Chapter 5

Income Tax Administration in India

The Central Government holds power to charge taxes like Income Tax, Custom Duties, Central Excise and Service Tax. On the other hand, the State Governments are empowered to levy taxes like VAT, Sales Tax, Stamp Duty, Land Revenue, State Excise, and Tax on Professions. Income Tax is a form of direct tax, collected annually by the Central Government on all forms of income (other than agriculture income) and then shared with the states. Central Government levies income tax on the taxable income of individuals, HUFs, companies, co-operative societies and trusts. Taxes imposed by the local bodies are pertaining to octroi tax, water supply utilities, drainage and sewage utilities, property tax, etc. Income Tax department of India is directed by the Central Board for Direct Taxes and forms a part of the Department of Revenue under the Ministry of Finance. The Tax Structure in India is quite strong and follows the financial year. Tax policy and tax administration mutually affect each other. An efficient tax administration is a prerequisite for the successful implementation of tax policy. Income Tax Department in India administers direct tax laws. On the other hand, tax professionals play an important role in the implementation of income tax law of the country.

5.1 Basis of Charge:

The total income of an individual is determined on the basis of his residential status in India.

5.1.1 Residence Rules:

An individual is treated as resident in a year if present in India

I. for 182 days during the year or

II. for 60 days during the year and 365 days during the preceding four years. Individuals fulfilling neither of these conditions are nonresidents. (The rules are slightly more liberal for Indian citizens residing abroad or leaving India for employment abroad.)
A resident who was not present in India for 730 days during the preceding seven years or who was nonresident in nine out of ten preceding years I treated as not ordinarily resident. In effect, a newcomer to India remains not ordinarily resident. For tax purposes, an individual may be resident, nonresident or not ordinarily resident.

5.1.2 Non-Residents and Non-Resident Indians:

Residents are on worldwide income. Nonresidents are taxed only on income that is received in India or arises or is deemed to arise in India. A person not ordinarily resident is taxed like a nonresident but is also liable to tax on income accruing abroad if it is from a business controlled in or a profession set up in India. Capital gains on transfer of assets acquired in foreign exchange is not taxable in certain cases. Non-resident Indians are not required to file a tax return if their income consists of only interest and dividends, provided taxes due on such income are deducted at source. It is possible for non-resident Indians to avail of these special provisions even after becoming residents by following certain procedures laid down by the Income Tax act.3

**Table No. 5.1: Tax Liability of individuals.**

<table>
<thead>
<tr>
<th>Status</th>
<th>Indian Income</th>
<th>Foreign Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resident and ordinarily resident</td>
<td>Taxable</td>
<td>Taxable</td>
</tr>
<tr>
<td>Resident but not ordinary resident</td>
<td>Taxable</td>
<td>Not Taxable</td>
</tr>
<tr>
<td>Non-Resident</td>
<td>Taxable</td>
<td>Not Taxable</td>
</tr>
</tbody>
</table>

It is concluded from the Table No. 5.1 that the resident and ordinarily resident’s income in India and from foreign is taxed. In another case resident but not ordinary resident’s income in India is taxable but foreign income is not taxable. But Non-Resident’s income in India is taxable but foreign income is not taxable in India.

5.2 Methods of Tax Collection in India:

The Central Board of Direct Taxes (CBDT) under the aegis of the Finance Ministry provides the necessary inputs for policy and planning of direct taxes in India. It is also
responsible for administration of direct tax laws through the Income Tax Department. The officials of the Board deal with matters relating to levy and collection of direct taxes. The Central Board of Revenue served as the apex body for administration of taxes and was formed as a result of the Central Board of Revenue Act, 1924. The Board was initially in charge of both direct and indirect taxes but as the administration of taxes became too heavy, it was split up into two. Hence, the Central Board of Direct Taxes (CBDT) and Central Board of Excise and Customs (CBEC) came into effect on January 1, 1964. CBDT, headed by a chairperson, (who is also an ex-officio Special Secretary to the Government of India) is in charge of all issues pertaining to direct taxes. There are six CBDT members in charge of different functional areas relating to direct tax, they being: Income Tax; Legislation and Computerization; Revenue; Personnel and Vigilance; Investigation; Audit and Judicial.

