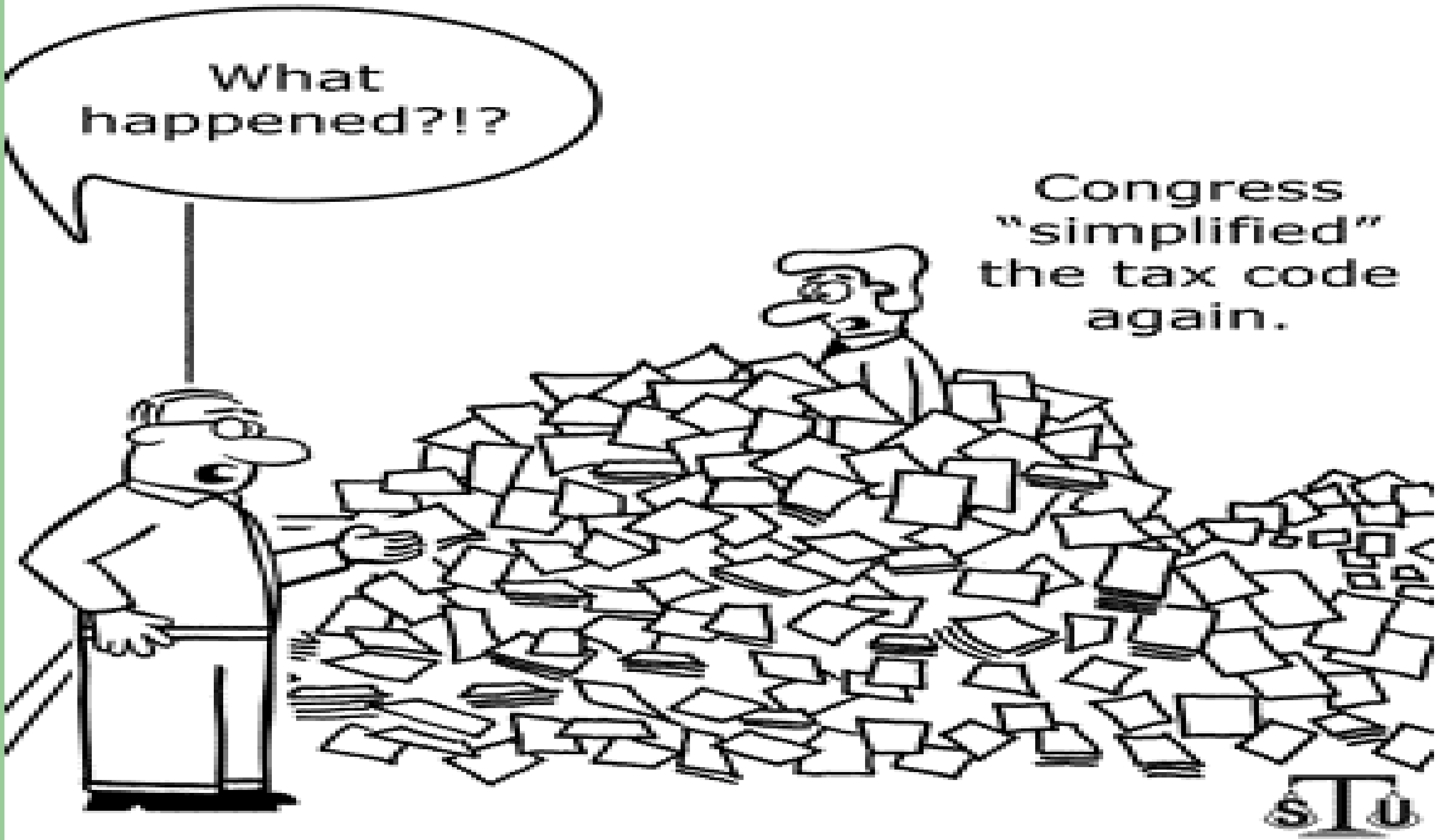
DIRECT TAX CODE



DIRECT TAX CODE (DTC)

