Income Tax Reforms in India

By

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History of Income Tax in India

Mark Twain has rightly said, “Only two things are certain in this life – death and taxes.” Taxation in some form or other has always been prevalent in India as in any other nation. Kautilya’s ‘Arthshastra’ gives the complete details about how a king should collect and utilize taxes. In modern days, income tax was introduced for the first time in 1860 when India was a colony of Great Britain. The Indian Income Tax Act, 1922 gave for the first time a specific nomenclature to various income tax authorities and laid the foundation of a proper system of tax administration. In independent India, till the year 1961, direct taxes were administered as per provisions of The Indian Income Tax Act, 1922.

Income Tax Reforms up to 1991

The Income Tax Act, 1961 was enacted as a result of recommendations by ‘Income-tax Investigation Commission’ headed by Sir Srinivasa Varadachariar in 1947, by ‘Taxation Enquiry Commission’ of 1953-54 constituted under Dr. John Matha, by famous economist Nicholas Kaldor and by the ‘Direct Taxes Administration Enquiry Committee’ set up in June 1958 (Tyagi Committee).

Post 1961, ‘Committee for Rationalisation and Simplification of Tax Structure’ headed by Bhoothalingham suggested measures for rationalization and simplification of personal income tax and corporation tax. This Committee also recommended donee based gift tax. Another committee – ‘Direct Taxes Enquiry Committee’ was set up in 1971 under Wanchoo. This Committee looked into aspects of tax evasion and black money. As per this committee, factors like high tax rates, controls, licenses and ineffective information system were major problems in Indian direct tax system. The Committee opposed voluntary disclosure system to control growth of black money. It favoured more stringent measures like searches and seizures. A Committee under K.N.Raj in 1972 suggested a novel option to bring agricultural income under income tax net through integrated system of agricultural and non-agricultural income. This method of computation of tax on agricultural income is still being followed. Personal income tax rates in India were quite high in earlier times. At its peak in 1973-74, the maximum marginal rate of tax (with surcharge) was as high as 97.75 per cent. Keeping in view the recommendations of the Wanchoo Committee (1971), marginal tax rates were reduced gradually to 50% in 1985-86.

Income Tax Reforms from 1991 till Today

The foundation for the Tax Reforms were laid down in 1991 itself when the economy was liberalized. The Indian companies could not have been able to compete with the multinationals unless the massive tax reforms were undertaken. other economies have increased their tax revenue-to-GDP ratio not by increasing tax rates but by simplifying tax structures, widening the tax base and improving tax administration. Needless to say that the Indian tax systems is one of the most complex system in the world. There are plethora of taxes that could be combined. There are numerous notifications granting and taking back exemptions. The most complex procedures are required to be followed for simple
things like determination and payment of tax. The tax administration is ineffective. The black money has been increasing because tax compliance is low. The feedback received from various quarters suggested improvement in the aspects of structural complexity, low transparency, delay in issue of refunds & PAN numbers, high compliance costs (and hence low compliance), lack of attention to taxpayer needs, taxpayer harassment, tax leakage etc. The problems are enormous. Of course, there are solutions, but political consensus is difficult to achieve and the Government in power can not satisfy the aspirations of all the sectors. But slow and steady progress is being made and The Direct Tax Code Bill – 2010 is an outcome of this progress. The Bill is likely to be passed sometime during the current year and will most probably be applicable from 1st April, 2012.

The Deficiencies in the Indian Income Tax System

Personal income tax system in India was having a number of deficiencies. There was low yield, extremely limited coverage and little compliance. There was massive tax evasion and tax avoidance in India. High tax rates mainly contributed towards this tax evasion and tax avoidance. Another effect of this high tax rate regime was that there were numerous exemptions, deductions and allowances. A Task Force (TF) under the chairmanship of Dr. Vijay Kelkar, then Finance Secretary was formed to look into the aspects of streamlining the taxation system in India in the year 2002.

The TF identified four operational objectives relating to the direct tax code. Those were:

1) Institution of a simple and transparent system.

2) Reduction of transactions costs of tax revenue collection and compliance costs of taxpayers.

3) Alignment of incentives of taxpayers and the tax administration; and

4) Widening of the tax base.

