



## **AN EVALUATION ON REVISED DIRECT TAX CODE: AN EMPIRICAL STUDY**

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### **INTRODUCTION**

The direct Tax code seeks to consolidate and amend the law relating to all direct taxes, that is, income tax, dividend distribution tax, fringe benefit tax, and wealth tax so as to establish an economically efficient, effective and equitable direct tax system (Jerinabi, U. and Subha, S. (2011) . It has aimed to achieve this by increasing the tax base and rationalizing the myriad tax incentives prevalent under current law. It has sought to bring all direct taxes under one code for providing a single tax reporting system. It has also been stated that the new code is drafted by taking into account the internationally accepted principles of public finance and best practices to make it at par with the international practices and not merely to replace the existing Income Tax Act, (Mitra, Debabrata, 2011).

### **LITERATURE REVIEW**

Jerinabi, U. and Subha, S. (2011) conducted an empirical study with the main objective to analyze the views of public on Direct Tax code. A total of 400 respondents have been randomly selected from four busy areas of Coimbatore city for the purpose of this study. The study concluded that transmission of knowledge on direct tax code to the public will bring about ease in computing procedure in filing of returns and expected cooperation from public. Direct tax code aims to achieve better tax compliance and reduce compliance costs and lower administrative burden. The code seeks to achieve this by consolidation of the procedure relating to filing of tax base returns, assessment appeal proceedings.

Mitra, Debabrata (2011) undertook study to understand the perception of common people in India towards DTC. A non-probability convenience sample of 400 respondents consisting different age groups, educational levels, and income groups have been collected to get the primary data for this analysis. The paper concluded that the proposed direct tax code bill will bring certain definite advantages and disadvantages for both individual and corporate tax payers.

Pant, kamal and Arya, Ashish (2012) made research study on assessee awareness, their adaptability and their concern about direct tax code in the state Uttarakhand. Sample size of the respondents was 170 which had been taken by using random sampling. The study came to a conclusion that the direct tax code will surely help in the growth of our economy because the tax rate has been reduced for person who earns upto Rs.10 lakh. The reduction in tax may motivate them to contribute their money in the development of our economy.

Despande, Sneha (2011) in his stated that The aspects of taxation that need to be taken into consideration while framing taxation policy have been taken into consideration by lowering the personal tax rate. This will have a positive effect on the work and consumption/savings rates. The tax base will increase as the tax rate is simple to understand .These rates have greater revenue potential. It seems that Implementation of tax reforms will further decrease the marginal tax burden on investment and reduce tax-induced distortion. But cost of collection tax still remains to be examined.

### **STATEMENT OF THE PROBLEM**

Direct tax code is a modified tax and combines all direct taxes income tax, dividend distribution tax, fringe benefit tax, and wealth tax etc. Direct tax code was revised several times in the backdrop of opinion from all side. The Act has yet to implement to replace the existing Income Tax Act, 1961. The researcher had carried out empirical study of Accounting Professional on revised direct tax code. In this backdrop, there are several research questions raised: a) are the accounting professional willing to accept the code? 2) what are the reason for

acceptance of the code? 3) will the direct tax code give benefit to the public? 4) what is the attitude of the chartered accountant towards various provision? 5) what are the probable drawbacks of the new provision?

### **OBJECTIVES OF RESEARCH**

The researcher undertook the study with the object to study the view of chartered accountant regarding willing to accept DTC, reasons of acceptance/ non acceptance, benefit to public, computation of total income under DTC and cause for replacement. The next objective was to know the attitude of chartered accountant on direct tax code in the study area. Moreover, objective of the study was also to find out problematic area for individual and corporate assesses in direct tax code.

### **RESEARCH METHODOLOGY**

**Data Collection Technique:** The study is both qualitative and quantitative in nature. The research is primarily based on sources of primary data. For the collection of primary data in the present study, the researcher had prepared the structured questionnaire containing both close ended and open ended questions. The researcher had classified the questionnaire into four parts in accordance with the questions. The first part deals with willing to accept DTC, reasons of acceptance/ non acceptance, benefit to public, computation of total income under DTC and cause for replacement. These questions were included from the research paper (Jerinabi, U. and Subha, 2011) published in the journal Indian Journal of Commerce. The second part deals with attitude of the respondents on direct tax code and these points are available in the relevant website of internet. The third part deals with open ended questions on the topic and the fourth part deals with the demographic profile of the respondents. The prepared questionnaire was meant for the chartered accountant only in the study area. The researcher had personally visited the respondents to administer the questionnaire to all the respondents. Out of all the respondents, the respondents did not give the researcher back the questionnaire instead of several reminders. The researcher also had searched for secondary data for the study. The researcher had obtained the required secondary data from research papers published in referred journal and relevant website of the internet.

