

# EFFECT OF NEW DIRECT TAX CODE (DTC) ON INCOME TAX ACT, 1961

**Dr. Taralkumar Pinakinbhai Bhatt**

Ph.D (COMMERCE), GSLET and HPSLET, Personal Accountant

Received: January 25, 2019

Accepted: March 02, 2019

## INTRODUCTION:

The New Direct Tax Code (DTC) has the object to make the Indian tax structure simple and easy to understand. The Income Tax Act, 1961 has become very complicated and virtually unintelligible to understand by common man by virtue of a difficult structure, numerous amendments, frequent policy changes and a multitude of judgments that gave varying interpretations to already undecipherable provisions. This complexity has not only increased the cost of compliance for the average tax payer, but also made it costly for the government to collect the tax. For the replacement of Income Tax, 1961, the New Direct Tax Code (DTC) which is completely new gives moderate relief to tax payers, reduce unnecessary exemptions and improve compliance for improving collections. By the help of New Direct Tax Code (DTC), the tax payers themselves can compute and file Income Tax Returns (ITR) without the help of any tax consultant.

Income Tax department of India has put the new proposal for direct tax in front of Government of India and Government has unveiled the draft of a brand New Direct Code Tax (DTC) law, which will replace the five-decade old Income-Tax Act 1961, it is known as Direct Tax Code (DTC). The aim of New Direct Tax Code (DTC) is to make the current tax structure in India straightforward and easy to understand. An important part of the financial budget every year has been the detailing of the tax rates. However, with the introduction of the New Direct Tax code (DTC), the tax rates will not be part of the financial budget presented to Parliament every year. The New Direct Tax (DTC) will completely overhaul the existing tax proposals for not only individual tax payers, but also corporate houses and foreign residents. It has been drawn with inspiration from the prevailing tax legislation in US, Canada and UK. India wants to modernize its direct tax laws, mainly its Income Tax Act, 1961 which is nearly 50 years old. The government needs a modern tax code in step with the requirement of an economy which is now the third largest in Asia. The New Direct Tax (DTC) is expected to widen the tax base, end unnecessary exemptions, moderate tax rates.

The aim and goal of the paper is to know the effect of New Direct Tax Code (DTC) on Income Tax Act, 1961.

## STATEMENT OF THE PROBLEM:

**“EFFECT OF NEW DIRECT TAX CODE (DTC) ON INCOME TAX ACT, 1961”**

## OBJECTIVES OF THE STUDY:

1. To find out that the taxpayers can compute and file the Income Tax Return (ITR) without the help of tax consultant.
2. To find out the help of New Direct Tax Code (DTC) for Moderate Relief.
3. To know that the New Direct Tax Code (DTC) will reduce Unnecessary Exemptions.
4. To know EET Model will collect more tax in future.

## REVIEW OF RELATED LITERATURE:

**Prest (1962)** he reviewed in his study that in the U.K. (United Kingdom) during the period of research, there is increase in the personal income but no more increase in the collection of Income tax. The situation exists because of allowances and exemption under the tax law. That means Government has to adopt some remedial steps to collect more Income Tax by making some changes in personal Income Tax structure. He completed his study during the period of 1947-1961 in the U.K. (United Kingdom).

**Bristow (1968)** he studied in Britain from 1955 to 1965 for the economic stabilization in the country. He reviewed that there was increment in the collection of tax when government reduced direct tax rates. In case of increase of direct tax rates there was no change in the collection of tax by the government. Hence we can say that direct tax structure significantly effects the collection of taxes in the country.

**Singh and Sharma (2006)** analysed the study on EET system (Exempt-Exempt-Tax) in India and Federal U.S. The study had been conducted on the basis of net present value of EEE (Exempt-Exempt-Exempt) of both countries. The study evaluated that the purchasing power of Indian tax payers was higher than their revenues. The study suggested that the weaknesses of Indian tax structure should improve as early as possible to compete the world's other countries.

**Anil Kumar Jain and Parul Jain (2007):** they studied the tax treatment of savings under the Indian Income Tax Act, 1961 during the period of study. They also analysed and studied the impact of a switch over from EEE (Exempt-Exempt-Exempt) to EET (Exempt-Exempt-Taxable) would be desirable in the present economic scenario now a day in India. The study opined that this temporary change had created uncertainty in the minds of taxpayers and also in their investments. It was opined that tax incentives should be well targeted for the savers as well as investors in the tax law. The study suggested that a sudden switch over to EET system will further create the uncertainty in Income Tax Act of India.