Tax Administration:

Taxpayer Service

 Provision of quality taxpayer service is an integral part of the enforcement strategy of any tax administration. The scope of taxpayer service in India was too narrow to encourage voluntary compliance. The TF had recommended that the income tax department must expand, qualitatively and quantitatively, the present scope of taxpayer service. The measures suggested by the TF (in italics) and the implementation (in bold letters) are given below:

1. **Telephonic messages to the taxpayers. These have not yet started but are possible to start.**
   Today, almost all taxpayers have mobile phone with them. It is very easy for the Government to pass mass SMS to all taxpayers reminding them of their liabilities and about various dates.

2. **Provision of pre-formatted programmed floppy diskettes through retail outlets. These have not yet started but are possible to start.**

3. **The expenditure on taxpayer service must be increased from the present level of about one percent of the total expenditure on tax administration to at least five percent. In this regard, an important start should be made by the establishment of taxpayers’ clinic in different part of the country to enable taxpayers to walk in for assistance. Some progress has been made in this regard and various help centers have started.**
4. Better treatment of existing taxpayers so that those outside the tax net become taxpaying citizens. This has started, tough is not in full swing.

5. Further, the department should provide easy access to taxpayers through Internet and e-mail and extend facilities such as tele-filing and tele-refunds. Electronic filing of returns has started for corporate taxpayers. The website of Income Tax Department is not very user friendly.

6. The Income Tax Department should design special programmes for retired people, low-income taxpayers, who cannot afford expensive services of tax consultants and other such groups with special needs. Tax Return Preparer Scheme (TRP) was started by the Government but has not taken roots.

Taxpayer Identification and Registration

The TF recognized the role of PAN in building up an effective taxpayer information system. The use of PAN can effectively integrate, on the lines of the US Social Security Number system, multiple tasks of tax and commercial enforcement, targeting government subvention, improving governance and enhance national security, both at the Central and State level. Accordingly, the recommendations of the task force and the implementation levels are given below:

1) The PAN should be extended to cover all citizens and therefore serve as a Citizen identification number. The Government has bungled on this issue. The Voter Identity Cards were issued earlier. Now they have stated that they will issue Citizen Identification number. Probably the political will is lacking in this regard. However, PAN is being used by other Indirect Tax Departments for registration of their assessees.

2) The TF recommended that the responsibility for issuing PAN should be transferred to an independent agency outside the income tax department. This has been done. Earlier the UTI was given the responsibility to issue PAN, however this was later changed to NSDL because the entire Tax Information Network (TIN) is under the NSDL.

3) The Task Force recommended that the requirement of quoting PAN may be expanded to cover most financial transactions. Every year new transactions are being added. The present list includes the following:

   a. Sale / Purchase of immovable property valued at Rs. 5 lakh or more.
   b. Sale / Purchase of motor vehicle.
   c. Fixed deposit exceeding Rs. 50,000/- or more.
   d. Savings bank account balance of Rs. 50,000/- or more.
   e. Post office deposit of Rs. 50,000/- or more.
   f. Sale or purchase of securities worth Rs. 1,00,000/- or more.
   g. Opening a bank account.
   h. Making an application for telephone connection including cellular phone connection.
   i. Hotel or restaurant bills of Rs. 20,000/- or more at one time.
   j. Cash withdrawals of Rs. 50,000/- or more from a bank
   k. Cash deposits of Rs. 50,000/- or more in a bank.
   l. Payment of cash of Rs. 25,000/- or more in connection with travel to a foreign country.
   m. Making an application for a credit card.
   n. Payment of Rs. 50,000/- or more for purchase of mutual funds units.
o. Payment of Rs. 50,000/- or more to a company for purchase of its shares.
p. Payment of Rs. 50,000/- or more to a company for purchase of its debentures or bonds.
q. Payment of Rs. 50,000/- or more to Reserve Bank of India for purchase of bonds.

Collection of Information

In view of the extant method of collection of information and constraints in digitizing the volume of information received by the tax administration, the TF had recommended that:

1. *Income Tax Act should be amended to provide for submission of ‘Annual Information Return (AIR)’. This return was made mandatory for the banks and certain government officials since 2005.* Section 285BA (Rule 114B) provided for Annual Information Returns for high value transactions. The gist is given below:

