PRS LEGISLATIVE RESEARCH

Standing Committee Report Summary

The Direct Taxes Code Bill, 2010

- The Departmentally Related Parliamentary Standing Committee on Finance submitted its 15th Report on 'The Direct Taxes Code Bill, 2010' on March 9, 2012. The Bill was introduced in the Lok Sabha on September 9, 2010 to replace the Income Tax Act, 1961 and the Wealth Tax Act, 1957. We highlight some key recommendations of the Committee.
- The Bill proposes widening of income tax slabs. The Committee recommends further widening of these slabs as it would help minimize compliance and transaction costs. It would also help the Income Tax (IT) Department focus more on the higher income groups and categories which are more prone to evasion and avoidance. The table below shows the tax slabs proposed in the Bill and those suggested by the Committee.

Tax Rate	Tax Slabs	*(in Rs lakh)*
	DTC Bill	Committee Report
Nil	0 – 2	0 – 3
10%	2 – 5	3 – 10
20%	5 – 10	10 – 20
30%	Beyond 10	Beyond 20

- The Committee recommends that a higher exemption limit be considered for women and senior citizens, and the threshold age for senior citizens be 60 years (instead of the proposed 65 years in the Bill).
- The Bill proposes to tax shareholder funds for life insurance companies at corporate tax rate of 30% as against the current rate of 12.5%. The Committee recommends that instead of 30%, the rate should be increased to 15% as taxing them at a higher rate may discourage promoters from investing in life insurance.
- The Bill proposes an exemption for wealth tax of 1% up to Rs 1 crore. The Committee recommends that the ceiling on wealth tax should be increased substantially to Rs 5 crore and should be taxed on a slab basis.

Net Wealth (in Rs crore)	% of Wealth Tax
0 – 5	Nil
5 – 20	0.5%
20 – 50	0.75%
Beyond 50	1%

- The Committee suggests that the tax slabs should be automatically adjusted for inflation by indexing them to the consumer price index. This would ensure better compliance and higher revenue collections.
- The Bill proposes that incentives / exemptions for both individuals and businesses should be made investment linked. The focus for such incentives should be on crucial sectors of the economy. The Committee agrees with this proposal in the Bill.
- The Committee is of the view that the Bill is not coherent and has a large number of Schedules. This may require frequent cross-referencing and create confusion in interpretation by the courts. The Committee recommends that the chapters be made self contained and user friendly.
- The Bill proposes General Anti Avoidance Rules (GAAR) to plug tax avoidance. The Committee suggests that these provisions should ensure that the tax payers are not penalized in case they have valid reasons of entering into a particular transaction.
- The Bill proposes that under the GAAR, the burden of proof falls on the income tax payer. The Committee recommends that the onus to prove tax avoidance should rest with the Department and not the tax payer.
- The Bill proposes that the GAAR provisions will be subject to approval by a Dispute Resolution Panel which will consist of three Commissioners of the IT Department. The Committee recommends that the review should instead be done by an independent body to ensure that the system is fair and just.
- The Committee suggests that the accountability of the assessing officer should be addressed in the Code. In order to reduce harassment and unwarranted litigation, disciplinary action should be taken against officers responsible for irrational assessments.
- The Bill consists of 200 clauses which leave scope for rule making. The Committee suggests that the extensive rule making powers in the Bill should be curtailed to maintain a fair balance between executive decision making and parliamentary oversight.
- The Committee recommends that the Department of Income Tax should set up special courts comprising experts for speedy disposal of cases.

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