**Sample Size:** There are about 60 chartered accountants in the study area which constituted the total population of the study. The researcher collected the list of population of chartered accountant from the secretary of chartered accountant of the area. Of the total population, the researcher got back the questionnaire from 35 respondents and the number is regarded as sample size.

**Sample Technique:** The researcher had made attempt to apply random sampling technique adopting the method of lottery method. It became difficult for the researcher to get back the questionnaire according to the plan. It ultimately made the researcher use the non-probability sampling technique.

**Locale of the study:** The study was confined to the respondents of Dibrugarh town only in terms of geographical area. The reason for selection of the area is that respondent is staying in the town and they are accessible to the researcher in the area.

**Period of the Study:** The period of the study is between June and July, 2014. The researcher had collected the primary data from the respondent in the field between these two months.

**Statistical Tools:** After collecting the questionnaire from the respondents, the researcher had initiated preliminary stage of making analysis of the primary data by way of encoding, decoding and editing to put them in the tabulated form. The researcher made analysis the tabulated data with the help of percentage in the analysis part.

During analysis to measure attitude, the researcher made use of five point Likart scaling technique giving weightage in all the statements i.e. Fully agree:5, Agree:4, Neutral:3, Disagree: 2 and Fully disagree:1.

### LIMITATION OF THE STUDY

The study was restricted to 36 sample respondents in the particular area; it becomes difficult to generalize to other area. A few respondents might answer the question with little care on account of paucity of time and a few gave his assistance answer the questions. Moreover, they were not much comfortable to the questions of the questionnaire. Revised provision of direct tax code given to measure the attitude of respondents relied on the reliability of information of the website taken in the month of June 2014.

### ANALYSIS AND DISCUSSION

The analysis and discussion part included question relating to demographic profile of the respondents, willing to accept DTC, reasons of acceptance/ non acceptance, benefit to public, computation of total income under DTC and cause for replacement, attitude of the respondents on direct tax code and opinion of the respondents regarding drawbacks from implementation of the code and they are as below,

**Table1: Age in years of the Respondents**

Variables	Frequency	Percent
Below30	09	25.0
31-40	07	19.4
41-50	08	22.2
51-60	08	22.2
Above 61	04	11.1
Total	36	100

Source: Primary Data

Table 1 presents the age in years of the respondent in the area. Of the total, 25 percent respondents were below the age of below 30 years, 19.4 percent were in the age bracket of 31-40 years, 22.2 percent aged between the age of 41-50 years and 51-60 years and the remaining percent above the age of 61 years. Thus, it could be concluded that the respondents below the age group of 30 years is the highest percent in the town.

**Table2: Gender of the Respondents**

Variables	Frequency	Percent
Male	34	94.4
Female	02	05.6
Total	36	100

Source: Primary Data

Table 2 presents the gender of the respondents. It was observed from the study that most respondents in the study area were male representing 94.4 percent and the rest 5.6 percent were female respondents. Thus, it could be concluded that the male respondent is the highest percent (5.6 percent) in the area.

**Table3: Designation of the Respondents**

Variables	Frequency	Percent
FCA	29	80.5
ACA	07	19.4
Total	36	100

Source: Primary Data.

Table 3 presents that in the study area, most chartered accountants were experience holder of more than 5 years designated as FCA representing 80.5 percent. The remaining 19.4 percent remained the experience holders of less than 5 years. Thus, conclusion can be derived that chartered accountant designated as FCA is the highest percent representing 80.5 percent in the area under consideration.

**Table 4: Willingness to Accept Direct Tax Code**

Variables	Frequency	Percent
Yes	33	91.66
No	03	08.33
Total	36	100

Source: Primary Data

Table 4 presents willingness of the respondents to accept direct tax code. Out of total, 91.66 percent respondents had expressed the opinion of willingness to accept direct tax code and the remaining had the opinion of not willingness to accept the code. Thus, conclusion can be derived that majority respondents had willingness to accept direct tax code.