5.3 Distribution of Taxes between Centre and States:

There are three tiers of government in the Indian governance structure. These are: Union Government, State governments, and Local Bodies/local self governments at the local level. Since the different layers of government operate simultaneously, confusion and financial conflict are a very natural outcome. In order to minimize such disputes there are guidelines or rules regarding the revenue and expenditures of the tiers of governance. The system or organization of such rules is called “federal finance”, based on the definition of “federation” denoting a system of government in which there is a division of powers and functions between the different levels. Therefore, federal finance is a system of the financial relationship between different layers of governments. The financial relationship between the Union and State governments is enshrined in the Constitution of India.

The focus of this relationship is on distribution of authority between the Centre and States regarding:

How to raise tax and non-tax revenues. How to spend tax and nontax revenues in the economy to enhance growth and development Nonetheless, there are certain issues such as transfer of funds from Centre to State governments that need to be continuously monitored keeping in mind the regional needs. For this purpose, there is a provision for
setting up of the Finance Commission every five years as per the Constitution. Based on its recommendations, the Central government decides the allocation of funds to different States. The Constitution has made a clear distinction between the revenues of the Union and State governments, articulated in the form of three lists - Union, State and Concurrent.

1. **Union List:** It includes revenue sources that are the sole privilege of the Central government (e.g., Corporate Tax, Tax on Capital values of assets, which is property, or Capital Gains Tax excluding land, and Customs Duty). No part of the revenue collected through these taxes is transferred to the State governments.

2. **State List:** State list includes sources of revenue that are the sole privilege of State governments (e.g., stamp duties).

3. **Concurrent List:** It includes those areas where the Central government as well as State governments can pass laws to generate revenue.

### 5.4 Distribution of Tax Revenue

The revenue collected from taxes is distributed between the Centre and States in the following manner:

- **Central Tax Revenue only for Central Government** - Central government levies taxes and collects the revenue from such taxes (e.g., Corporate Tax, Tax on Capital values of assets, which is property, or Capital Gains Tax excluding land, and Customs Duty). No part of the revenue collected through these taxes is transferred to the State governments.

- **Central Tax Revenue shared with States** - Central government levies taxes but a part of the revenue is shared with States (e.g., Income Tax and Central Excise Duty). Central government levies taxes but entire revenue is given to the States (e.g., Wealth Tax and Real Estate duty or property tax).

- **State Tax Revenue only for States** - State governments levy and collect tax revenue (e.g., stamp duty). The table below gives a list of the major direct and indirect tax laws and authorities responsible for administering these laws. A system of advance ruling has recently been introduced by tax authorities. At present, non residents can apply for advance rulings on income tax law.
Under the Indian Income Tax Act, 1961, income earned during a tax year, i.e. April 1 to March 31 is subject to income tax.

### 5.5 Permanent Account Number:

P.A.N. or Permanent Account Number is a number allotted to a person by the Assessing Officer for the purpose of identification. P.A.N. of the new series has 10 alphanumeric characters and is issued in the form of laminated card. Section 139A of the Income Tax Act provides that every person whose total income exceeds the maximum amount not chargeable to tax or every person who carries on any business or profession whose total turnover or gross receipts exceed Rs.5 lakhs in any previous year or any person required to file a return of income u/s 139(4A) shall apply for PAN. Besides, any person not fulfilling the above conditions may also apply for allotment of PAN. With effect from 01.06.2000, the Central Government may by notification specify any class/classes of person including importers and exporters, whether or not any tax is payable by them, and such persons shall also then apply to the Assessing Officer for allotment of PAN W.e.f. 01.04.2006 a person liable to furnish a return of fringe benefits under the newly introduced section 115WD of the I.T. Act is also required to apply for allotment of PAN. Of course, if such a person already has been allotted a PAN he shall not be required to obtain another PAN.
The Finance Act, 2006 has provided that for the purpose of collecting any information, the Central Govt. may by way of notification specify any class or classes of persons for allotment of PAN and such persons shall apply to the Assessing Officer within the prescribed time. Provision for Suo moto allotment of PAN has also been introduced w.e.f.1.6.2006 as per which the assessing officer may allot a Permanent Account No. to any person whether or not any tax is payable by him having regard to the nature of transactions. The following transactions in which quoting of Pan is Mandatory-

- Purchase and sale of immovable property.
- Purchase and sale of motor vehicles.
- Transaction in shares exceeding Rs.50,000.
- Opening of new bank accounts.
- Fixed deposits of more than Rs.50,000.
- Application for allotment of telephone connections.
- Payment to hotels exceeding Rs.25,000.