## RESEARCH METHODOLOGY:

### Researcher Types of Study

The proposed study is descriptive in nature. A field study has been conducted to collect the data from various assesses of Central Gujarat.

### Researcher Instrument

Questionnaire is used as an instrument for collecting primary data from the assesses for the study. Looking to the nature of study, the questionnaire is being structured and will mainly contain both open ended and closed ended questions. A field study is conducted to test the hypothesis for the research work.

### Researcher Sampling Plan

In the research work, the data are collected from the various parts of Central Gujarat. The main cities from Central Gujarat are selected by using convenient method of sampling for the study.

### Researcher Sample Size

The study is regarding the various assesses across Central Gujarat. Looking to the number of assesses in Central Gujarat, a convenient sampling has been taken under for a sample of 400 assesses are selected for the study. Samples are drawn proportionately from each main cities of each district of the Central Gujarat.

### Researcher Data Collection Plan

#### Primary data

Researcher has collected necessary first-hand information from different assesses located in different main cities of the Central Gujarat by the help of Questionnaire.

#### Secondary data

Researcher has collected secondary information from published literature such as reference books, national and international journals, newspapers, magazines in internet and other research sources.

## Limitations of the study

- The study is based only on assesses of a Central Gujarat.
- The data are collected from only 400 assesses of Central Gujarat.
- Individual assesses point of view may be different for DTC.
- Only individual assesses are considered for the study.
- As government policy may change for New Direct Tax Code (DTC).

## ANALYSIS AND INTERPRETATION:

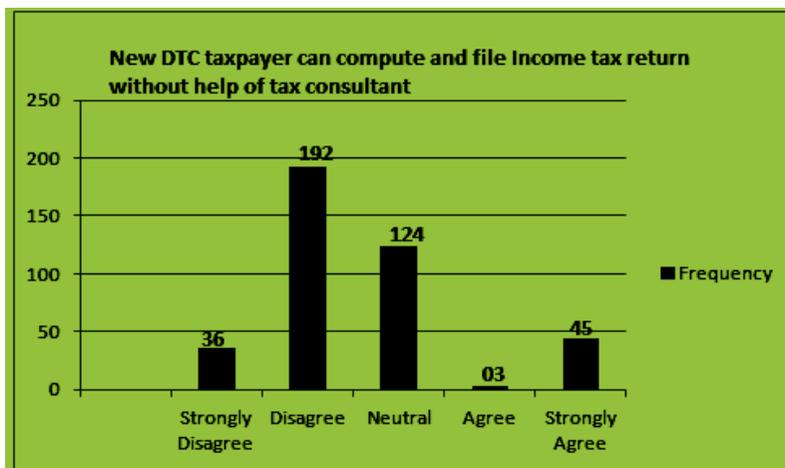
The data collected were analyzed using descriptive statistics.

**Table 1 ( Object 1 ):New Direct Tax Code taxpayer can compute and file Income tax return without the help of tax consultant**

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	36	9.0	9.0	9.0
Disagree	192	48.0	48.0	57.0
Neutral	124	31.0	31.0	88.0
Agree	3	.8	.8	88.8
Strongly Agree	45	11.3	11.3	100.0

Total	400	100.0	100.0	
-------	-----	-------	-------	--

(Compiled from the questionnaire)



(Compiled from the questionnaire)

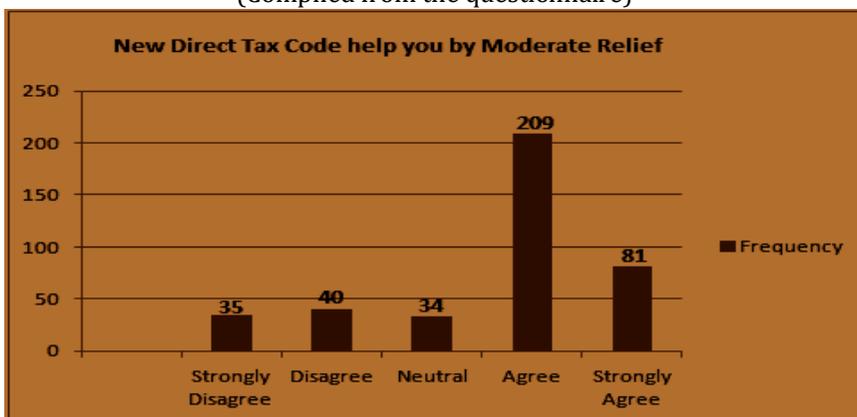
(Figure1 New Direct Tax Code taxpayer can compute and file Income tax return without the help of tax consultant)

