss account as per prevailing accounting standards and also as suggested by the Institute of Chartered Accountants of India (ICAI).

i. Similarly, the word�much interest’ is replaced by ‘permitted finance charges’, may lead to litigation as to whether a particular finance expenditure is allowable or not instead of depreciation will be decided by the assessing authorities. There are about 200 such words proposed to be used in DTC. About 200 new technical words have been inserted in the Direct Tax Code which will make it a cumbersome law.