Provided that till such time PAN is allotted to a person, he may quote his General Index register Number or GIR No. Important events affecting the administrative set up in the Income-tax department:

**5.6 Income-Tax Authorities:**

There shall be the following classes of income-tax authorities for the purposes of the Act namely:

a. the Central Board of Direct Taxes constituted under the Central Boards of Revenue Act, 1963 (54 of 1963),
b. Directors-General of Income-tax or Chief Commissioners of Income-tax,
c. Directors of Income-tax or Commissioners of Income-tax or Commissioners of Income-tax (Appeals),
d. Additional Directors of Income-tax or Additional Commissioners of Income-tax or Additional Commissioners of Income-tax (Appeals),
e. Joint Directors of Income-tax or Joint Commissioners of Income-tax.
f. Deputy Directors of Income-tax or Deputy Commissioners of Income-tax or Deputy Commissioners of Income-tax (Appeals),
g. Assistant Directors of Income-tax or Assistant Commissioners of Income-tax,
h. Income-tax Officers,
i. Tax Recovery Officers,
j. Inspectors of Income-tax.

5.7 Powers of the Authorities:

For all purposes of the Income-tax Act, the IT authorities are vested with the various powers which are vested in a Court of Law under the Code of Civil Procedure while trying a suit in respect of any case. More particularly, the provisions of the Code of Civil procedure and the powers granted to the tax authorities under the code would be in respect of:

1. **Power relating to Discovery, Production of evidence, etc:** The Assessing Officer, The Joint Commissioner, the Chief Commissioner or the Commissioner has the powers as are provided in a court under the code of Civil Procedure, 1908, when trying to suit for the following matters:

   I. discovery and inspection;
   II. to enforce any person for attendance, and examining him on oath
   III. issuing commissions; and
   IV. compelling the production of books of account and other document.

2. **Power of Search and Seizure:** Today it is not hidden from income tax authorities that people evade tax and keep unaccounted assets. When the prosecution fails to prevent tax evasion, the department has the to take actions like search and seizure.

3. **Requisition of Books of account, etc:** Where the Director or the Director-General or Commissioner or the Chief Commissioner in consequence of information in his possession, has reason to believe that (a), (b), or (c) as mentioned under section 132(1) and the book of accounts or other documents or the assets have been taken under custody
by any authority or officer under any other law, then the Chief Commissioner or the Director General or Director or Commissioner can authorize any Joint Director, Deputy Director, Joint Commissioner, Assistant Commissioner, Assistant Director, or Income tax Officer to require the authority to provide sue books of account, assets or any documents to the requisitioning officer, when such officer is of the opinion that it is no longer necessary to retain the same in his custody.

4. Commissioner The Assessing Officer or the Joint Commissioner may for the purpose of this Act:
(a) can call any firm to provide him with a return of the addresses and names of partners of the firm and their shares;
(b) can ask any Hindu Undivided Family to provide him with return of the addresses and names of members of the family and the manager;
(c) can ask any person who is a trustee, guardian or an agent to deliver him with return of the names of persons for or of whom he is an agent, trustee or guardian and their addresses;
(d) can ask any person, dealer, agent or broker concerned in the management of stock or any commodity exchange to provide a statement of the addresses and names of all the persons to whom the Exchange or he has paid any sum related with the transfer of assets or the exchange has received any such sum with the particulars of all such payments and receipts;

5. **Power of Survey:** The term 'survey' is not defined by the Income Tax Act. According to the meaning of dictionary 'survey' means casting of eyes or mind over something, inspection of something, etc. An Income Tax authority can have a survey for the purpose of this Act. The objectives of conducting Income Tax surveys are:

- To discover new assesses;
- To collect useful information for the purpose of assessment;
- To verify that the assessee who claims not to maintain any books of accounts is in-fact maintaining the books;
To check whether the books are maintained, reflect the correct state of affairs.