**Interpretation:** From the following Table 1 and Figure 1 it can be depicted that the agreement of respondent regarding New Direct Tax Code will help to compute and file Income tax return without the help of tax consultant. From the study it can be observed clearly that Tax Payers very much believe that it will not help to compute and file Income tax return without the help of tax consultant. Approximately 57% of respondents are either disagree or strongly disagree for the statement to compute and file Income tax return without the help of tax consultant. Only 12% of respondents believe that it will help to compute and file Income tax return without the help of tax consultant. Rests were neutral in their response. It clears that tax payer cannot compute and file Income tax return without the help of tax consultant by New Direct Tax Code System.

**Table 2( Object 2 ):New Direct Tax Code help you by Moderate Relief**

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	35	8.8	8.8	8.8
Disagree	40	10.0	10.0	18.8
Neutral	34	8.5	8.5	27.3
Agree	209	52.3	52.4	79.7
Strongly Agree	81	20.3	20.3	100.0
Total	399	99.8	100.0	
Missing	1	.3		
Total	400	100.0		

(Compiled from the questionnaire)



(Compiled from the questionnaire)

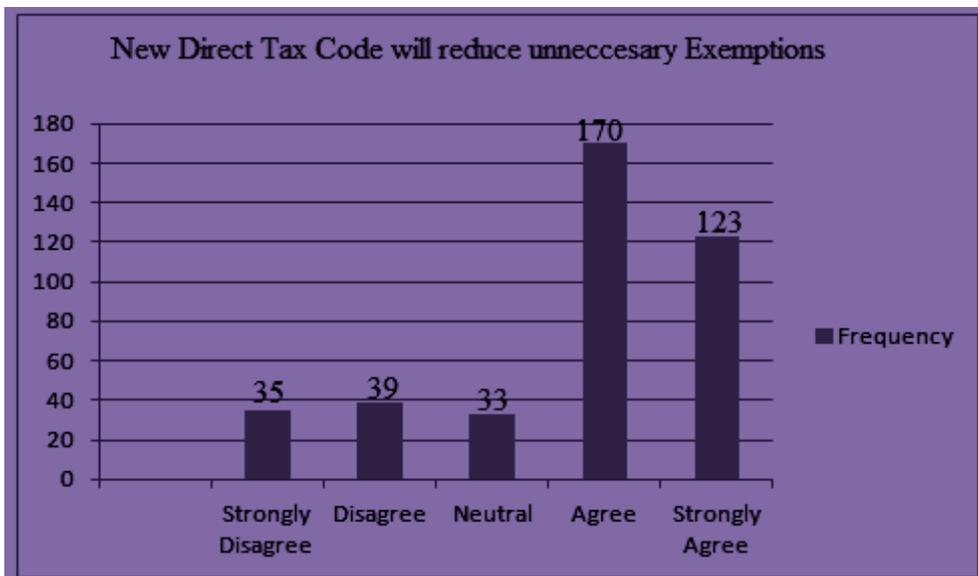
(Figure 2 New Direct Tax Code help you by Moderate Relief)

Interpretation: The following Table 2 and Figure 2 show the agreement of respondents regarding New Direct Tax Code will help by moderate Relief. It can observe clearly that Tax Payers believe that it will help by moderate Relief. Approximately 73% of respondents are either agree or strongly agree for the statement for Moderate Relief. Only 19% of respondents believe that it will not help for Moderate Relief. Rests were neutral in their response. It can be depicted that the New Direct Tax Code System will help for Moderate Relief.

**Table 3( Object 3 ):New Direct Tax Code will Reduce Unnecessary Exemptions**

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	35	8.8	8.8	8.8
Disagree	39	9.8	9.8	18.5
Neutral	33	8.3	8.3	26.8
Agree	170	42.5	42.5	69.3
Strongly Agree	123	30.8	30.8	100.0
Total	400	100.0	100.0	

(Compiled from the questionnaire)



(Compiled from the questionnaire)

