



Bill Summary

The Direct Tax Code, 2010

The Direct Tax Code Bill, 2010 was introduced in the Lok Sabha on August 30, 2010. The Bill was introduced by the Minister of Corporate Affairs, Shri Salman Kurshid. The Bill was referred to the Standing Committee on Finance, which is scheduled to present its report within two months.

- The Code seeks to consolidate and amend the law relating to all direct taxes. The Code was referred to the Standing Committee on Finance September 10, 2010. The Committee has to submit its report within three months.
- The Code changes the existing rates of income-tax. The table below shows the changes proposed in the Code to the existing income-tax rates:

Proposed changes to existing tax-rates for individuals

Existing tax-rates		Direct Tax Code	
Income (Rs.)	Tax rate	Income (Rs.)	Tax rate
Less than 1.6 lakh	Nil	Less than 2 lakh	Nil
1.6– 3 lakh	10%	2 – 5 lakh	10%
3 – 5 lakh	20%	5 – 10 lakh	20%
More than 5 lakh	30%	More than 10 lakh	30%

Sources: Direct Tax Code, 2010; Finance Act, 2010; PRS.

- Companies and unincorporated bodies will be taxed at 30 percent of their total income. Non-profits will not have to pay tax for income below Rs. 1 lakh. For income above Rs. 1 lakh, they will be charged at the rate of 15 percent of their total income.
- The Code proposes a minimum alternate tax on companies. The tax will have to be paid in case the normal income tax of a company is less than the tax on the book profit of a

company. The tax will be applicable at 20 percent of the book profits of the company. The Draft Direct Tax Code had proposed a marginal tax on certain investments (such as provident funds and pension schemes) at the time of redemption. In the Code introduced in the Lok Sabha investments such as government Provident Fund, approved provident fund schemes and life insurance schemes will be exempt from tax at the time of redemption.

- Persons other than non-profit organizations will have to pay wealth tax. Wealth up to Rs 1 crore is exempt. Wealth above Rs 1 crore will be taxed at 1 percent.
- The Code allows deductions for savings up to an amount of Rs. 1 lakh as contributions to approved funds. Deductions up to five percent on existing life insurance policies shall be allowed. A total deduction of up to Rs 50,000 will also be allowed on sums paid for health insurance, and for the education of children.
- Deductions shall also be allowed on the interest paid on loans taken for house property and higher education. Deductions on housing loans shall be allowed up to a limit of Rs 1,50,000. There is no limit on the deduction available for higher education.
- A person not receiving house rent allowance will be allowed a deduction on the rent paid towards his own residence. The deduction shall only be available if the rent paid exceeds ten percent of an individual’s total income.
- Capital gains are computed in the following manner. For assets on which securities transaction tax is payable, the long term capital gains (if held for more than one year) will be nil. Short term capital gains will be computed as half of the actual gains. For other investment assets, long term capital gains will be given indexation benefits.
- The Code repeals the Income Tax Act, 1961 and the Wealth Tax Act, 1957.

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