6. **Collection of Information:** For the purpose of collection of information which may be useful for any purpose, the Income tax authority can enter any building or place within the limits of the area assigned to such authority, or any place or building occupied by any person in respect of whom he exercises jurisdiction.

It shall be duty of every person who has been allotted permanent account number to quote such number in all his returns or correspondence with income tax authorities, in all challans for the payment of any sum, in all documents prescribed by the board in the interest of revenue.

**5.8 Central Board of Direct Taxes:**

The CBDT is a part of Department of Revenue in the Ministry of Finance. CBDT provides essential inputs for policy and planning of direct taxes in India, at the same time it is also responsible for administration of direct tax laws through the Income Tax Department. The Central Board of Direct Taxes is a statutory authority functioning under the Central Board of Revenue Act, 1963. The officials of the Board in their ex-officio capacity also function as a Division of the Ministry dealing with matters relating to levy and collection of direct taxes. The Central Board of Revenue as the Department apex body charged with the administration of taxes came into existence as a result of the Central Board of Revenue Act, 1924. Initially the Board was in charge of both direct and indirect taxes. However, when the administration of taxes became too unwieldy for one Board to handle, the Board was split up into two, namely the Central Board of Direct Taxes and Central Board of Excise and Customs with effect from 1.1.1964. This bifurcation was brought about by constitution of the two Boards u/s 3 of the Central Boards of Revenue Act, 1963.

**5.8.1 Organizational Structure of the Central Board of Direct Taxes:**

The CBDT is headed by Chairman and also comprises of six members, all of whom are ex-officio Special Secretary to Government of India.
Member (Income Tax)
Member (Legislation and Computerization)
Member (Revenue)
Member (Personnel & Vigilance)
Member (Investigation)
Member (Audit & Judicial)

The Chairman and Members of CBDT are selected from Indian Revenue Service (IRS), a premier civil service of India, whose members constitute the top management of Income Tax Department.

5.8.2 Director General of Income Tax (Admn.):

The office of Director General of Income Tax (Admn.) is an attached office of the Central Board of Direct Taxes under the control of Ministry of Finance, Govt. of India. It is the supervisory authority for the three Directorates working under it. DGIT (Admn) coordinates the activities of the Directorates and streamlines the working/functioning of the Directorates. She issues orders of Transfer & Postings of Group A & Group B officers working in the three Directorates. She also has administrative control over Group B officers and handles vigilance & disciplinary matters. DGIT (Admn) obtains annual reports for each of the three Directorates working under it and submits the same to Member (Revenue) along with her comments.

5.9 Vision and Mission of The Income Tax Department (ITD)

The vision of the Income Tax Department (ITD) is to be a partner in the nation building process through progressive tax policy, efficient and effective tax administration and improved voluntary compliance. This will be achieved by an enabling policy environment and augmenting the revenue mobilization apparatus for optimum revenue collection under the law, while maintaining taxpayer confidence in the system. The following Mission statement outlines the roadmap for the ITD to realize its vision:
To formulate progressive tax policies
To make compliance easy
To enforce tax laws with fairness
To deliver quality services
To continuously upgrade skills and build a professional and motivated workforce.

In this changing environment, ITD seeks to have a clear focus on its goals to be able to continually review its policies, operating approaches and procedures for being responsive and adaptive to the changing business and legislative environment. New technological development, accelerated globalization, exchange of information between revenue authorities and the new Direct Tax Code offer both challenges and opportunities. ITD is poised to seize the opportunities and meet the challenges to realize its Vision through progressive tax policies, efficient & effective administration and improved voluntary compliance. An understanding of the challenges and opportunities they throw up is the first step towards meeting the challenges. The challenges have accordingly been classified under the three enablers for realization of vision.