<table>
<thead>
<tr>
<th>S / No.</th>
<th>Persons required to file AIR</th>
<th>Type of transaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Banks</td>
<td>Cash deposits aggregating to Rs. 10,00,000/- or more in a year in any savings account</td>
</tr>
<tr>
<td>2</td>
<td>Bank or any company issuing Credit Card</td>
<td>Payments through any credit card aggregating to two lakh rupees or more in the year.</td>
</tr>
<tr>
<td>3</td>
<td>Trustee or authorized manager of Mutual Fund</td>
<td>Investment of Rs. 2,00,000/- or more by any person for acquiring units of that Fund.</td>
</tr>
<tr>
<td>4</td>
<td>Company or institution issuing bonds or debentures.</td>
<td>Investment of Rs. 5,00,000/- or more by any person for acquiring bonds or debentures of that company or institution.</td>
</tr>
<tr>
<td>5</td>
<td>Company issuing shares through a public or rights issue.</td>
<td>Investment of Rs. 1,00,000/- or more by any person for acquiring shares of that company.</td>
</tr>
<tr>
<td>6</td>
<td>Registrar or Sub-Registrar</td>
<td>Purchase or sale by any person of immovable property valued at Rs. 30,00,000/- or more</td>
</tr>
<tr>
<td>7</td>
<td>Authorized officer of the Reserve Bank of India</td>
<td>Investment of Rs. 5,00,000/- or more by any person for acquiring RBI bonds.</td>
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For the taxpayers, this was done through introduction ITR Forms in 2007. The following information is being collected by the income tax department through annual information return as part of ITR Forms.:--

# Cash deposits aggregating to ten lakh rupees or more in a year in any savings account

# Payment against bills raised in respect of a credit card aggregating to two lakh rupees or more in a year.

# Payment of an amount of two lakh rupees or more for purchase of units of Mutual Fund.

# Payment of an amount of five lakh rupees or more for acquiring bonds or debentures issued by a company or institution.
# Payment of an amount of one lakh rupees or more for acquiring shares issued by a company.

# Purchase of any immovable property valued at thirty lakh rupees or more.

# Sale of any immovable property valued at thirty lakh rupees or more.

# Payment of an amount of five lakh rupees or more in a year for investment in bonds issued by Reserve Bank of India.

2. The TF further recommended that such annual return of information should mandatorily be required to be submitted in electronic format. Presently, electronic returns are not mandatory for taxpayer individuals; but this is only a transient phase and electronic returns are likely to become mandatory in due course of time – maybe by year 2014 or 2015.

3. Many of the Departments involved in transactions specified in Rule 114B do not have any mechanism for obtaining the PAN of the concerned person. It was therefore recommended by the TF that the proforma used by them for their departmental purposes should cover PAN. This is being followed in most cases.

4. The TF suggested that Income Tax Department should set up a structure for Electronic Data Interchange (EDI) with some of the major departments and organisations such as Banks, Stock Exchanges, Telephone Companies, Regional Transport Authority etc. involved in the transactions specified in Rule 114B. This is being followed with the help of TIN. The details of TIN are given below:

**Tax Information Network (TIN).**

TIN is a repository of nationwide Tax related information. This has been established by National Securities Depository Limited (NSDL) on behalf of Income Tax Department of India.

TIN has three key sub-systems:

- Electronic Return Acceptance and Consolidation System (ERACS).
- Online Tax Accounting System (OLTAS)
- Central PAN Ledger Generation System (CPLGS)

**Services through TIN-FC:**

- Acceptance of electronic and physical Tax Deduction at Source (TDS) / Tax Collection at Source (TCS) Returns;
- Processing of new PAN and PAN change request applications;
- Processing of new Tax - deductor Account Number (TAN) and TAN change request applications;
- Acceptance of AIR;
- Registration by a PAN holder for viewing its annual tax statement (Form 26AS)
- Quarterly Statement Status - Deductors can access details of their statements including financial details through the TIN-FC who has uploaded their statements.
Online Services:

View Annual Tax Statement (Form 26AS)
Quarterly Statement Status.
Acceptance of returns / statements.
e-tax payment.
OLTAS Challan Status enquiry:
PAN Application, Reprint Allotment Letter, Status enquiry.
TAN Application, Reprint Allotment Letter, Status enquiry.
e – Return Intermediary (e-RI)
Verification & Processing of Tax Returns

An IT-based system will facilitate considerable streamlining of procedures for receipt and processing of tax returns. Against this background the TF had recommended that:-

1) All returns must be processed within four months of receipt. For this purpose, it would be necessary for the department to either hire additional personnel on a temporary basis during the peak period for filing returns, or, outsource data entry work, as is done routinely by national tax administrations all over the world. The hiring of temporary persons and outsourcing is being done by our I.T. department. But the result is far from satisfactory.

