

Direct Tax Code | A transformative story for India's taxation

written by Rajesh Sivaswamy | August 22, 2019

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The Direct Tax Code (DTC), which was submitted by the government panel on August 19, is all set to change and transform the 58-year old tax regime in India. The expectations of the public and corporates on this major tax reform are arguably high.

For individual tax payers, an adjusted tax bracket for incomes below the Rs 55 lakh range is intended to put more money in the hands of the tax payer with the expectation that more money will be funnelled into economic activity. The barometer for the change has been the intent to keep tax brackets clean and simple and remove unnecessary surcharges that have complicated the tax system.

Consequently, a 10 per cent tax rate slab is proposed to be introduced for individuals with annual income of Rs 2.5-10 lakh. Similarly, it has suggested a 20 per cent tax slab for annual income of Rs 10-20 lakh, 30 per cent for Rs 20 lakh - Rs 2 crore and 35 per cent for those earning Rs 2 crore and more. Therefore, while a middle income taxpayer with Rs 5-8 lakh annual income can rejoice the proposed reduction to 10 per cent from the existing 20 per cent, the one earning Rs 10-20 lakh annually would cheer a lower tax outgo at 20 per cent from 30 per cent. Tax benefits for senior and retired people are also likely to be amended in their favour. It is proposed that exemption of Rs 20 lakh on the gratuity shall be provided.

Toeing the global line on a cut in corporate taxes, it is expected that a proposed 25 per cent tax rate for both local and foreign companies having an annual turnover of up to Rs 400 crore would bring about a uniform corporate tax and also usher in the much-needed impetus for the Indian market, since this covers more than 90 per cent of the corporate entities in India.

Furthermore, the concept of 'branch profit tax', which is already being widely used in the world, is proposed to be introduced in India.

This proposal could come out as big surprise for companies that send back their earnings to their overseas parents as this would be in addition to the corporate tax already being levied on such companies. Corporates will also welcome the removal of the Dividend Distribution Tax which has been a major pain point, leaving the tax issues to be dealt with by the recipient, that is the shareholder.

For anyone who has faced tax litigation in courts, the proposed litigation management unit will be welcomed with much relief, which provides a ray of hope both to the courts by limiting their burden and the public by providing them a direct recourse.

Mediation and negotiated settlement will also see the light of day and it remains to be seen on how this will pan out in actual implementation, given that the present approach of the tax officials is diametrically opposed to any dialogue. There is talk of a negotiated settlement whereby the assessee will only have to pay the tax and interest and no penalty in case of a negotiated settlement.

The Direct Tax Code also pays specific attention to startups under stressed positions due to taxation. Startups are expecting relief promised to them by the Budget 2019-20. It is proposed that the funds raised by the startups will not require any kind of scrutiny. Furthermore, valuation of shares issued to Category-I and Category-II Alternative Investment Funds is proposed to be

beyond the scope of income tax glare.

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