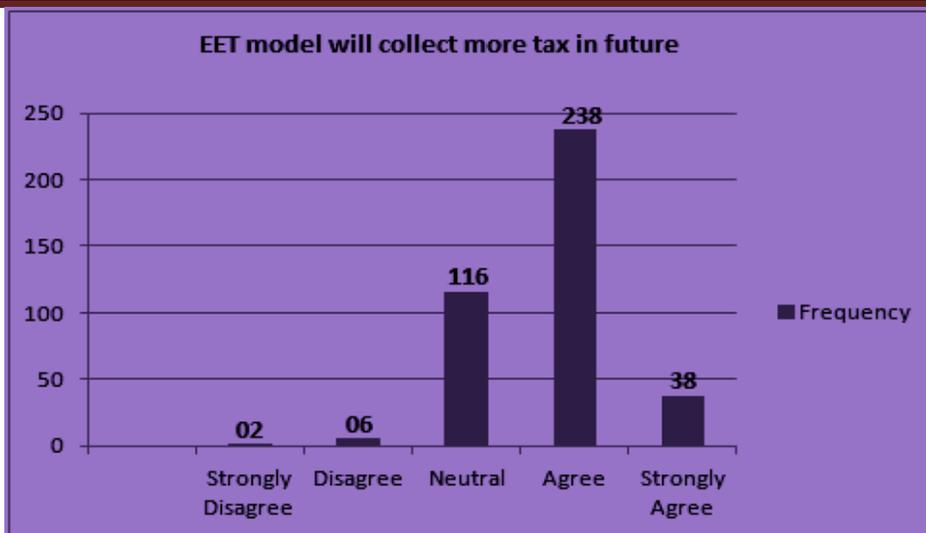
(Figure 3 New Direct Tax Code will Reduce Unnecessary Exemptions)

Interpretation: It can be depicted from Table 3 and Figure 3 that agreement of respondents regarding New Direct Tax Code will Reduce Unnecessary Exemptions. It means that Tax Payers very much believed that it will Reduce Unnecessary Exemptions. Approximately 73% of respondents are either agree or strongly agree for the statement to Reduce Unnecessary Exemptions. Only 19% of respondents believe that it will not help to Reduce Unnecessary Exemptions. Rests were neutral in their response. It clearly explains that the New Direct Tax Code will Reduce Unnecessary Exemptions.

**Table 4( Object 4 ):EET model will collect more tax in future**

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	2	.5	.5	.5
Disagree	6	1.5	1.5	2.0
Neutral	116	29.0	29.0	31.0
Agree	238	59.5	59.5	90.5
Strongly Agree	38	9.5	9.5	100.0
Total	400	100.0	100.0	

(Compiled from the questionnaire)



(Compiled from the questionnaire)  
 (Figure4 EET model will collect more tax in future)

Interpretation: Above Table 4 and figure 4 indicates the agreement of respondents regarding EET model will collect more tax in future. We can depict clearly that Tax Payers very much believe that EET model will collect more tax in future. Approximately 69% of respondents are either agree or strongly agree for the statement. Only 2% of respondents believe that EET model will collect more tax in future. Rest were neutral in their response. It can be observed from the above study that EET model will collect more tax in future.

**TEST OF HYPOTHESIS**

The researcher has used the ANOVA, Sample t test and Sample f test for the test of hypothesis in study.  
 H<sub>01</sub>: There is no significant difference in the opinion of respondents regarding effect of New Direct Tax Code as per Age of Respondents.

**Table 5: ANOVA as per Age**

Age	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	.772	3	.257	1.439	.231
Within Groups	70.295	393	.179		
Total	71.068	396			

**Interpretation:** Above table 5 shows result of ANOVA test, that f value is 1.439 and p value is 0.231. As the p value for is greater than 0.05, so it can be accepted the null hypothesis that means there is no significant difference in the opinion of respondents regarding effect of New Direct Tax Code as per Age of Respondents.  
 2.H<sub>02</sub>: There is no significant difference in the opinion of respondents regarding effect of New Direct Tax Code as per Education of Respondents.

**Table 6: ANOVA as per Education**

Education	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	.854	4	.214	1.192	.314
Within Groups	70.213	392	.179		
Total	71.068	396			

**Interpretation:** Above table 6 shows result of ANOVA test. It can be concluded that f value is 1.192 and p value is 0.314. As the p value for is greater than 0.05, so it is accepted the null hypothesis means that there is no significant difference in the opinion of respondents regarding effect of New Direct Tax Code as per Education of Respondents.

3.  $H_{03}$ : There is no significant difference in the opinion of respondents regarding effect of New Direct Tax Code as per City.