- COMPARSION OF RELEVANT PROVISIONS UNDER INCOME TAX ACT AND DTC FIRST DRAFT & DTC REVISED AS APPLICABLE TO INDIVIDUALS

- By CA PANKAJ K. JAIN

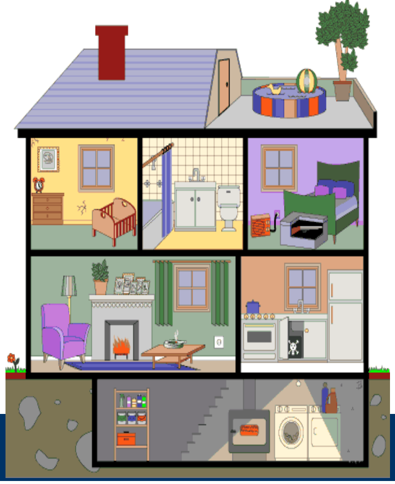
INCOME TAX SLABS

Particulars	Provisions under Income Tax Act	DTC First Draft	DTC revised	Observation/ Remarks
Tax Rates (Individual / HUF)	Upto 1.6 Lacs : Nil +1.6 – 5 Lacs : 10% +5 – 8 Lacs : 20% +8Lacs : 30% **eg.:** **Income : 25 Lcas** **Tax : 6.04 Lacs**	Upto 1.6 Lacs : Nil +1.6 – 10 Lacs : 10% +10 – 25 Lacs : 20% +25 Lacs : 30% **eg.:** **Income 25 Lcas** **Tax Rs.3.84 Lacs**	Rates to be prescribed after considering the overall impact of the changes suggested in revised draft.	It is expected that the rates prescribed under the First DTC draft would be substantially reduced to bring it down at current levels.

Taxability on withdrawal of Retirement Benefit

Particulars	Provisions under Income Tax Act	DTC First Draft	DTC revised	Observation/ Remarks
Taxability on withdrawal from PF/PPF, ULIPS, Pension Fund, etc.	E-E-E Regime i.e. Investment: **E**xempt Income: **E**xempt Withdrawal:**E**xempt	E-E-T Regime **i.e.** Investment :**E**xempt Income: **E**xempt Withdrawal: **T**axable	E-E-E Regime* *It will be a diluted version of the existing EEE regime as the revised draft has not categorically committed to complete EEE regime. Certain investment e.g. **New ULIP**, **New Endowment Policy** may not qualify under new EEE regime.	This is supposed to be one of the most path breaking relief. However it is suggested to register the protest and pressurize the authorities to reinstate the existing EEE regime.

Taxability of various components of Salaries



Particulars	Provisions under Income Tax Act	DTC First Draft	DTC revised	Observation/ Remarks
House Rent Allowance	Exemption is available U/s 10(13A)	No exemption/relief is prescribed	No Change	It is suggested to register the protest and pressurize the authorities to reinstate the existing exemptions.
Leave Travel Allowance	Exemption is available U/s 10(7)	No exemption/relief is prescribed	No Change	
Allowance for personal expenses eg: children education, hostel allowance	Exemption of Rs.100/300 per month was available	No exemption is available in respect of any allowance for personal purposes	No Change	It will not have any major impact on the salary computation

Taxability of various components of Salaries

Particulars	Provisions under Income Tax Act	DTC First Draft	DTC revised	Observation/ Remarks
Employer contribution to Superannuation Fund	Exempt upto Rs.1 Lacs per annum	Contribution with in the prescribed limit will be exempt	No Change	It is possible that exemption will be linked to the quantum of salary.
Medical Reimbursement/ facility	Exempt Under Proviso to section 17	It will be available on same lines with some increase in current monetary limit of Rs.15k	No Change	Will benefit all the employees in the organization.

Taxability of various components Salaries

Particulars	Provisions under Income Tax Act	DTC First Draft	DTC revised	Observation/ Remarks
Retirement benefit : VRS, Gratuity, Leave Encashment, etc	Permanent exemption is available under various sections.	Exemption available under EET scheme. i.e. temporary exemption	Permanent Exemption. However the amount is not yet prescribed.	It appears that the amount of exemption will be more or less at existing levels.
Perquisites	As per Perquisites valuation Rules	As per Rules, not yet Prescribed	No Change	Rules expected more or less on the same line as the existing Rules.

Taxability of various components of Salaries

Particulars	Provisions under Income Tax Act	DTC First Draft	DTC Revised	Observation/Remarks
Meal coupons, Reimbursement of telephone/mobile bills	Meal coupons are exempt upto Rs.50 per meal & reimbursement of Telephone/ Mobile bills are fully exempt	No Exemption is prescribed	No change	It is suggested to register the protest and pressurize the authorities to reinstate the existing exemptions.
Set off of Business Loss against Salary Income	Not allowed	Allowed	Allowed	It will benefit those employees who are also engaged in Business activity.

Income from House Property

Particulars	Provisions under Income Tax Act	DTC First Draft	DTC Revised	Observation/Remarks
Computation of taxable rent in case where property is given on Rent	Actual Rent or Fair market value of rent whichever is higher	Actual Rent or 6% of cost of Property whichever is higher.	Actual Rent	It is a very pragmatic step as it will resolve the issue of taxability of notional rent
Taxable Rent of the property if held for personal use.	Any one Property : Nil All other property: Fair Market value of rent	Any one Property: Nil All Other Property: 6% of cost of Property	Nil if property is not actually given on rent	It will curb the menace of notional tax in case where, more than one property is held for personal use.
Standard Deduction	30% of Rent income is allowed as deduction.	It is reduced to 20%	No change	It is calibrated in view of the above relief

