DTC Springs Nasty Surprise on Seniors who have an Income

The direct tax code has brought about tremendous changes all over the taxation administration including filling up places of loop holes that existed earlier. The direct tax code or DTC is expected to be in action from 1st April, 2012. The direct tax code has got the senior citizens into a very unpleasant condition as not only the DTC has removed the rebate facility which is being enjoyed by the senior citizens right now but also has snatched away the facility of investment of income in tax-saving investments. The later part has not been noticed for a while but no doubt, it is going to create as chaos later on.

Most of the people and earlier tax provisions believed that the income from work ends at the time of retirement, but the same is not true as most of the retired persons do earn a significant amount of income even after retirement by way of part time and irregular work, added to it, most of the retired persons earn by way of rent. Later on, these incomes were invested with a view to claim deduction or exemption under section 80C like investment in Ulips, ELSS mutual funds, etc. Thus, DTC has made use of this concept and has taken a step for taxability of income of the senior citizens.

Senior citizens prefer short term investment plans so that there can be flexibilities in their operation and they can withdraw money whenever felt necessary. But the DTC has completely knocked out the concept as now the senior citizens. They are only left with the option to invest in National Pension Scheme (NPS) and provident fund, as both of them retirement solutions. Added to it, they can also opt for PPFs which has a 15 years maturity period which is too long for them to invest in. This event can only lead to payment of taxes by the senior citizens or will lead them to invest in those channels which are unsuitable for them.

When asked from an experienced corporate employee, Mr. Nayak Saha, he said, "I don't know how many seniors fit this profile, but there's no reason that the DTC should give them a raw deal. The person who first pointed this out to me was a retired PSU employee in his mid-60s who earns a reasonable `5-7 lakh a year (though somewhat irregularly) as a project engineering consultant. I don't know how many people are there who roughly have this profile, but there's no reason to cut them off from tax-saving investments on top of taking away their tax-rebate."

The situation has leaded to a very uncomfortable phase for the seniors as not only their rebate has been taken away, their investment options have also been taken away from them. This has lead to some very serious problems for the old aged persons as in the old age where compromise is the first thought, further burden has been put on them by withdrawing the various exemptions that were made available to them earlier.

Source: etaxindia.org

HUFs will have to leave PPF after 15 years

NAGPUR: Hindu undivided families (HUFs) will now have to mandatorily exit from the public provident fund (PPF) on completion of 15 years. The move is aimed at checking misuse as several people were investing in PPF to earn 8% tax-free return as an individual as well as an HUF, which are set up by family members to avail of tax benefits. The head of the family is the karta or the main operator of the account, with the others being family members. While daughters can be members of an HUF, on marriage, they cease to be members of the one promoted by their fathers.

After the government stopped fresh investment by HUFs in PPF from May 2005, several of them continued to park funds in the popular savings scheme as it earned them a 8% tax-free interest. Some were older investments though they were yet to complete the 15-year period while others availed of a five-year extension.

But a recent finance ministry notification has said that money should be refunded as soon as the 15-year period ends for PPF accounts opened by HUFs before May 13, 2005. For the accounts where the 15-year period has already ended, the money will be refunded on March 31 next year.

This means accounts opened after the ban was imposed in 2005 will be allowed to continue only till the tenure ends, while the others will be terminated at the end of the current financial year.

There are many accounts which are running on a five year extension. But, with the current rule, they will be terminated by March end, no matter whether the extension period has ended or not, said a source dealing with PPF and other small savings schemes such as the National Savings Certificate (NSC)) and post office deposits.

Fresh investments by HUFs into PPF was stopped as it was observed that the facility was being misused. Investments were made in the name of HUFs as well as individuals as both are considered as separate entities. This allowed the investors to earn 8% tax-free returns both as an HUF and an individual. This continued even after the ban came into place.

The philosophy of small savings is to provide a savings window to the middle class or those living in remote areas where banking services are not available.

Source: The economic times.