Direct Tax Code (DTC): Highlights and Its impact on salaried class

The New Direct Tax Code (DTC) is said to replace the existing Income Tax Act of 1961 in India. DTC bill was tabled in parliament on 3oth August, 2010. There are big changes now in monsoon session and There are now much less benefits as compared to what were in the original proposal. During the budget 2010 presentation, the finance minister Mr. Pranab Mukherjee reiterated his commitment to bringing into fore the new direct tax code (DTC) into force from 1st of April, 2011, but same could not be fulfilled and now it will be applicable from 1st April, 2012.

Highlights of Direct Tax code

Removal of most of the tax saving schemes:

DTC removes most of the categories of exempted income. Unit Linked Insurance Plans (ULIPs), Equity Mutual Funds (ELSS), Term deposits, NSC (National Savings certificates), Long term infrastructures bonds, house loan principal repayment, stamp duty and registration fees on purchase of house property will loose tax benefits.All these schemes earlier came under savings u/s 80c exemption.

New tax saving schemes:

Tax saving based investment limit remains 100,000/- but another 50,000/- has been added just for pure life insurance (Sum insured is atleast 20 times the premium paid) , health insurance, mediclaims policies and tuition fees upto two children.

But the one lakh investment u/s 80c **can now only be done in provident fund, superannuation fund, gratuity fund and new pension scheme (NPS).**

Tax slabs:

The income tax rates and slabs have been modified. The proposed rates and slabs are as follows:

Annual Income	Tax Slab
Upto INR 200,000 (for senior citizens 250,000)	Nil
Between INR 200,000 to 500,000	10%
Between INR 500,000 to 1,000,000	20%
Above INR 1,000,000	30%

Men and women are treated same now.

According to new proposal Tax burden at highest level will come down by Rs 41,040 annually. This will generate some more disposable income for people falling under different tax slab. For senior citizens (65+), there will be no tax on income up to 2,50,000. Earlier exemption limit was 2,40,000.

Home loan interest:

Exemption will remain same as 1.5 lakhs per year for interest on housing loan for self-occupied property.

Short term gains: :

Only half of Short-term capital gains will be taxed. e.g. if you gains 50,000, add 25,000 to your taxable income.

Long term gains:

Long term capital gains (From equities and equity mutual funds, on which STT has been paid) are still exempted from income tax.

EEE and EET:

As per changes on 15th June, 2010, Tax exemption at all three stages (EEE) —savings, accretions and withdrawals—to be allowed for provident funds (GPF, EPF and PPF), NPS (new pension scheme administered by PFRDA), Retirement benefits (gratuity, leave encashment, etc), pure life insurance products & annuity schemes. Earlier DTC wanted to tax withdrawals.

Education Cess:

Surcharge and education cess are abolished.

Income arising from House Property:

Deductions for Rent and Maintenance would be reduced from 30% to 20% of the Gross Rent. Also all interest paid on house loan for a rented house is deductible from rent.

Before DTC, if you own more than one property, there was provision for taxing notional rent even if the second house was not put to rent. But, under the Direct Tax Code 2010 , such a concept has been abolished.

LTA (Leave travel allowance):

Tax exemption on LTA is abolished.

Education loan:

Tax exemption on Education loan to continue.

Taxation of Capital gains from property sale :

For sale within one year, gain is to be added to taxable salary. For long term gain (after one year of purchase), instead of flat rate of 20% of gain after indexation benefit, new concept has been introduced. Now gain after indexation will be added to taxable income and taxed at per the tax slab. Base date for cost of acquisition has been changed to 1st April, 2000 instead of earlier 1st April, 1981.

Medical reimbursement :

Max limit for medical reimbursements has been increased to 50,000 per year from current 15,000 limit.

Tax on dividends:

Equity mutual fund will attract 5% dividend distribution tax (DDT). DDT has been removed from debt and non-equity based mutual funds but now dividends on non-equity funds will be taxable in investor's hand as per his slab rates. There will also be a TDS 0f 10% (20% in case of NRI and companies) if dividend is more than 10,000 Rs for non-equity funds.