5.10 The Deficiencies in the Indian Income Tax System:

Personal income tax system in India was having a number of deficiencies. There was low yield, extremely limited coverage and little compliance. There was massive tax evasion and tax avoidance in India. High tax rates mainly contributed towards this tax evasion and tax avoidance. Another effect of this high tax rate regime was that there were numerous exemptions, deductions and allowances. A Task Force (TF) under the chairmanship of Dr. Vijay Kelkar, then Finance Secretary was formed to look into the aspects of streamlining the taxation system in India in the year 2002. The TF identified four operational objectives relating to the direct tax code. Those were:

1. Institution of a simple and transparent system.

2. Reduction of transactions costs of tax revenue collection and compliance costs of taxpayers.
3. Alignment of incentives of taxpayers and the tax administration; and

4. Widening of the tax base.

5.11 Appeals, Revision Petition and Writs:

If the assessee is not satisfied with the assessment or refund order, he can file an appeal with the Commissioner (Appeals) and thereafter with the Income Tax Appellate Tribunal (ITAT). On any question of law arising out of such order, the assessee can also appeal to the High Court and Supreme Court. The Act prescribes the time limits also for disposal of an appeal. The appeal process is a subject matter of another study being conducted by us and will, therefore, be dealt with in a separate report.17

5.12 Income Tax Departmental Survey:

Survey is an important tool for collection of information by the Income Tax Department. For effective implementation of the legal provisions of Survey, Board has issued instructions and guidelines from time to time. Survey operations constitute an extremely important tool for gathering information relating to financial transactions and about various persons, which are subsequently utilized in the assessment and other proceedings under the Income-tax Act, 1961. Surveys also enable the department to check the veracity of the statements filed by such persons before the income tax authorities. Information collected through surveys may also lead to identification of new assesses and stop filers. Survey also helps in detecting tax evasion, failure to deduct tax at source by persons responsible for doing so, failure to pay to the Government the tax deducted at source by deductors and failure to furnish returns and statements by persons who are statutorily obliged to do so.

The Income tax Department is entrusted with the responsibility of fair and effective administration of the Income tax Act, 1961 and other direct taxes enactments. The provisions of the Act empower the Assessing Officer to scrutinize the returns and the statements filed in order to determine the income and to collect tax. Powers have also been conferred on the Assessing Officer to deal with assesses who fail to comply with the
statutory requirements or who evade payment of tax. Thus, examination of books of accounts and verification of the facts presented by the assessee are the primary jobs of the Assessing Officer. The power of survey serves the two important purposes that Department’s determination to reach out and obtain information about the assessee and his income-earning activities; and Meaningful selection of cases for scrutiny by collecting information about various trades and trade practices.

**5.13 Assessment Procedures for Tax Payers in India:**

In case of self-assessment, the assessee decides the amount of tax himself in accordance with returns furnished by him. Reassessment is done when the assessing officer finds during tax assessment that a specific source of income was not taken into account by mistake. Precautionary assessment serves to find out the identity of the person who has received the particular income which escaped the tax payment. The tax payers in India are required to pay taxes on their incomes earned through different sources and some of the prominent ones are:

- Dividends
- Interest on Securities
- Salaries
- Payments to Contractors
- Cash won through lotteries
- Insurance Commission
- Payment to Non-resident etc

The tax payers are required to fill in tax forms to pay their taxes. Form 16A covers most income sources mentioned above. However, Form 16 needs to be submitted in case of income from salaries and the sports associations are required to fill up form 16B for the payment of income tax.
5.14 Modernization & Tax Payer Services

While rationalization of tax rates reflected the first phase of tax-reforms of nineties modernization and technological up-gradation and rolling out of Taxpayer Services constituted the other. Several new initiatives were taken.

- The website of the Department www.incometaxindia.gov.in was launched in the year 2003 to provide a host of informational, interactive and transactional services to the Taxpayers.

- Tax Information Network (TIN) was established to integrate primary information of tax collection, tax deduction and third party information. The system allows the Department to create separate account for each PAN holder.