2). The process of selection of cases for audit (scrutiny) is the most important element of the enforcement strategy of any tax administration. It is this process of selective verification of the volume of information received by the tax administration which establishes deterrence. Accordingly, the TF had recommended that the department should progressively develop a mechanism for risk assessment, which forms a scientific (and, therefore, objective) basis for identifying cases of potential tax evasion for in-depth scrutiny. The TF had further recommended that the penalty orders must be passed simultaneously with the assessment order. The department has started to follow these recommendations and recently a notification is issued whereby there will be no scrutiny of individuals earning income below Rs. 10,00,000/- a year.

TDS & TCS

An important device for widening the tax base is TDS and TCS. TDS is an important measure for bringing those incomes to tax, which go unreported for tax purposes. Tax Reforms initiated after 1991 introduced a number of provisions for deducting tax at source. The Income Tax Act, 1961 at present provides for deduction of tax at source for a number of incomes. The list of incomes subjected to TDS as per the provisions of Income Tax Act, 1961 include:

1. Section 192 – Salary
2. Section 193 – Interest on Securities
3. Section 194 – Dividends declared, distributed or paid.
4. Section 194A – Interest other than interest on Securities payable by persons other than individual / HUF.
5. Section 194B – Winnings from lotteries, crossword puzzles, card games etc.
6. Section 194BB – Winnings from Horse race.
7. Section 194C – Payment to contractors payable by persons other than individual / HUF.
8. Section 194D – Insurance commission.
9. Section 194EE – Payments out of deposits under National Saving Scheme.
10. Section 194F – Payments on account of repurchase of units of Mutual Funds / UTI.
11. Section 194G – Commission etc. on sale of lottery tickets.
12. Section 194H – Commission or brokerage payable by persons other than individual / HUF.
13. Section 194I – Rent by persons other than individual / HUF.
14. Section 194J – Fees for professional services, royalty and any sum as per section 2va payable by persons other than individual / HUF.
15. Section 194LA – Payment of compensation on acquisition of land other than agricultural land.
16. Section 195 - Any interest or any other sum chargeable to tax (other than salary and dividends of Indian Companies) payable to a non-resident or a foreign company.
17. Section 196B - Any income from units purchased in foreign currency including long-term capital gain arising in respect of units payable to an offshore fund.
18. Section 196C. Income (by way of interest or dividends or long-term capital gains) arising from foreign currency bonds or global depository receipts of Indian Company to a non-resident.
19. section 196D. Income (other than capital gains and dividends of Indian companies) in respect of securities payable to a foreign institutional investor.

**TCS:** Every seller is required to collect tax from purchasers of following items:

- i. Alcoholic Liquors – 1%
- ii. Tendu Leaves – 5%
- iii. Timber obtained under foreign lease or otherwise – 2.5%
- iv. Any other forest product – 2.5%
- v. Scrap – 1%

Also 2% tax will be collected while collecting amount under license of Parking Lot or Toll Plaza or under Mining / quarrying lease.

**Collection and Accounting of Taxes**

*The TF had recommended a revised procedure for collection of taxes and their accounting.* The new procedure as recommended by the TF and as implemented by the department is given below :-

1) A taxpayer is required to fill up only one copy of the challan while making payment of taxes in the bank. The earlier requirement of filling up four copies of challan for payment of any tax has been given up.

2) The banks are networked to the TIN and receive payments online. The banks now issue a computerised receipt to the taxpayer instantaneously. The date of presentation of a cheque is treated as the date of payment.

3) With instant accounting of tax collection, the requirement of enclosing a copy of the challan as evidence of tax payment, along with the annual return of income has been done away.

4) Since the TIN digitises all the TDS returns, the requirement to file TDS certificates along with the return of income has been dispensed with.

**Refunds**

The failure of the tax administration to issue refunds continued to be a major source of public grievance. This was partly due to the inability of the I.T. department to promptly process the returns, whose numbers had increased substantially over the years, and partly due to the cumbersome process for issuing of refunds. Therefore, the TF had recommended the following:
1) The erstwhile cumbersome and manually-operated procedures for issue of refunds must be replaced by a more efficient IT-based system. Under the new system the I.T. department to prepare a separate file of all refunds daily which will be downloaded by a payment intermediary, i.e., a designated bank.

2) The designated bank be authorised to issue computerised refunds as is the current practice for issuing dividend and interest warrants by companies.

3) The designated bank will be required to transmit the information relating to the issue of refunds to the TIN, which will also allow a taxpayer to verify the status of his / her refund claim.

