Direct Tax Code (Changes in the Deduction and Exemption)

s we know that the present tax structure will go for a complete revamp with the introduction of the Direct Tax Code bill which is waiting in the parliament to be presented for its approval. From individual taxpayers to companies, everybody is skeptical about what are the proposed changes and how will this propose change effect the tax liability of the assessee.

One of the foremost things that an individual taxpayer wants to know how this yet to be introduced DTC will affect the deduction and exemptions that are available to them. It is because of these deductions that a taxpayers tax liability reduces so every tax payer is really eager to know about it. Well here are some of the proposed changes that the DTC will bring in the deduction and exemption available to an assessee.

The exemption available on Employer's contribution towards recognized provident is 12% and DTC has not proposed any change in it. In case of superannuation fund also employer's contribution of Rs.100000 per annum continues to apply. In case of deduction under section 80-C, which is the most popular section for deduction there has been a change in DTC. In the Income Tax Act 1961 the deduction available under 80-c was to a maximum of Rs.100000, but under DTC a taxpayer is allowed deduction of Rs.50000 together with mediclaim and tution fees. Presently the sum received on a life insurance policy is exempt only if the premium paid in any year is less than 20% of the sum assured. Maturity proceeds are also exempt if premium paid in any year is less than 5% of the sum assured. The amount of money received on the death of a person is completely exempt.

Actually the Direct tax code has introduced an EEE (Exempt-Exempt-Exempt) bracket where which has bought under its net EPF, PPF, Pure Insurance pension schemes which brings them in the no tax bracket i.e. if anyone contributes any sum and get back any return and the matured amount are totally exempt from tax. Deduction is also available on medical insurance premium one pay. Presently a deduction of Rs.15000 is allowed for self, spouse and children and an additional deduction of Rs.15000 is allowed for parents. The additional deduction is increased to Rs.20000 in case the parents are senior citizen. DTC has proposed that overall deduction limit will be Rs.50000 for self, spouse, children and parents, This deduction is available in conjunction with the life insurance premium and tution fees.

One of the important turn around that DTC has brought is that there were avenues which were available for deduction under section 80-C presently will not be available one this DTC bill is passed. Few such avenues which will not qualify for deduction under 80-C is housing loan repayment principal amount), fixed deposit, mutual fund such ELSS etc. The deduction for interest on housing loan has been retained by the DTC with the same exemption limit of Rs150000

So we see that the most important deduction i.e. 80-C is given a very big change which will certainly hurt the taxpayer as the exemption limits has been lowered. But the overall structure is beneficial for the taxpayer.

Source: E-Taxindia.org.