- An All India Tax Network (TAXNET) was setup in 2007 by consolidating 36 independent regional databases into a single centralized database (PDC or Primary Data Centre) at Delhi with a Business Continuity site at Mumbai & limited Disaster Recovery site at Chennai. It created 2.5 TB consolidated database which was one of the largest databases of Government of India. 718 Income Tax offices in 520 cities are part of this network.

- Taxpayers have the facility to pay their taxes online, through ATMs, Debit Cards or Cheques at agency bank branches across the country.

- Tax Return Preparer Scheme was launched in 2006 to assist individual and HUF taxpayers to file their Return of Income. The Department trained nearly 4700 unemployed or under employed graduates at 100 centers across the country to enable them to prepare Returns of taxpayers at marginal cost. The scheme used Online Learning Management System for distance learning for the first time.

- In 2006, the institution of Income Tax Ombudsman was set up in 12 cities throughout the country to look into tax related grievances of the common public.

- Sevottam Scheme was launched in the year 2007 to standardize service delivery
to the taxpayers. The Department identified the services delivered to different
taxpayer segments and promised definite time lines for delivery of these services.

- Cyber Forensic Labs were setup in 2008 to identify relevant digital data during
  search and survey operations, recover hidden or password protected or deleted
  data and store retrieved data in a manner so that it could be used as evidence
  in judicial proceedings.

- Centralized Processing Centre was setup in Bengaluru in 2009 for bulk processing
  of e-filed and paper returns. The Centre operates without any interface with
  taxpayers in a jurisdiction - free manner. The Centre processed 86.9 lakh returns
  in 2010-11.

- To replace the 50 years old Income-tax Act, 1961, simplified ‘The Direct Taxes
  Code Bill, 2010’ was introduced in the Parliament in 2010.

5.15 Integrated Taxpayer Data Management System (ITDMS):

The Income Tax Department is responsible for collection of taxes and distributing
returns. For this purpose, they receive enormous amount of data from internal and
external sources that help perform their duties. However, these data are stored in different
forms such as excel, databases, delimited text files and fixed length text files (RFP,
Income Tax) at different divisions of IT Department. Prior to implementing ITDMS,
there was no mechanism in place that would allow the IT department to conduct search
for evasion of taxes. There is also lack of single parameter search between the data stored
in various Directorate General of Income Tax. Existence of multiple databases with
different departments made the enforcement work of IT Department difficult.

The Directorate General of Income Tax (Investigation) is responsible for undertaking
investigations under the Income Tax Act of Central Government to check for evasion of
taxes and circulation of black money. For this purpose, the government regularly tracks
income of high net worth individuals and companies to ensure all appropriate tax
payments are made by them. For this purpose, the new Integrated Tax Payer Data
Management System (ITDMS) assists in generating a 360 degree profile of an entity by compiling information from all data sources. In case of an individual, the family tree of the person is also created and it also links the information to all the related entities in which person is being investigated has interest. The government has implemented the tool in all 20 Directorate General of Income Tax (Investigation). So far, ITDMS has proved beneficial in tracking tax evasion from high net individuals. For instance, the software assisted the department to track a person who managed to get a fake identity and three PANs to evade Rs. 100 crores in taxes.

5.16 Direct Tax Code

Tax structure is an important pillar of financial infrastructure of a nation. A tax structure which meets the criteria of certainty, ability to pay, convenience to pay and lesser collection cost is a sustain a growth oriented structure of an economy. It is really heartening to see that the proposed bill meets all these criteria and something more. Direct Tax Code is the new proposed bill for changing the tax rules in India. The new tax code will have positive impact on taxpayers. The new Direct Tax Code is expected to change the income tax calculation of corporate as well as individual assesses. The indicative tax slabs and tax rates and monetary limits for exemption and deductions proposed in the direct tax code will be calibrated while finalizing the legislation. This may lead to higher tax rates than that proposed in the original draft. New Code shall replace India's antiquated Income Tax Act, 1961. It is a major step in the direction of much awaited tax reforms in India and aims to simplify the entire regime of taxation radically.