**Table 5: Reasons for Acceptance**

Variables	Frequency	Percent
Easy Computation	05	15.15
Less tax Burden	03	09.09
Uniformity	21	63.63
Less tax Burden and Uniformity	03	09.09
Easy computation, less tax burden and uniformity	01	03.03
Total	33	100

Source: Primary Data

The reason of the chartered accountant for acceptance of direct tax code was presented in Table 5. 15.15 percent chartered accountant had accepted direct tax code for easy computation, 9.09 percent for the reason of less tax burden, 63.63 percent for uniformity, 9.09 percent for less tax burden and uniformity and 3.03 percent easy computation, less tax burden and uniformity.

**Table 6: Reasons for Non Acceptance**

Variables	Frequency	Percent
Less motivation for savings	01	33.33
Disallowance of certain Expenditure	02	66.66
Total	03	100

Source: Primary Data

Table 6 presents the reasons of the respondents for non-acceptance of direct tax code. 33.33 had expressed the view that it would not motivate for savings, 66.66 percent for the reason of disallowance of certain expenditure. Therefore, conclusion can be drawn disallowance of certain expenditure was the reason for non acceptance for majority respondents.

**Table 7: Benefit to Public**

Variables	Frequency	Percent
Yes	25	69.44
No	01	02.77
Not Known	10	27.77
Total	36	100

Source: Primary Data

Table 7 depicts the benefit of direct tax code to public. Majority chartered accountant representing 69.44 percent gave opinion Yes, 2.77 percent responded No and 27.77 percent responded not known. Therefore, it could be concluded that response of highest percent respondents (69.44%) is yes.

**Table 8: Computation of Total Income**

Variables	Frequency	Percent
Easy	13	36.11
Difficult	01	02.77
No difference	22	61.11
Total	36	100

Source: Primary Data

Computation of total income under direct tax code is presented in Table 8. 36.11 percent respondents opined the computation of total income easy, 2.77 percent opined it difficult and 61.11 percent gave opinion of no difference. Thus, it could be concluded that opinion of highest percent respondents is no difference.

**Table 9: Reasons for Introducing Direct Tax Code**

Variables	Frequency	Percent
Check Tax Evasion	14	38.88
Transparency	21	58.33
Check tax evasion, black money and transparency	01	02.77
Total	36	100

Source: Primary Data

Table 9 presents reasons for introducing direct tax code. 38.88 percent respondents gave the reasons of checking tax evasion for introducing direct tax code, 58 percent cited reason for transparency and 2.77 percent for checking tax evasion, black money and transparency. Thus, conclusion could be drawn that highest percent respondents gave reason of transparency for introducing direct tax code.

**Table10: Attitude of Chartered Accountant on Some Provisions of Direct Tax Code**

Statements	FA	A	N	DA	FDA	Mean	Rank
New tax rate of individuals having income exceeding Rs.10 crore	02	14	09	07	04	3.08	8
No tax rate on income up to Rs. 2 lakh p.a.; 10% from Rs.2 lakh- Rs.5 lakh; 20% from Rs.5 lakh- Rs.10 lakh and 30% beyond Rs 10 lakh	04	20	06	06	00	3.61	6
Reduction of the age for tax exemption for	13	15	16	01	01	4.88	1

senior citizens to 60 years from 65 years.							
Every individual and Hindu Undivided Family HUF who has wealth exceeding Rs.30 lakh required to pay wealth tax and the rate is 1%	06	15	06	05	04	3.38	7
Levy income distribution tax on equity linked insurance products on the lines of equity oriented mutual funds.	01	11	16	05	03	3.05	9
Additional tax @10 per cent on recipient of dividend (liable to dividend distribution tax) exceeding Rs. 1 crore.	02	19	11	04	06	3.69	5
Provisions of house property income not apply to the house property, or any part of the house property, which is used for business purposes	08	18	03	07	00	3.75	4
Arrear rent received/rent which is realized later be deemed to be house property income of year in which such rent is received or realized	05	26	03	02	00	3.94	3
Deduction regarding interest on loan taken for self-occupied house property, loan given by the employer should also qualify for this concession.	03	23	08	02	00	3.75	4
Treatment of losses remaining to be carried forward and set off according to the existing IT Act on the date on which DTC comes into effect	04	27	05	00	00	3.97	2

FA: Fully Agree, A: Agree, N: Neutral, DA: Disagree and FDA: Fully Disagree.

Some specific provisions of direct tax code have been presented as statements to know the attitude of chartered accountant in 5 points Likerts scale: fully agree, agree, neutral, disagree and fully disagree as shown in Table 10. Accordingly reduction of age for tax exemption from 65 years to 60 years was placed in first rank, treatment of loss remaining to be carried forward and set off according to existing IT Act on the date on which DTC comes into effect found place of second rank followed by arrear rent received/rent which is realized later be deemed to be house property income of year in which such rent is received or realized third rank.

