Salient features of the draft DTC (Direct Taxation) Bill

The fresh draft of the DTC Bill, posted on the website of the Finance Ministry on Tuesday, has lowered the age for tax exemption for senior citizens to 60 years from 65 years.

The final view on the draft, which has been prepared by Finance Minister P Chidambaram, will be taken by the new government to be formed after the general elections are over in mid-May.

In another significant step, the draft has suggested that foreign companies with more than 20 per cent assets in India will be subjected to domestic tax laws.

The ministry has rejected the recommendations of the Standing Committee on Finance, headed by senior BJP leader Yashwant Sinha, to raise the income tax exemption limit to Rs 3 lakh and to adjust other slabs saying that it will lead to an annual loss of Rs 60,000 crore to the exchequer.

The Committee had proposed no tax on income of up to Rs 3 lakh per annum; 10 per cent for Rs 3-10 lakh; 20 per cent, for Rs 10-20 lakh and 30 per cent on annual income beyond Rs 20 lakh.

“The recommendation is not acceptable as it will result in huge revenue loss. The total revenue loss on account of recommended changes in PIT slabs and removal of cess works out to Rs 60,000 crore approximately,” said the revised Direct Taxes Code Bill – 2013.

As per the current structure, there is no tax on income of up to Rs 2 lakh per annum; 10 per cent on Rs 2-5 lakh; 20 per cent on Rs 5-10 lakh and 30 per cent on income beyond Rs 10 lakh.

Although the revised DTC draft was to be taken up by the Cabinet in August 2013, it did not come up for discussion because of differences over introducing a fourth slab for the super-rich.

“With a view to maintaining overall progessivity in levy of income tax, the revised Code provides for a fourth slab for individuals, HUFs and artificial judicial persons. In their case if the total income exceeds Rs 10 crore, it is proposed to be taxed at the rate of 35 per cent,” the draft said.

The DTC Bill, which aims to replace the existing I-T Act 1961 and overhaul the taxation system, has been pending since 2009 and has undergone various changes.

The fresh draft has rejected the recommendation of the Standing Committee to do away with the Securities Transaction Tax (STT), saying that “the recommendation is not acceptable as STT is required to regulate day trading”.

Currently, STT is levied at different rates on sale and purchase of securities.

The draft proposes a 10 per cent tax on dividend earnings of over Rs 1 crore and a wealth tax of 0.25 per cent on assets of individuals, HUFs and trusts exceeding Rs 50 crore.

On the General Anti Avoidance Rules, the draft said they should be reviewed to bring in more clarity and the onus of proof should be on the tax authority.

As far as indirect transfers are concerned, the draft DTC has tightened the norms by suggesting that foreign companies having 20 per cent of their assets in India will have to abide by domestic laws.

Ernst & Young National Leader (International Tax Services) Jayesh Sanghvi said: “The proposals relating to the onus of proof with regard to GAAR are welcome. The reduction of the threshold from 50 per cent to 20 per cent for substantial value may continue to pose some uncertainties.”

In his Budget speech, Chidambaram had said that the revised DTC was ready and will be placed in public domain for discussions.

The finance ministry said that of the 190 recommendations made by the Committee, 153 are proposed to be accepted wholly or with partial modifications.

Source: Business Today