A common man has to understand what there in future for him so that he can plan accordingly. However the Direct Code tax is still in draft and might come into effect. For individuals, the proposed rate is likely to be 10 per cent for income up to 10 lakhs, 20 per cent up to 25 lakhs and 30 per cent above that. Incentive to save is likely to rise to 3 lakhs from the present 1 lakh. Corporate taxes are likely to be revised downward to 25 per cent. Security Transaction tax is likely to be scrapped. Wealth tax is likely to be 0.25 per cent for wealth above 50 crores. With the new income tax slabs, people in the higher income
Slab will be greatly benefited. Resident Indians who are paying tax 30 per cent on gross income of more than 800,000 will now pay tax 10 per cent from 1 April 2022. These rates compares well with rates applicable in other countries. The bill proposes to maintain better tax treatment to women, as compared to men, which may not go down well on the gender equality. The code proposes Minimum Alternate Tax (MAT) based on gross asset value of the company at the rate of 2 per cent. Thus asset heavy companies, taking shelter in depreciation is likely to suffer most. Dividend distribution tax has been retained. The code emphasizes to stop tax avoidance through sophisticated means. These are special provision to prevent evasion and unmask tax avoidance practices.

5.16.1 Recommendations of the Code:

- 10 per cent tax rate should apply to an annual income of Rs. 1.6-10 lakh per annum (Now 10 per cent is levied on incomes of Rs. 1.6-3 lakh, 20 per cent on Rs. 3-5 lakh and 30 per cent above Rs. 5 lakh).
- 20 per cent rate should apply to an annual income to Rs. 1025 lakh per annum.
- The maximum rate of 30 per cent should apply to income above Rs. 25 lakh per annum.
- Perquisites given to employees should be included in salary income.
- Tax rates for companies should be reduced to 25 per cent for both domestic and overseas companies. Currently, domestic companies are taxed at 30 per cent with surcharge and cess coming later.
- Foreign companies should pay an additional tax of 15 per cent as branch profit tax.
- Abolition of the controversial STT (the Code also suggests reintroduction of tax on long term capital gains on securities trading).

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 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. The best practices in the world have been
studied and incorporated. Tax policies that would promote growth with equity have been reflected in the new provisions.

Rather than giving blanket tax holiday for a specified period, the proposed bill provides for tax holiday for a period enough to recover the specified investment. Area based exemption is likely to be removed. The exemption granted to charitable institution is being revisited. The term charitable purpose is being replaced by permitted welfare activities, which means, any activity involving relief of the poor, advancement of education, provision of medical relief, preservation of environment, preservation of monuments or places or objects of artistic or historic interest and the advancement of any other object of general public utility- well the definition remains the same despite change in nomenclature.

The bill proposed to tax the surplus and capital gains from permitted welfare activities at the rate of 15 per cent. This appears to be a compromise between *full exemption* and *full taxation*. The complexity in the area remains lesser than the present regime. Due to public outcry, the government has amended the DTC to the effect that withdrawals from pension funds, provident funds and life insurance schemes will not be taxed. However, there are still some points that lack clarity. Approved pure life insurance products and annuity schemes will also be subject to EEE (*exempt, exempt, exempt*) method of tax treatment. This leaves the fate of unit-linked insurance plans in doubt. The new wealth tax will cover financial assets such as stocks and mutual funds as well. This is bound to be tougher for individuals. The dividing line between long-term and short-term investment is blurring with the new DTC proposal. With no great distinction between capital gains tax for both, investors will lack the motivation to go in for long-term investments, which is against government policy. The DTC bill is slated to come up in Parliament session. The DTC will come into effect from April 2011 and will replace the Income Tax Act of 1961.

All the direct taxes such as income, wealth, and dividend distribution are covered under one uniform Direct Tax Code in line with other countries like USA, UK and Germany. Unlike the previous Income Tax Act, 1961, the language of the new code is very much simple, making it easier for ordinary persons to understand the provisions of Income Tax.
At present, the rates of direct taxes are declared every year while presenting the Annual Budget and Finance Act in the month of February. However, in the Direct Tax Code, the rates have already been prescribed in the various schedules and thus it has done away with the need for an annual Finance Bill.

Although the date of implementation of DTC is still not clear.