### **DRAWBACKS OF IMPLEMENTATION OF THE DIRECT TAX CODE**

The various opinions of the chartered accountant regarding drawbacks of implementation of the direct tax code are given below:

“In present situation, an individual with some basic knowledge of income tax is in a position to determine his self-assessment tax. But with the introduction of the DTC, the whole procedure will be different and he will require a consultant at every point of time.”“Leave travel allowance will not be allowed and all such allowance and expenditure is definitely the drawback for the general public of the direct tax code.”“The tax burden may increase.”



“Non exemption in house rent allowance (HRA/leave travel concession (LTC), Keeping investments in SCSS and Infra bonds out of scope of EEE, including several other critical issues like penalty, prosecution, service of notice, revision, stay of demand by the Appellant Tribunal, survey, search, and seizure, method of and maintenance of accounts, depreciation etc. arising out of provisions of DTC are among the major drawbacks.”

“If total income exceeds Rs.10 crore of an individuals or HUF the tax rate will be 35% which is way to higher inclusive of cess.”

“It will to lead to wrong interpretation of provisions, improper saving preference and difficulty in learning for the general public.”

“Change is for the better when it is driven by belief and experiences, not when there is change for the sake of change. Some of the conceptual changes proposed in the direct tax code are highly debatable and may defeat the objective of simplification.”

“Standard deduction on house rent will be reduced from 30% to 20% which means there will be an extra burden of tax liability of 10% of the house property income; b) tax exemption from leave travel allowance will be removed which will also increase the tax burden.”

“Tax exemption remains same and some of them will be reduced which will increase tax burden on them.”

“The provision of DTC seems to make it more confusion and more litigation. The motto should be to enhance voluntary compliance and increased tax collection whereas the DTC does not fulfill the desired goal in totality.”

“The direct tax code system can make the company to pay more tax. The overall tax amount paid is less in the present system because of the incentive as well as the special tax holidays. The tax holiday would get eliminated in the direct tax code.”

“Some exemption would not be available under direct tax code.”

“Tax rate for the company is high.”

“Minimum alternate tax will be raised and will increase the tax burden of the companies.”

Direct Tax Code can make even the loss making companies to pay the minimum alternate tax. The DTC also eliminates the entire region and location based tax exemptions. Special tax holidays are given for years in some regions. This system will get eliminated in the DTC. The overall tax amount paid by companies will be less in the present system because of the incentives and exemptions. The new system will make them to pay more tax even if some of them are making losses.

“Minimum alternate tax is the problematic area.”

1. STT is required for regulation of daily trading, hence its abolition will affect the trading mechanism;
2. Negative impact on the insurance industry due to levy of dividend distribution tax and on distribution of income;
3. company in the low tax area will suffer hugely.”

There is ample scope for litigation in respect of definition of ‘Place of Effective Management’ including ‘Controlled Foreign Corporation’ (CFC) provisions. Parameters CFC, specified income to be taxed in the hands of Indian Shareholders etc. also not clearly spelt out.”

“The major problem for the company would be classifying the income under various direct tax code.”

### **SUGGESTION OF THE STUDY**

The researcher has put some suggestions to improve the present system based on the field study. It is suggested that the calculation of total income under direct tax code should be made simplified so that anyone person can easily understand the calculation and understanding the same will consume less time. Some specific provisions of direct tax code i.e. levy income distribution tax on equity linked insurance products on the lines of equity oriented mutual funds, new tax rate of individuals having income exceeding Rs.10 crore Every individual and Hindu Undivided Family (HUF) who has wealth exceeding Rs.30 lakh needing to pay wealth tax at the rate of 1% are required to be reviewed and make modification after taking into account such aspects. The policy maker is required to consider the rate of minimum alternate tax so that this rate is reasonable so that company will find it comfortable to pay to the government.



The policy framer should keep an eye that the exemption availing under present act will continue under the direct tax code.

The rate of standard deduction on house property is to be considered in order to avoid increased burden of tax liability to the payers.

### **CONCLUDING REMARKS**

It can be concluded that direct tax code has been framed to rationalize the existing tax system and facilitate voluntary compliance. There are many loopholes in the existing tax system. The direct tax code has been designed to take care of all lacunae prevailing in present act. The policy makers have draft the various provisions of the code a few years back and modification of the code is on as of now taking into account opinions received from the many quarters. But final shape of the code is still to be given to make it fruitful one in the future.

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