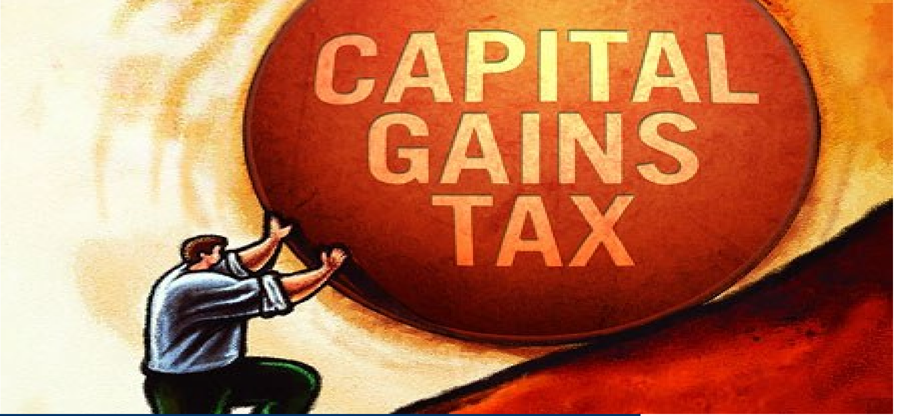
Deductions for Savings

Particulars	Provisions under Income Tax Act	DTC First Draft	DTC revised	Observation/ Remarks
LIc Premium, PF Contributions, Tuition Fees etc	Max. upto Rs.1 Lac (80C)	Limit enhanced to Rs.3 Lacs, provided the amounts are invested in any permitted savings intermediary. Tuition fees has been categorically prescribed.	Limit likely to be reduced as EEE regime is proposed now. However the details of savings instruments are not yet prescribed. Tuition fees has been categorically prescribed.	Though the saving instruments are not prescribed, Life Insurance premium, contribution to PF and PPF would qualify. However it is doubtful whether repayment of housing loan will qualify.
Donation to Charitable Trust	Deduction available under section 80G	Deduction available.	No deduction will be available.	This change should be opposed vehemently.

Capital Gains

Particulars	Income Tax Act	DTC First Draft	DTC revised	Observation/ Remarks
Sale of Listed shares/ Equity oriented Mutual Funds after they are held for +12 months & STT is paid.	Fully exempt	Fully taxable at normal rates however the benefit of Indexation is available.	Benefit of Indexation is not available however, some concession is prescribed.	Even if one intends to hold the shares, he should sale it and buy back the same to book the profit under current regime to avail the benefit of exemption / concession in tax. ***Caution***: *The above advice is a general one and may not hold good in all the cases. Consultants advice should be sought.*
Sale of Listed shares/ Equity oriented Mutual Funds after they are held for -12 months & STT is paid.	Taxable @ special Rate of 15%	Taxable at applicable Normal Rates	Taxable at Normal Rates applicable to individuals	

Capital Gains



Particulars	Provisions under Income Tax Act	DTC First Draft	DTC revised	Observation/ Remarks
Carry Forward of Capital Loss	Maximum upto 8 Years	No Time Limit for carry forward of Loss	No Change.	Very pragmatic and welcome step.
Adjustment of Short Term Gains against Long Term Loss.	Not allowed	Allowed	Allowed	DTC has abolished the concept of Long term & Short term gains. This will help the long term Investors.
Period of holding for claiming the benefits of Long Term Holdings.	+12 months / +36 Months as the case may be	+12 months from the end of the FY in which it is acquired in all the cases **(i.e.+12 mths – 24 mths)**	No Change.	Will hurt the investors in shares and units of Mutual funds. However it will benefit other investors.

Capital Gains

Particulars	Provisions under Income Tax Act	DTC First Draft	DTC revised	Observation/Remarks
Base Year for Indexation: For listed Equity shares or Units of Equity oriented Mutual fund.	1.4.1981	1.4.2000	The benefit of Indexation is not available	A deduction at a specified % of capital gains will be allowed and such gains will be taxed at a concessional rate.
For Other Assets	1.4.1981	1.4.2000	No change	Any capital gains arising till 1.4.2000 will be exempted from capital gains.
Levy of STT	Yes	No	Yes, will be calibrated.	Revised DTC has deviated from the promise made under original DTC.

Contribution to DTC

- The Finance Ministry has solicited the online response of all the stake holders upto 30th June, 2010
- Please visit : http://finmin.nic.in/dtcode/comments.asp

to register your comments or write at:

directtaxescode-rev@nic.in

For any clarification………

Write to us at:

ca.svpatkar@gmail.com

or

pkj1979@gmail.com

To conclude…..

Tax his Coffin, Tax his grave,
Tax the sod in which he lays.
Put these words upon his tomb,
"Taxes drove me to my doom!"
And when he is gone, we wont relax
We'll still be after the inheritance tax!!

Thank You

Presented by

CA PANKAJ K. JAIN