**Table 7 ANOVA as per City**

City	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	.643	6	.107	.593	.736
Within Groups	70.425	390	.181		
Total	71.068	396			

**Interpretation:** Above table 7 explains result of ANOVA test. The study is cleared that f value is 0.593 and p value is 0.736. As the p value for is greater than 0.05, so it is accepted the null hypothesis it means that there is no significant difference in the opinion of respondents regarding effect of New Direct Tax Code as per City of Respondents.

4.  $H_{04}$ : There is no significant difference in the opinion of respondents regarding effect of New Direct Tax Code as per Gender of Respondents.

**Table 8: Group Statistics as per Gender**

Gender	N	Mean	Std. Deviation	Std. Error Mean
perception	Male	315	3.5653	.41674
	Female	81	3.4044	.43067
Total	397	3.5320	.42363	.02126

**Interpretation:** The above table8 explains that the average Mean and Standard Deviation (SD) is 3.5320 and 0.42363 subsequently. It clears that the Male group is more reliable than Female group or agreed that there is no significant difference in the opinion of respondents regarding effect of New Direct Tax Code as per Gender of Respondents.

**Reliability Test**

Scale: All Variables

**Table 9Case Processing Summary of Respondents**

Cases	N	%
Valid	397	99.3
Excluded	3	.8
Total	400	100.0

a. List wise deletion based on all variables in the procedure.

**Table 10Reliability Statistics**

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.652	.621	25

**Interpretation:** From the above table 10 Cronbach's Alpha found .652 indicates that data are reliable and variance test can be applied.

**Table 11 Summary Item Statistics**

Particulars	Mean	Minimum	Maximum	Range	Maximum/ Minimum	Variance	N of Items
Item Means	3.532	2.572	4.859	2.287	1.889	.194	25

**Interpretation:** From the above table 11 it is cleared that data are reliable and variance test and statistical measures can be applied properly.

**MAJOR FINDINGS:**

- It is clear from the study that the New Direct Tax Code System will help the taxpayers to compute Income Tax Return without the help of tax consultants.

- It is clear from the study that the New Direct Tax Code System will help for the moderate relief to the assesses.
- Majority of the assesses are of the opinion that New Direct Tax Code System will reduce unnecessary exemptions.
- Majority of the assesses are of the opinion that New Direct Tax Code will help to collect more tax in future by EET Models.

**SUGGESTIONS:**

- The New Direct Tax Code (DTC) can help the taxpayers to compute and file the Income Tax Returns without the help of tax consultant, so it will soon imply new tax code system.
- The New Direct Tax Code (DTC) will help the taxpayers for moderate relief, so it will be introduced early.
- The New Direct Tax Code (DTC) will help to reduce unnecessary exemptions hence, Income Tax Act, 1961 should be replaced by New Direct Tax Code (DTC).
- The New Direct Tax Code (DTC) will help to collect more tax in future by EET Model, so it will be introduced soon new tax code system.

**CONCLUSION:**

- Based on the results, it can be concluded that the New Direct Tax Code (DTC) can help the taxpayers to compute and file the Income Tax Returns without the help of tax consultant.
- The results of the study explain that the New Direct Tax Code System will help for the moderate relief to the assesses.
- The study concludes that the New Direct Tax Code System will reduce unnecessary exemptions.
- Based on the study, it can be concluded that the New Direct Tax Code (DTC) will help to collect more tax in future by EET Model, so it should be introduced early.

**REFERENCES:**

1. Ambiranjan, S. (1961). Taxation of Corporate Income in India, Asia Publishing House, Bombay, Vol.10,pp.412-437
2. Bird, M. Richard and Eric M. (2003). "Introduction to Tax Policy Design and Development", draft prepared for a course on Practical Issues of Tax Policy in Developing Countries, World Bank.
3. Bishnoi U. (1980). "Union Taxes in India", Chugh Publications, Allahabad, vol.15,pp 9-23
4. Chelliah, J. (1992). "Final Report of Tax Reforms Committee."
5. Davies, G. (2011). "United States taxes and tax policy" Cambridge University Press,Vol.12,pp 211-219
6. Mishra, B. (2006). Economics of Taxation- Theory and Application,Akansha publishing House, New Delhi, Vol.5,pp. 78-92
7. Wadhwa, N. (2010). "Direct Taxes Code Simplified – Concise and Simplified Guide to DTC", New Delhi Taxman Publication,Vol.2,pp 27-39