This recommended system has very recently been implemented and the assessee can now check his refund status online by just entering his PAN & Assessment Year on the website https://tin.tin.nsdl.com/oltas/refundstatuslogin.html and the refund status would be known instantaneously.

Income Tax Clearance Certificates

The TF had recommended that present requirement of obtaining a tax clearance certificate before leaving the country should be an exception as against the current practice of obliging everyone to comply with the procedure. This has been implemented.

Reform of Personal Income Tax

The recommended package of policy measures for the reform of personal income tax as suggested by the TF (given in italics) and its implementation is given below :-

(a) Increase in the generalised exemption limit from Rs.50,000/- to Rs.1,00,000/- for all individual and HUF tax payers. The basic exemption limit has been raised to Rs. 1,80,000/- for the financial year 2011-12.

(b) The existing three slabs in the personal income tax rate schedule will be replaced by two slabs. Incomes between Rs.1,00,000 and Rs.4,00,000 will be subjected to tax at the marginal rate of 20 per cent. All incomes above Rs.4,00,000 will be subjected to tax at the marginal rate of 30 per cent. The latest slabs are Rs. 1.8 Lakh to Rs. 5 Lakh (10%), Rs. 5 lakh to Rs. 8 Lakh (20%) and above Rs. 8 Lakh (30%).

(c) Dividends received from Indian companies will be fully exempt. Dividends received are tax exempt but the companies are required to pay tax @ 20% for distributed dividends.

(d) Long term capital gains on equity will be fully exempt. Long Term Capital Gains from equity are made fully exempt.

(e) The standard deduction for salaried tax payers will be reduced to NIL. The provision of Standard Deduction has been removed.

(f) The income based deduction under Section 80D will be converted to a tax rebate at the rate of 20 per cent subject to a maximum of Rs.3,000 /-. This has not been implemented.
(g) The benefit of deduction under Section 80DDB to be withdrawn. However, consistent with international practice and in view of the special circumstances of senior citizens, deduction for medical expenses may continue to be allowed in the form of a tax rebate at the rate of 20 per cent of the medical expenses, subject to a maximum of Rs.4,000 /-. This has not been implemented.

(h) The income based deduction under Section 80E for repayment of educational expenses will continue to be allowed. However, on grounds of equity, the same should be allowed as a tax rebate at the rate of 20 per cent subject to maximum of Rs.4,000. This has not been implemented.

(i) The tax rebate schemes under Sections 88 for savings will be eliminated. Tax rebate under section 88 stands removed. But all the investments have been moved to Section 80C whereby deduction of up to Rs. 1,00,000 /- (plus additional deduction of up to Rs. 20,000 /- for investment in infrastructure bonds) has been introduced.

(j) The rebate under Section 88B for senior citizens will be eliminated. Tax rebate under section 88B stands removed. However, A new category of Very Senior Citizen is created. The rebate is being given in the form of enhancement of basic exemption limit.

(k) The rebate under Section 88C for women taxpayers below the age of 65 years, will be eliminated. Tax rebate under section 88C stands removed. However, the rebate is being given in the form of enhancement of basic exemption limit. The Direct Tax Code Bill has recommended removing the difference between males and females.

(l) The income based deduction for handicapped under Section 80DD and 80U will however continue.

(m) The income based deduction under Section 80L for interest income and dividends will be eliminated. This has been implemented.

(n) The exemption under Section 10 in respect of interest income from bonds, securities, debentures etc. will be eliminated. This has been implemented.

(o) The deduction for mortgage interest in respect of loans for acquiring a owner occupied dwelling will be phased out. It will be reduced to Rs.1,00,000 /- in assessment year 2004-05, to Rs.50,000/- in assessment year 2005-06 and NIL in assessment year 2006-07. Due to tremendous public pressure, this could not be implemented. The Direct Tax Code Bill removed this deduction, but the bill had to be revised to reintroduce the said deduction of Rs. 1,50,000 /- for the self occupied house property.

(p) The residential status of “Resident but Not Ordinarily Resident” will be eliminated. Presently, the category remains, but the Direct Tax Code Bill has recommended its removal.

Salient Features of the Direct Taxes Code Bill, 2010 concerning Income Tax for
Individuals

Use of Simple language: so as to convey with clarity the intent, scope and amplitude of the provisions.

Single Code for Direct Taxes.

Flexibility: By reflecting the general principles in the statute and leaving the matter of details to rules and schedules.

Reducing the scope of litigation: By avoiding ambiguity in the provisions.

Provisions relating to definitions, incentives, procedure and rates of taxes have been consolidated for better understanding of the legislation by rearranging various provisions to make them consistent with general scheme of the Act.

Ensuring that the law can be reflected in a Form - by designing the structure of tax laws so that it is capable of being logically reproduced in a Form.

Elimination of the regulatory functions - by withdrawing the regulatory function of the taxing statute;

Providing stability - by prescribing the rates of taxes in the Schedule of the Code instead of being done annually in the Finance Act.

Tax saving based investment limit remains 1,00,000 but another 50,000 has been added just for pure life insurance (Sum insured is at least 20 times the premium paid), health insurance, mediclaim policies and tuition fees of children. But the one lakh investment can now only be done in provident fund, superannuation fund, gratuity fund and new pension fund.

Separate threshold exemption limits for men and women done away with. Common threshold limit of Rs. 2,00,000 /-. For resident senior citizens, threshold increased from Rs. 2,40,000 to Rs. 2,50,000 /-. A “Very Senior Citizen” category with threshold limit of Rs. 5,00,000 /-.is created by Finance Act, 2011. This will be incorporated in the bill.

The following amounts shall not be included in ‘Salary’ subject to specified limits.

* An employer’s contribution to an approved provident fund, Super Annuation Fund and New Pension Scheme.

* Retirement Benefits

* Gratuity

* VRS

* Commutation of Pension linked to gratuity and

* Encashment of leave on superannuation.
Medical facilities / reimbursement provided by an employer to employees be valued as per existing law.

Perquisite value of rent free accommodation shall not be on market value.

HRA exemption is restored without the requirement of computation.

The earlier draft was silent on housing loans. The revised proposal has made it clear that tax incentives on housing loans will continue. Payment on interest on housing loans up to Rs. 1.5 lakh will continue.

Only actual rent from house property to be taxed. Present system of taxing notional value called ‘annual value’ is proposed to be done away with. For incomes arising of 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.

Rent received in arrears (after allowing 20% deduction towards repairs & maintenance) is to be included in the year of receipt, whether person is owner of the property at the time of receipt or not.

Income under the head ‘Capital Gains’ will be considered as Income from ordinary sources in case of all tax payers including non-residents. It will be taxed at the rate applicable to that tax payers.

Capital Asset held for a period of more than one year from the end of the financial year in which asset is acquired.

A) Listed equity shares or units of an equity oriented fund, capital gains shall be computed after allowing a deduction at a specified percentage of capital gains without any indexation. Similarly, loss arising on transfer of such asset will be scaled down in a similar manner.

B) Other assets:

i) Base date is shifted to April 01, 2000 instead of April 01, 1981.

ii) The capital gains on such assets shall be computed after allowing indexation on this raised base.

c) Income arising on purchase and sale of securities by an FII shall be deemed to be income chargeable under the head ‘capital gains’. No TDS on such income, however, they will have to pay advance tax.

Exemption for long-term capital gains from equity shares/units of equity oriented mutual funds retained. Securities Transaction Tax to be retained.

Limit for tax audits for professionals to be increased from Rs. 15 lakhs to Rs. 25 lakhs. Limit for tax audit for business increased from Rs. 60 lakhs to Rs. 1 crore.

TDS of 10% on payments in respect of life policies which are not exempt from tax.

Amount received by employee from NPS trust is tax-free. Thus, NPS which is taxed on Exempt-Exempt-Taxed basis is proposed to be made EEE (Exempt-Exempt-Exempt) for employees.
New Direct Tax Code Bill removes most of the categories of exempted income. ULIPs, ELSS, Term deposits, NSC, Long term infrastructures bonds, house loan principal repayment, stamp duty and registration fees on purchase of house property will lose tax benefits.

As of now, it is proposed to provide the EEE (Exempt-Exempt-Exempt) method of taxation for Government Provident Fund (GPF), Public Provident Fund (PPF) and Recognised Provident Funds (RPF). 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.

Surcharge and education cess are abolished and Tax exemption on LTA (leave travel allowance) is abolished.

**Conclusion.**

It can be seen from the above discussion that the reforms in the income tax of individuals are helping every person. The tax rates have reduced, the tax base has increased, the procedures are becoming simpler year after year. Once the Direct Tax Code is made applicable, the tax liability will reduce in every tax slab.

(5,038 words)